

ASG INVESTMENT UPDATE MARCH 2020



ECONOMICS

- March 2020 was a month of significant change being brought about by intensifying concerns around the COVID-19 pandemic and the impact of measures taken to slow the spread of the virus around the globe. As the month progressed, global equity markets plunged and liquidity dried up in credit markets as COVID-19 infection numbers spiked in Europe, the US and the rest of the world.
- The global economy was brought to a halt or hibernation by strict lock down measures (The Great Lockdown). Governments and Central Banks responded with extraordinary levels of economic stimulus to support growth with Australia at around \$200b and the US \$2.5t. The combined stimulus lifted investor sentiment towards the end of the month.
- Economic impacts continue to be a focus of markets with sharply rising unemployment, falling manufacturing output, enormous government stimulus packages - funded by government debt, plunging economic growth expectations and general uncertainty around the timing and shape of an economic recovery and pathway out of lock downs.

GROWTH ASSETS

- Australian equities fell sharply in late February and March and ended March 2020 down 21% or 24% for the quarter.
- US S&P500 fell over the quarter to be 12.4% lower, in local currency terms. US technology stocks performed relatively well, despite a broad sell off in global equity markets.
- Emerging market equities traded lower, however, were not near all time highs just prior to COVID-19 impacts.
- Unlisted assets were generally revalued mildly lower, however, are not subject to listed asset market price volatility.

DEFENSIVE ASSETS

- As a result of COVID-19 impacts Central banks moved to quickly lower the official level of interest rates. The US Federal Reserve by 150bps to 0% to 0.25% and the RBA by 50bps to 0.25%.
- Australian 10 year bond yields fell over the quarter and are at about 0.90%, with 3 year yields at 0.28% post RBA activities.
- Major global bond yields were extremely volatile in March 2020 with the US 10 Year bonds at 0.60%.
- US interest rates remain above Australian levels.

CURRENCY

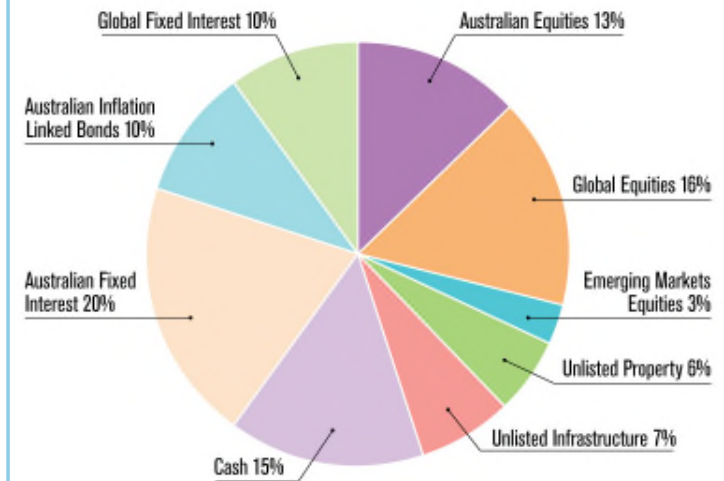
- AUD fell sharply during March 2020 reaching the 57.5 AUD/USD level in a global 'risk off' trade. It has since stabilised around the 63 AUD/USD range.
- Global currencies are being influenced by Central Bank adjustments to official interest rate policy.
- Expect continued volatility in AUD vs trading partners.

PORTFOLIO POSITIONING

- Overweight unlisted Australian property – Office & Healthcare.
- Mildly underweight developed market equities.
- Underweight global bonds. Expect 'lower for longer' global interest rate environment to impact investment returns.
- Neutral to Australian Fixed Income and cautious on credit.

CHART

Pathway Education Fund - Australia Long Term Asset Allocation



Declared rates of return for the MARCH 2020 quarter.

PEF AU -4.55%

Three key themes:

1. Maintain portfolio construction with diversification.
2. Focus on the long term investment objectives. ASG's investment portfolios have a conservative balanced risk profile.
3. Equity and bond markets do experience times of volatility which can occur in a short space of time.

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