

November 2020

Month in review



Tim Lincoln
Co-Founder and Chief Investment Officer

November 2020 will register prominently in the history books for a multitude of reasons. The month included historical monetary policy decisions from the Reserve Bank of Australia, a U.S. presidential election, and vaccine developments that could mark a potential turning point in the fight against the COVID-19 global pandemic. This news-flow combined to produce exceptionally strong equity markets, with Dow Jones seeing its strongest month since 1987 and the domestic market seeing its strongest in 30 years.

On November 10, after an announcement of a realistic vaccine candidate by Pfizer Inc, we saw one of the largest single day rotations in from growth and momentum into value. Stocks that had previously been 'beaten up' over the pandemic period rallied hard, while 'working from home' beneficiaries and online retailers were sold off. Crucially, cyclical companies with poor balance sheets attracted capital from traders and investors moving away from quality companies with strong balance sheets.

Lincoln Wholesale Australian Growth Fund

Although the broad market indices surged +10.16% higher, the performance outcomes for Lincoln Australian Growth Fund investors was far more muted with monthly returns of +1.83%. The extreme disparity in returns is best explained by an aggressive short-term rotation away from growth/quality into cyclical/value stocks, which inherently conflicts with our strategy of investing in quality companies with long term growth prospects.

The team here at Lincoln genuinely welcomes positive vaccine developments, but we see little merit in following the herd into risky trades. While it may lead to short term gain, buying stocks that are experiencing considerable cash flow disruption and financial distress ultimately sets investors up for potential long-term pain.

With the improved economic outlook emerging earlier than expected, we do see some opportunities for higher quality cyclicals to see earnings accelerate next year. As a result the Fund team has added James Hardie Industries (JHX), Monadelphous Group (MND), Seven Group Holdings (SVW) and Brambles Group (BXB) to the portfolio for exposure to this theme.

Lincoln Wholesale Australian Income Fund

The Lincoln Australian Income Fund rose by 7.32% during November, while the broader market had its strongest month in 30 years, rallying 10.31%. This translates to slippage of 2.99% in the Fund's performance relative to its benchmark. While the Fund saw small headwinds from a vigorous rotation in an exceptional month, it's important to remember that an effective vaccine is crucial to a real economic recovery, and longer term we see accommodating monetary conditions as supportive for high quality yield stocks. Thus, we are confident in our strategy in 2021 and believe prospects for dividends are improving for 2021, although we don't expect a full recovery until later in the year.

Lincoln U.S. Growth Funds

The Lincoln U.S. Growth Fund Hedged also completed a strong month, closing 8.47% higher. The risk on sentiment propelled the Australian dollar to its highest level in two years, creating a headwind for investors in the U.S. Growth Fund Unhedged, which returned 3.72% for the month. The Fund's cash holdings, which were elevated as a precaution against major event volatility, and a sharp rotation into value contributed to its underperformance.

The positive election outcome and vaccine have improved the economic outlook for 2021 and we are therefore comfortable deploying cash into fundamentally strong stocks that should see earnings rebound. We have previously experienced similar market conditions, where short-term speculative flows converge on a popular 'trade', which at the moment is the chasing of value stocks. We know that in the long term share prices are ultimately determined by earnings, which is why our approach focuses on fundamentals above all else!

Kind regards,

Tim Lincoln
Co-Founder and Chief Investment Officer

Performance to 30 November 2020

Lincoln Australian Growth Fund							
For investors seeking	Investors seeking growth						
Distribution frequency	Half-yearly						
	Wholesale				Retail		
	Fund return ¹	ASX All Ordinaries Accumulation Index ⁴	S&P/ASX Small Ordinaries (XSOAI)		Fund return ¹	ASX All Ordinaries Accumulation Index ⁴	S&P/ASX Small Ordinaries (XSOAI)
1-month	1.83%	10.16%	10.27%	1-month	1.74%	10.16%	10.27%
3-months	0.71%	8.60%	7.66%	3-months	0.54%	8.60%	7.66%
1-year	6.83%	-0.08%	5.98%	1-year	6.43%	-0.08%	5.98%
3-years p.a.	12.69%	7.54%	6.73%	3-years p.a.	12.06%	7.54%	6.73%
5-years p.a.	9.85%	9.46%	10.70%	5-years p.a.	9.14%	9.46%	10.70%
Financial year to date	6.34%	13.69%	17.06%	Financial Year to Date	6.06%	13.69%	17.06%
Since inception p.a. ⁽²⁾	7.87%	7.62%	4.99%	Since inception p.a. ⁽³⁾	4.21%	4.71%	1.06%

¹ Growth Fund returns are calculated using exit prices and are net of management fees, ongoing fees and expenses, and assume distributions are reinvested and no tax is deducted.
² Growth Fund - 11 January 2005.

³ Growth Fund - 1 June 2007.
⁴ Benchmark All Ordinaries Accumulation Index over the medium to long-term. Past performance is not an indicator of future performance.

Performance to 30 November 2020 (continued)

Lincoln Australian Growth Fund

Performance highlights

Performance contributors this month:

- **Accent Group Ltd (AX1)** - (+30.7%) Was the strongest performing stock in the Fund for the month after a trading update reported a continuation of strong sales in the first 20 weeks of FY21. Digital sales were strong as were like for like sales despite the impact of lockdowns on the Victorian stores.
- **Nanosonics Ltd (NAN)** - (+29.3) Continued October's strength retracing roughly five months of losses. Positives come from a recent 1Q21 trading update reporting the company's sale of Trophon units, Consumables revenues, and an improvement in hospital access underscoring an operational recovery.
- **Growth to Value Rotation** – Adairs Ltd (ADH), Rhippe Ltd (RHP) and Dominos Pizza (DMP) fell -16%, -12.6% and -11.2% respectively getting caught in the movement away from pandemic beneficiaries into cyclical stocks and previous underperformers.
- **Gold (XAUAUD)** – Gold was down 9.35% in AUD terms as money shifted from risk off assets to risk on assets globally. Saracen Mineral Holdings (SAR) and Northern Star Resources (NST) were down 16.5% and 16% respectively as part of this theme.

Data referred to in this performance commentary relates to the Lincoln Wholesale Australian Growth Fund unless otherwise stated.

Lincoln Australian Income Fund									
For investors seeking	A reliable income and reduced equity market risk exposure								
Distribution frequency	Quarterly								
	Wholesale					Retail			
	Fund Distribution Yield(a)	Benchmark income(b)	Total Fund return(d)	Total Benchmark return(b)		Fund Distribution Yield(a)	Benchmark income(b)	Total Fund return(d)	Total Benchmark return(b)
1-month	0.13%	0.35%	7.38%	10.31%	1-month	0.13%	0.35%	7.32%	10.31%
3-months	1.69%	0.90%	5.83%	8.44%	3-months	1.69%	0.90%	5.63%	8.44%
1-year	6.21%	3.70%	3.28%	-1.10%	1-year	6.21%	3.70%	2.47%	-1.10%
3-years p.a.	8.40%	5.28%	7.62%	8.25%	3-years p.a.	8.40%	5.28%	6.77%	8.25%
5-years p.a.	8.75%	5.72%	9.01%	10.48%	5-years p.a.	8.75%	5.72%	8.15%	10.48%
Financial year to date	2.04%	1.82%	11.39%	12.33%	Financial Year to Date	2.04%	1.82%	11.03%	12.33%
Since inception p.a.(c)	9.88%	6.03%	10.78%	10.86%	Since inception p.a.(c)	9.88%	6.03%	9.93%	10.86%

Past performance is not an indicator of future performance.

- (a) Gross income distributed, inclusive of franking credits.
 (b) S&P/ASX 200 Accumulation Index inclusive of franking credits. Source: Macquarie Equities.
 (c) Income Fund - 2 April 2012.

- (d) Income Fund Total Fund returns are calculated using exit prices and are net of management fees, ongoing fees and expenses, and assume distributions (inclusive of franking credits) are reinvested and that no tax is deducted.

Lincoln Australian Income Fund

Performance highlights

Performance contributors this month included:

- **Accent Group Ltd (AX1)** - (+30.7%) Was the strongest performing stock in the Fund for the month after a trading update reported a continuation of strong sales in the first 20 weeks of FY21. Digital sales were strong as were like for like sales — despite the impact of lockdowns on the Victorian stores.
- **Jumbo Interactive Ltd (JIN)** - Despite the slower start in large jackpot activity, JIN announced a “significant improvement” in underlying 1Q21 performance, where like-for-like sales increased by between 26% and 64%. Furthermore, the lift in margins bodes well for earnings growth and sustainability of dividends for the remainder of FY21. The stock finished the month up 26.6%.
- **National Australia Bank Ltd (NAB) and Australian and NZ Banking Group Ltd (ANZ)** – Banks were among the beneficiaries of the vaccine recovery theme. Additionally, both companies reported FY20 numbers and declared a 30cps and a 35cps fully franked dividend respectively. While a low interest rate environment is not ideal, NAB still finished the month up +24.8% and ANZ up +22.6%, and a large reduction in loan deferrals bodes well for dividend payments for both stocks in FY21.
- **Regis Resources Ltd (RRL)** – Gold was down 9.35% in AUD terms as money shifted from ‘risk off’ assets to ‘risk on’ assets globally, dragging RRL down 11% over the month.

Data referred to in this performance commentary relates to the Lincoln Wholesale Australian Income Fund unless otherwise stated.

Performance to 30 November 2020 (continued)

Lincoln U.S. Growth Fund				
For investors seeking	Investors seeking diversity			
Distribution frequency	Annually			
	Hedged		Unhedged	
	Fund return*	S&P500 Total Return Index**	Fund return*	S&P500 Total Return Index converted to AUD**
1-month	8.47%	10.95%	3.72%	5.74%
3-months	3.38%	3.89%	3.73%	4.72%
Since inception p.a. ^(^)	12.10%	17.05%	7.06%	9.85%

* Fund returns are calculated using exit prices and are net of management fees, ongoing fees and expenses, and assume distributions are reinvested and no tax is deducted. Past performance is not an indicator of future performance.

** Benchmark S&P500 Total Return Index
(^) 1 July 2020.

Lincoln U.S. Growth Funds

Performance highlights

Performance contributors this month included:

- **EOG Resources Inc (EOG)** – Explores, develops, produces, and markets natural gas and crude oil. The company started November trading at 52-week lows before it announced a natural gas discovery in South Texas (Dorado). The stock finished November up nearly 50%.
- **Enphase Energy Inc (ENPH)** – The manufacturer of solar power solutions has traded well since September. ENPH has benefited from positive exposure to a Biden election result and a new partnership with SunCool Energy in South Florida. Momentum continued nicely into November and the stock finished the month up 39.3% and is trading near 52-week highs.
- **Corcept Therapeutics Inc (CORT)** – Jumped 23% off the back of a favourable ruling to a patent challenge of the company's Korlym drug. It finished the month up 34.9%.

Data referred to in this performance commentary relates to the Lincoln U.S. Growth Funds unless otherwise stated.

As part of our transparency of the Fund portfolios, a full list of the portfolio holdings is provided to investors only.

Lincoln Australian Growth Fund - Top 10 holdings

as at 30 November 2020

Code	Company	Portfolio Holding
AX1	Accent Group Ltd	3.28%
FPH	Fisher & Paykel Healthcare Corp Ltd	2.84%
XRO	Xero Ltd	2.84%
WES	Wesfarmers Ltd	2.74%
NAN	Nanosonics Ltd	2.67%
RMD	ResMed Inc	2.67%
IDX	Integral Diagnostics Ltd	2.66%
SSM	Service Stream Ltd	2.65%
JIN	Jumbo Interactive Ltd	2.65%
REA	REA Group Ltd	2.65%
Total		27.65%

Lincoln Australian Income Fund - Top 10 holdings

as at 30 November 2020

Code	Company	Portfolio Holding
NAB	National Australia Bank Ltd	6.15%
ANZ	Australia & New Zealand Banking Group Ltd	6.10%
MQG	Macquarie Group Ltd	4.01%
AST	AusNet Services	3.39%
FPH	Fisher & Paykel Healthcare Corp Ltd	3.17%
AX1	Accent Group Ltd	3.17%
PMV	Premier Investments Ltd	2.90%
CHC	Charter Hall Group	2.83%
RMD	ResMed Inc	2.73%
CQE	Charter Hall Social Infrastructure REIT	2.65%
Total		37.10%

Lincoln U.S. Growth Funds - Top 10 holdings

as at 30 November 2020

Code	Company	Portfolio Holding
AAPL	Apple Inc	5.60%
SPGI	S&P Global Inc	4.59%
ETSY	Etsy Inc	4.58%
INTU	Intuit Inc	4.39%
CDNS	Cadence Design Systems Inc	4.38%
VRTX	Vertex Pharmaceuticals Inc	4.13%
NVDA	NVIDIA Corp	3.65%
ROL	Rollins Inc	2.61%
ENPH	Enphase Energy Inc	2.41%
MA	Mastercard Inc	2.40%
Total		38.74%

Key Data

	Lincoln Wholesale Australian Growth Fund	Lincoln Retail Australian Growth Fund	Lincoln Wholesale Australian Income Fund	Lincoln Retail Australian Income Fund	Lincoln U.S. Growth Fund Hedged	Lincoln U.S. Growth Fund Unhedged
APIR code	ETL0043AU	ETL0089AU	ETL0324AU	ETL0323AU	ETL6283AU	ETL1491AU
Fund inception	11 January 2005	1 June 2007	2 April 2012	2 April 2012	1 July 2020	1 July 2020
Minimum initial investment	\$250,000	\$20,000	\$250,000	\$20,000	\$100,000	\$100,000
Management costs	0.76% p.a.	1.40% p.a.	0.95% p.a.	1.75% p.a.	1.0% p.a.	1.0% p.a.
Performance Fee	20% of the amount by which the Fund's performance exceeds the All Ordinaries Accumulation Index				20% of outperformance of the S&P 500 Total Return Index.	20% of outperformance of the S&P 500 Total Return Index converted to Australian Dollars.
Entry/exit fees	Nil	Nil	Nil	Nil	Nil	Nil
Distribution frequency	Half-yearly	Half-yearly	Quarterly	Quarterly	Annual	Annual
Entry/exit unit price¹	\$1.8177/\$1.8050	\$1.2869/\$1.2779	\$1.0883/\$1.0807	\$1.0313/\$1.0241	\$1.1267/\$1.1210	\$1.0760/\$1.0706
Fund size¹	\$311.36m		\$405.82m		\$29.67m	
Responsible entity	Equity Trustees Ltd		Equity Trustees Ltd		Equity Trustees Ltd	

¹ As at 31 October 2020.

About Lincoln

Lincoln has been helping Australians invest successfully for over 30 years. We believe investing in a concentration of financially healthy and fundamentally sound stocks will deliver the best performance outcome to investors over the long-term.

Lincoln Managed Investments provides investors with flexibility via our professionally managed funds, the Lincoln Australian Growth Fund, Lincoln Australian Income, Lincoln U.S. Growth Fund Hedged and Lincoln U.S. Growth Fund Unhedged. Each managed fund is backed by Lincoln's academically-proven Financial Health analysis and proprietary investment methodology – the Lincoln Golden Rules. Our experienced and dedicated Managed Investments team use our stock analysis program, Stock Doctor, as the core research tool for each managed fund. The team apply additional qualitative and valuation analysis to identify stocks that meet our stringent investment criteria.

Lincoln's unique investment Methodology has consistently identified the best performing companies on the ASX and is substantiated by Lincoln Managed Investments' stellar performance track-record.

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Talk to us today to:

- Invest
- Learn more about Lincoln Managed Investments and Stock Doctor
- Receive regular market news and updates

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Important information.

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All figures, information and illustrations are as at 30 November 2020 unless stated otherwise. Portfolio holdings are subject to change without notice.

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