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High Quality Australian Companies Present Good Investment Opportunities for a Post-COVID Future

New Zealanders don't always think of Australia when looking for investment opportunities. However, there are a number of high quality Australian companies that have delivered rewarding investment performance over many years for those prepared to venture across the ditch. Over the three years to 31 March 2021, Fisher Funds' Australian Growth Fund has returned 15.6% (net of fees) per year, ahead of the benchmark ASX200 Index (70% hedged into NZ$) which has returned 10.2%. In the COVID impacted last twelve months, the Australian Growth Fund also strongly outperformed the benchmark index by 10.6% (net of fees).

The future as ever remains unpredictable. We didn't predict the COVID-19 pandemic in January 2020! So we won't make firm predictions about where the share market will trade in the near term. But we do believe that Australia continues to offer investors access to some great long term investment opportunities.

Our investment process does not depend on short term predictions. And that has been the bedrock of our strong investment performance for many years. We hand-pick the very best quality companies in Australia for our portfolio. Companies with strong competitive advantages that can keep growing their earnings for many years to come. And we invest in these companies for many years. We care much more about where these companies will be in five years, than in five weeks.

In this article, we reflect on how our investment process delivered for our investors over the tumultuous last twelve months. And we explain why we think investing in high quality and growing Australian companies will stand Kiwi investors in good stead over the next few years.

Kiwis can spread the risk of their investments across a large number of companies by investing in Australia

This is the investing equivalent of reducing the number of eggs you put in one basket. Yes Australia is geographically close to NZ and we now share a travel bubble with each other. But as differing crowd reactions at rugby matches between our two countries highlights, we are two different countries. And this is evident in our share markets as well.

The Australian Growth Fund enables Kiwis to invest in companies not available on the NZ share market. This includes some banks and a number of high quality healthcare and technology companies. Ever since Trade Me was de-listed, Kiwis have to look abroad if they want to invest in strong, online classified advertising businesses such as SEEK (recruitment), REA Group (real estate) and Carsales (motor vehicles). We own shares in all three companies in our Australian Growth Fund.

These companies contributed strongly to our investment returns over the last year.

How our Quality & Growth investment process delivered for investors in a volatile year

Our quality focus meant that our portfolio had large positions in a number of companies with resilient businesses as COVID-19 broke out in 2020. These included leading healthcare companies CSL and Resmed. These companies provide critical products and services to people such as blood plasma products, and ventilators.

Ventilators proved crucial in treating those with COVID-19! Their earnings and share prices were less affected as share markets fell sharply in March 2020. This helped protect our investors' capital.

Importantly, our investment process provided us with the flexibility to also act fast and take advantage of the opportunities presented by this share market meltdown. We switched gears in late March 2020. We added to our positions in companies that had been most adversely impacted by COVID-19. This helped us to be well positioned for a rebound in the prices of these firms.

So for example we increased our weightings in the Australian banks, ANZ, CBA, NAB and Westpac in the middle of March 2020. The banks valuations had fallen a long way in March. Yet through our research we knew the banks were as well prepared as they had been in decades to weather this storm. This decision enabled us to profit from the sharp rally in the banks' share prices in late 2020 as the Australian economy bounced back.

We funded these purchases by reducing our holdings in businesses that we felt had narrower competitive advantages and/or did not offer the same return potential.

In doing so we strengthened the mix of our portfolio and we positioned it to strongly benefit from the market rebound when it came.

The market meltdown in 2020 was fleeting. If you froze, you missed the opportunities that it presented

Our research is in depth, and thorough. This takes time. It requires a lot of reading, meeting with company management teams, their competitors and customers. Through this process we keep track of a number of high quality Australian companies. And we patiently wait for the right opportunity to invest in them. The share market fall in March 2020 provided us with a rare opportunity to add a number of these businesses to the portfolio at good prices.

Examples included an investment in Australia's dominant online real estate advertising business REA Group (+85.8%) and pre-eminent supermarket operator Woolworths (+22.8% since we invested).

We also added Audinate and Fineos, a couple of fast growing technology companies. Organisations all over the world are adapting to COVID-19 by accelerating their use of digital technology. Audinate and Fineos benefit from this trend and have many years of earnings growth in front of them.

Our research in investment opportunities continues. This means we will be well prepared to take advantage of the next large opportunity that the share market may present us with in the future.

A bright, long term outlook for high quality & growing Australian companies

As the pandemic eases, the road back to a 'normal' economy will be fraught with potholes. This includes the impact of new COVID-19 strains, vaccination difficulties, and differences in how businesses and governments navigate the post COVID-19 world. The range of potential outcomes is broad.

High quality companies with durable, clear competitive strengths and run by strong passionate management teams will be well placed to manage these uncertainties.

Patients with rare auto-immune health conditions will still require CSL's blood plasma products in this environment. People will still buy their groceries from Woolworths. Businesses embracing a digital future will need to store their data in secure data centres provided by Next DC. And as the Australian economy recovers and borders re-open, tourism companies will advertise for new employees on SEEK (the dominant online recruitment site). All of these companies are in our portfolio.

The longer term outlook for each of these businesses is bright.