

# *The Inside* **Investor**

## How this all-weather approach beat the market



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The term balanced fund has been somewhat maligned after being the core product of insurance salesmen throughout the 70s and 80s to the catch all for high and low risk superannuation options it is today. Yet with uncertainty comes opportunity, and a new breed of ‘balanced fund’ is emerging.

The All-Weather portfolio, run by Melbourne-based boutique Cor Capital, has a rare ‘defense first’ approach which gives it the ability to weather volatile global events a lot better than most. According to Portfolio Management Davin Hood, this should make the Cor Capital Fund highly attractive to SMSF trustees. Hood says SMSFs “will be increasingly attracted to fund managers offering capital preservation post-COVID-19.” Especially those SMSFs near or in retirement, that can’t afford taking on any added risks.

*So, what do they do?*

The investment team seeks to generate stable positive returns, irrespective of how bad economic or financial conditions are. Their sole objective “is to generate medium to long-term returns, without significant interim drawdowns”. They seek to achieve this by investing and trading in developed-market equities, precious metals, fixed interest, and cash. The Fund portfolio is highly liquid and diversified.”

What does the fund hold? It’s quite simple actually, around one quarter is held in cash, government bonds, active equity indices and precious metals. Derivatives are used sparingly to assist with rebalancing and hedging risk when markets rally.

### *Performance trumps objectives*

The strategy returned -0.35% (net of fees) for the 3 months ending September 2020, underperforming benchmarks over the short period, but the return for the last 12 months was 5.6%. This compares to 0% delivered by the average superannuation balanced fund over the same period. So, if you had \$1.0 million invested in Cor compared to an average balanced fund, you would be \$56,000 better off in the last 12 months alone.

It’s always best to compare like with like, in this case the most comparable fund would be the **Vanguard Balanced Index Fund**. A liquid, diversified, strategic asset allocation driven strategy. The fund tracks the weighted average return of the Balanced Composite Index, offering broad diversification across multiple asset classes, seeking a balance between income and capital growth. It splits the portfolio 50/50 between income assets and growth assets. The Vanguard Balanced index fund’s annualised performance for three months was 1.8%, six months was 9.1% and twelve month performance was just 1.2%.

The asset allocation is quite similar, with 50% in cash and bonds and 50% in equities, with precious metals and cash the biggest differences and in this case, the detractors.

### *First do no harm*

The defense first strategy means that the team must take a realistic view on markets. In this vein, Hood believes that the decade long bull run cannot continue unabated forever and the day of reckoning must

come soon. “The markets can’t continue to defy economic reality forever. SMSFs will not be immune to any market correction of risk assets.... “the traditional 60/40 type portfolios (60% growth/40% defensive) that many SMSFs rely on will, in all likelihood, fail to meet their investment objectives in the coming years.”

He says, some of the reasons can boil down to weak and volatile markets, but investors consistently underperform fund managers due to the poor decisions on when to buy, sell or switch out of funds. The expectation after COVID-19, is that lower returns and increased volatility could be the new norm and with that investors holding higher allocation to risky assets will probably make more poor investment decisions under stress. In a world of much lower returns, fund managers with investment strategies aimed to protect capital are a lot better placed than growth managers because they “maintain purchasing power and provide alternative sources of return not tied to high allocations to equities.”

Against the Vanguard Balanced fund and its peers, the Cor Capital Fund is placed in Morningstar’s Australia ‘multi asset – balanced’ database as the #1 performer over 1 and 5 years, as at 31 July 2020. Cor Capital says, “given the Cor Capital Fund’s diversified but active portfolio is designed to maintain performance during periods of uncertainty” the fund is well position for volatile geopolitical events such as the US election, a downturn in the domestic property market, or even a bond market glitch.



## **Ishan Dan**

Ishan Dan is a finance journalist for Inside Network. He has written for well known finance publications such as Marcus Today, Unconventional Wisdom, MoneyandLife and The Bull. He has over 15 years' experience in the wealth management, stockbroking, funds management, investment platforms and newsletter writing space. He is an experienced stockbroker, newsletter writer and business development manager. Considered an 'All Rounder' due to his varied experience, it has given him sound expertise across the entire spectrum of finance and investing, with specific expertise in portfolio construction, direct shares and managed fund investing.