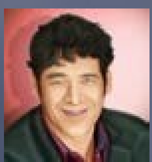
Vested Equities
Funds Management

ALL-WEATHER PORTFOLIO

"FY24 (year to June) Update"

PORTFOLIOUPDATE - FY24



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	FY24 Highlights	
HUB24		82.90%
Goodman Group		73%
Car Group		48%
	Lowlights	
Woolworhs		-15%
Telstra		-15.80%
IDP Education		-31.40%
	3 years - Highs & Lows	
Goodman Group		94.80%
Car Group		91.70%
TechnologyOne		73.70%
ResMed		-5.20%
Telstra		-6%
IDP Education		-36.40%

FY24 (year to June 30) Portfolio Update

By Rudi Filapek-Vandyck and the Vested Team,

We all experience the share market through our own portfolio, which might explain why so many voices remain downbeat, if not straightforward negative about the local market and its prospects.

In contrast to general sentiment, the ASX200 just clocked off its second successive double-digit financial year return, coming in at 11.78%. One year ago, FY23 returned 14.80%.

Total return over the past ten years has averaged no more than 8.06%, and that number includes the past two years, so the absence of the sound of champagne corks popping seems a bit odd. But share prices have been more volatile than many can bear during the best of times.

Above all: the bifurcation underneath the headline performance remains extreme, with many more stocks not performing and a select group of popular names generating all the rewards. Investing in the share market is seldom a walk in the park. Whenever it is, the sunny conditions don't last for long.

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The performances mentioned in the left-hand column are simple share price calculations for the financial year to June 30th and for the past three financial years combined.

Percentages do not include dividends or costs and thus do not necessarily equal the respective contributions to Portfolio returns for those periods.

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Outside of the Winners circles, Australian equities have been overwhelmingly frustrating, deflating, gut-wrenching, and, at times, de-moralising. Unless one's portfolio owned plenty of supercharged Winners. But even then, the optics remain important and Australia looks bleak against the outsized gains yet again achieved in the US.

The Nasdaq100 index, as its website proudly shows, has returned 55% over twelve months, 177% over five years, and 419.34% over ten years (all data as of 4 July 2024).

We need not look any further as to why general sentiment is far from ebullient among local investors. But as said, total return has been above average for the second year in a row, and the all-important banks have been among the strong outperformers.

The **FNArena-Vested Equities All-Weather Model Portfolio** does not invest in popular banks or resources companies, but instead attempts to identify local companies of higher quality, with robust growth prospects, underpinned by continuous re-investments and a leading market position.

This focus has served the Portfolio well. Total return pre-fees for FY24 has been 18.28%.

Last year, total return slightly underperformed on 12.71%.

The year prior, in FY22, the Portfolio kept the damage limited to -2.59% for an average three-year return of 10.43% p.a. against the ASX200 Accumulation index's 6.27%.

Many Lessons To Be Learnt

What usually happens is we now start highlighting the Big Winners that have contributed to the sizeable Portfolio outperformance, but maybe it's equally important to acknowledge not all Portfolio constituents have been a Winner over the past three years.

As per always, disappointments do occur and the biggest disappointment for the All-Weather Portfolio has been **education services provider IDP Education** (IEL).

When asked in late 2022 about my favourite stock for the year ahead, I had little hesitation to nominate IDP Education.

The company is a global market leader in its field and benefiting from the desire of parents in emerging countries such as China and India to send their offspring to universities in the UK, Canada and Australia.

Competitiveness has increased in the sector, but what really changed sector dynamics is a deliberate push back against student immigration by governments in those destination countries.

Instead of reaching for new highs, the share price has more than halved over the past 17 months.

Observation number one: this has not prevented the Portfolio overall to put in a market-beating performance. Other inclusions like CSL (CSL) and ResMed (RMD) have equally not kept up with the index in recent years, but none of this means the Portfolio cannot still (out)perform.

Harry Hindsight is a wise man, of course, and always knows best after the facts. Admittedly, if we'd known with 100% certainty these share prices were heading for much lower price levels we would not have hesitated to sell and get back on board near ground zero, but investing is seldom that straightforward, just ask the many shareholders in large swathes of micro- and small-caps and in lagging value stocks today.

To our credit, while we might have held on for too long to a share price that was ultimately only going lower, and lower yet again, we did acknowledge the increasing risks involved and therefore kept overall exposure small.

An important part of risk management is making sure one IDP Education disappointment does not destroy the Portfolio performance entirely.

We've read and heard too many stories throughout the years past of investors doubling down on share prices that only kept falling further, upgrading one unfortunate slip-up into a major disaster.

Doubling down, in our book, is only for traders with high-risk appetite.

Running an investment Portfolio of, say, twenty stocks means there are always Winners and Laggards, in the moment. But one can have a broad assessment of where available cash is best allocated. Simply adding more to a share price that has fallen might seem instinctively the most logical decision to make, in practice it seldom is.

It is much better practice to try to assess what the risks are and be cognisant that risk changes regularly. After shares in Woolworths Group (WOW) weakened from $40 to below $31, the Portfolio did purchase more exposure, but the consideration was not to get the average purchase price down, but to jump in at a great entry point on a longer-term view.

The experience with IDP Education also shows it's dangerous to rely on 'value' when a company operates under tough market dynamics.

In this particular case, new pressure points kept popping up, putting additional pressure on forecasts and on apparent 'valuation'.

With the shares trading near $14, there are no fans left and all former friends have left for greener pastures elsewhere.

IDP Education shares remain the second most shorted on the ASX.

The Portfolio hasn't sold and will continue to re-assess. What matters right now is not at what price we bought the shares; that is 100% irrelevant.

What matters now is whether better times are around the corner, creating the platform for a renewed trend upwards. If this proves the case, the Portfolio might buy more shares. There is no hurry and plenty of other stocks deserve our attention too.

As investors, we are always influenced by daily share price moves, whether we want it or not. The Big Challenge is to keep our focus firmly on the underlying company fundamentals and accept that sometimes shares do not reflect what is happening inside the business, and sometimes our judgment is wrong.

The All-Weather Model Portfolio has stuck with ResMed shares on the ongoing belief GLP-1s did increase long term risks, but shorter-term volatility is mostly related to market sentiment (and traders creating mayhem).

CSL is the largest holding as we firmly don't believe share price action post-2020 is reflective of what the future holds for Australia's largest and most successful biotech.

Time To Sell The Winners?

The Portfolio is an extension of my personal research into All-Weather Performers, which, apart from the highest quality names on the ASX, also involves identifying those emerging growth companies that enjoy structural benefits with higher quality than the majority of peers.

A quick glance over the selections made in years past quickly reveals most of these stocks have been on the beneficial side of share market momentum.

ARB Corp (ARB) shares are up 33% since June 2022. Total appreciation for Cochlear (COH) shares is 67%. Car Group has done 92%. Pro Medicus (PME) is displaying a whopping 239%.

Note: the All-Weather Model Portfolio does not own all stocks in my research selections, but this is its main focus.

Ai-related beneficiaries in particular have been in focus throughout the year past.

Shares in Goodman Group (GMG) have rallied 37% in the past six months. They are up 72% over twelve months, and 95% since mid-2022. For NextDC (NXT) the corresponding numbers are 28% to date in 2024, 41% and 66%.

We could go on and on, but the numbers speak for themselves. The contrast with the likes of BHP Group (BHP), Aurizon Holdings (AZJ), Elders (ELD), Lendlease (LLC), Metcash (MTS) et al is very stark. And these are by far not the worst performers.

The first dilemma that pops up after such a sharp polarised outperformance is whether it is time to sell the Winners and re-allocate into the share market Laggards? Yet again, what seems but logical instinctively may not be so straightforward at all.

For starters, many of today's outperformers are carried by ongoing strong growth prospects. Think, for example, Goodman Group and NextDC in relationship to an explosion in global demand for data storage and data centres.

While market crowding and short-term multiples might suggest the risk is for a sharp pull back in share prices at some point, medium to longer term those share prices should have a lot more upside.

Maybe the best comparison to make is with property prices in the major cities throughout Australia. Ten years ago, properties looked over-priced changing hands for, say, $2m. Ten years earlier, they'd only cost $800,000. Today, you cannot buy a decent house unless you're willing to fork out $4.5m, and beyond.

Properties are by no means the equivalent of listed equities, but the underlying dilemma is the same: selling at $2m because you made a big gain from your $800k purchase doesn't seem very smart when judging from today.

In similar vein, shares in Pro Medicus looked over-priced at $50 in 2021, and yet again at $85 in 2023.

Today they are trading above $130 and yes, there have been plenty of pullbacks along that trajectory.

While the general expectation is that share market momentum should broaden to those parts that as yet have not participated in the market upswing, weaker economic momentum both locally and overseas means the risk for profit warnings and operational disappointment remains high, and that risk applies more to cyclical, lower quality businesses, aka today's share market Laggards, than it does to the Winners.

<u>What Could Go Wrong?</u>

If central banks are forced to wait for longer before starting to reduce interest rates, as has probably already happened for the RBA locally, this could well prove another delaying factor in the broadening of the share market momentum.

If economies weaken a lot before interest rate cuts are starting to stimulate growth, this would add yet another negative for most of today's share market laggards.

Equally important: during times of spectacular new growth avenues, as the world is experiencing in the current decade through GenAi, GLP-1s and multiple other megatrends, quality and sustainable growth companies can certainly fall out of fashion, but they don't stay in the doldrums for long.

In recent years, we've all witnessed the pendulum swinging away in 2021, only to roar back from the moment bond markets stopped rallying. The second half of 2018 and of 2016 were equally times when the pendulum swung from Winners (Growth/Quality) to Laggards (Cyclicals/cheaper Value), but it never lasts for more than a number of months.

Sure, it's an excruciating process when in the midst of it, but every time has been nothing but a temporary nuisance as far as the macro trend is concerned - and, need we all be reminded, simply an ideal entry point for the next upswing.

So, when I get asked: the share price has run a lot, should I sell? I advise investors to take all of the above into account. Don't underestimate the psychological barrier that opens up once you've sold all your shares in, say, that high quality growth company that is ready to double in size over the years ahead.

If the share price doesn't fall as much as you expect, and the rally starts without you being back on board, you're now at risk of blaming yourself for appearing smart for five seconds... and missing out on the next grand opportunity.

I know what I am talking about. This is how and why the All-Weather Portfolio no longer includes Pro Medicus, while it had to wait until September last year to get back on board Hub24 (HUB), REA Group (REA) and WiseTech Global (WTC).

Sometimes the best course of action is simply staying the course, and maybe only make adjustments at the margin.

Unless we identify a significant change in market dynamics, that's exactly what we intend to do with the All-Weather Portfolio.

Dividends & Gold

In terms of portfolio construction, the methodology behind the All-Weather philosophy includes allocating a portion to higher dividend yielding stocks as well as keeping an exposure to gold.

Regarding specific dividend allocations, the Portfolio currently owns shares in HomeCo Daily Needs REIT (HDN) and in Telstra (TLS).

When it comes to gold, the preferred exposure is to the metal, through an ETF, not through listed producers to not also take on board specific company risks.

Our moto is the old adage: allocate as much to gold as you feel comfortable or uncomfortable with the world and its outlook.

The Portfolio’s current gold allocation equals an average exposure to one single company.

BONUS:

Traditional Value Is A Flawed Narrative

The decade past has challenged the narrative that buying 'cheaply' priced equities are a starting point for guaranteed success. Why would the decade ahead be any different?

We don't need to read Yuval Noah Harari's '*Sapiens*' to understand how people unite behind narratives.

It happens in financial markets all the time.

Not that popular narratives are also required to be accurate or able to withstand the test of time.

The US has been on the verge of going bankrupt for multiple decades now, and the end of the US dollar as the world's reserve currency has been "imminent" for all this time.

Another popular prediction sees a replay of the stagflation 1970s, with bond yields reverting back into the double-digit percentages as the price of crude oil jumps to US$200/bbl and those mean-spirited central bankers can no longer contain inflation.

Not all narratives are equally flawed. If they were, we'd probably be no longer treating them as gospel, though maybe I am now putting too much faith in the intelligence of my peers and contemporaries. Certainly, social media has been a genuine eye-opener.

The most dominant narrative in the world of investing is that, in order to achieve the best return in the long run, we must buy assets at a discount. Buy something that's worth a dollar for less, preferably a lot less, so the adage goes, and you cannot go wrong.

It's what a smart investor does, as opposed to those who simply chase market momentum.

So ingrained is this narrative in the share market's psyche that many will never, ever question it. It's like religion. You believe. You don't doubt. It's simply the way it is.

The problem is, however, a 'cheap' valuation is not the same as a low PE. Never has been. Even more important: sometimes the world changes so dramatically, it makes a mockery out of old ways and habits that used to work well during the Halcion days.

The past ten years have been such a time. One need not look any further than the latest marketing campaign by investors in ‘growth’ stories at Hyperion, part of the Pinnacle Investment Management Group (PNI), which is proudly showing off the 17.1% per annum average return from the Hyperion Global Growth Companies Fund since 2014.

Let’s not beat around the bush, your average ‘value’ investor fails to beat the local index which has done a little better than half that return over the period (circa 9%). By anyone’s measurement, that’s a significant difference.

A quick glance over the individual stock performances for the decade past easily explains why buying cheap & undervalued stocks has failed to keep up: many of the familiar household names have significantly underperformed, including all the banks (ex-dividends), energy retailers, small industrials, and large swathes of the energy and metals sectors.

While many a local investor might argue total return for banks and other market segments has kept up with the index, broadly, when taking into account the large dividends and franking attached, the gap with those stocks that have performed over the period is nevertheless mindbogglingly large.

We are talking three-four times the average index return without taking into account any dividends on top. Those are merely broad averages; many ‘Growth’ stocks have done significantly better.

You all know the names too: Altium (ALU), Aristocrat Leisure (ALL), ARB Corp (ARB), Cochlear (COH), Fisher & Paykel Healthcare (FPH), Pro Medicus (PME), REA Group (REA), WiseTech Global (WTC), et cetera.

Even CSL (CSL) and ResMed (RMD), whose share prices have encountered more headwinds in recent years, have still outperformed the ASX200 accumulation index by a factor three and four respectively.

For good measure: the select list of significant outperformers also includes a number of commodities-related companies, including BlueScope Steel (BSL), Fortescue (FMG), Mineral Resources (MIN) and smaller peers like Chalice Mining (CHN), Evolution Mining (EVN) and Paladin Resources (PDN), but this segment always generates a few Heros among many more Zeros.

Making the observation is an eye-opener, for sure, but how will we respond to this?

On my observation, most people, whether they are in Finance or otherwise, find it incredibly difficult to deal with 'change'. We rather stick with what we know from the past and wait for things to revert back to how they were. For many, that's the easiest path to choose.

But what if there's no quick reversion on the horizon?

When the world changes, it doesn't happen overnight. These are long, elongated processes. The past ten years have not been without major events and markets violently swinging in either direction.

We've seen Europe in crisis, oil prices slump and rise, a global pandemic, wars in the Ukraine and in Gaza, negative real bond yields, and the steepest tightening from central banks ever… and yet, there is a *gigantonormous* gap in performances between those who benefit from change and those who don't.

Most importantly, 'Growth' and 'Quality' have been out of favour multiple times -think the second half of 2016 and the whole of 2022- but those stocks still come out on top when the long-term calculations are made.

Frustrating as it may be for your dyed-in-the-wool value investors, solely looking out for low PEs and companies trading at intrinsic discount may not be the most appropriate strategy in a time when new technology, disrupters, innovators, 'Quality Growth' and 'structural growth' rule the financial landscape.

Time to highlight one of the market observations that have coloured the decade past (it is repeated by all kinds of investment experts regularly across my social media forum): a stock trading on a low PE is not by definition 'cheap' or even 'attractive', while a stock trading on a high PE can still be 'cheap' and 'attractive'.

The counter narrative thus becomes: don't look for the one dollar stock to buy at 70c or 60c, look for the stock that will go to one hundred dollars and you can buy it at $10, at $20, at $40, even at $80, still.

And when you arrive at $100, consider it might yet have a lot more upside in store, still. The past ten years (and beyond) have offered plenty of examples to make that strategy work.

I can report the **FNArena-Vested Equities All-Weather Model Portfolio** has used this strategy successfully, most recently when shares in Audinate Group (AD8) sold off from above $21 to below $15.

Ironically, confidence in the future growth path of this high quality small cap emerging conqueror of the global wireless AV market has been backed up by an initiation of coverage by Morningstar, which tends not to lead when attempting to value such emerging strong growth stories.

This time, however, Morningstar's $23 fair value estimate is even higher than your traditional technology enthusiasts at Morgan Stanley (target $22).

Now that I am thinking about it, the All-Weather Portfolio's exposures to successful and strong growth achievers such as Hub24 (HUB), REA Group (REA), and WiseTech Global (WTC) have all been purchased following a pull-back in the share price.

It always raises the question: how deep should the pullback be?

There's no golden rule when it comes to playing the share market. One has to deal with what the market offers.

I am an avid user of the data and tools on the FNArena service. I look at price targets and where the share price trades. I try not to be too greedy, but I am equally aware investing is not about being perfect.

I always remember anecdotes like that investor who'd only buy CSL below $90 or Wesfarmers (WES) below $30. In both cases the price didn't quite get there, and thus no purchases were made. Now look at where those share prices are trading.

Goes without saying: trends from the past do not continue into eternity.

There is equally a valid argument to be made that GenAi has the power to significantly re-shape the world in the years ahead, and that process has only just started.

GenAi won't be the only source for growth (and disruption) either.

All-Weather Model Portfolio - Performance		
Jan-June 2015		-0.37%
	Financial years July-June 30	
FY16		14.40%
FY17		3.16%
FY18		17.28%
FY19		7.38%
FY20		5.64%
FY21		20.72%
FY22		-2.59%
FY23		12.71%
FY24		18.28%
		Average 5 years = 10.63%
		Average 7 years = 11.59%
		Average 9 years = 10.09%
	Calendar years Jan-Dec 31	
2015		7.77%
2016		4.52%
2017		14.43%
2018		1.34%
2019		22.08%
2020		3.67%
2021		24.63%
2022		-7.51%
2023		20.24%
2024	6-months	11.09%
		Average since inception = 10.77%

The All-Weather Portfolio initially started on the Praemium platform but migrated to WealthO2 from the second quarter of 2020 onwards.

For the above performance table, Praemium data have been used until 30 June 2020.

All returns are unaudited and exclusive of fees and brokerage.

If you require more specific information on past or current platform performance, please send an email to your advisor.

The All-Weather Portfolio invests in High Quality, structural growers that tend to outperform over long periods of time, albeit not every single time.

Stock selections are based on proprietary research & analysis by FNArena Editor Rudi Filapek-Vandyck, also including High Quality emerging business models and Quality dividend opportunities.

Typical portfolio inclusions are Carsales, CSL, Goodman Group, Macquarie, REA Group, ResMed, TechnologyOne, Wesfarmers, WiseTech Global and Woolworths, though variations and exclusions occur from time to time.

Customer Notice

Prior Updates on the All-Weather Portfolio:

Click on each to download

Update FY23

Update FY22

Update FY21