

Sterling Clime Balanced Portfolio (SR0011)

Investment Summary
October 2023



Praemium (SMA)

Market & Economic Commentary

In October, financial markets faced significant challenges, as rising bond yields had a negative impact on both stocks and bonds.

The ASX 200 Accumulation Index fell by -3.80%, with the Technology and Health sectors bearing the worst of the losses, and gold stocks surging. In the US, major indexes were lower across the board, with the S&P 500 down by -2.20%, the Dow Jones by -1.36%, and the Nasdaq by -3.43%. European markets were likewise weaker: Germany's DAX was off -3.75%, the French CAC down -3.50%, and the British FTSE down -3.76%. Japan's Nikkei 225 was weaker by -3.13% over the month.

After trading down as low as USD 0.6275, the AUD ended October off its lows at around USD 0.6375. Gold and oil were both higher in October.

US and global bond yields rose as markets absorbed the message from Central Banks that official rate settings were likely to stay higher for longer. US 10-year bonds rose from just under 4.70% at the start of October to nudge 5.00% before retreating by month end. Australian 10-year bond yields were likewise higher, rising from 4.35% to peak around the 5% level.

Current market dynamics

There are two major risks that the market is grappling with at present. The first is rising bond yields, which were in evidence across October, with US 10-year Treasuries at their highest level since 2007. The question is whether we are moving into a higher-for-longer regime or whether higher bond yields retreat as inflation slowly reduces. The move-up in rates is driven by investors demanding higher returns for longer-term risks. Investors should consider the possibility that higher yields could be a medium-term story and understand what that could mean for a highly indebted economy.

The second major risk is rising geopolitical tensions, exacerbated by the conflict in the Middle East. If the war between Israel and Hamas remains contained, markets will feel relieved. But if it spirals out of control to include other regional players, and draws in Iran and the US, then market risk will spike, and uncertainties will force markets lower. War in the Middle East has an outsized influence on global energy costs, especially natural gas and oil. If those prices rise sharply, the global economy (and markets) will suffer as a consequence.

Back to Australia

Current market commentary is that Australian rates are too low relative to local underlying inflation and US rates meaning there is a strong likelihood of further rate hikes. The International Monetary Fund (IMF) has urged the Reserve Bank to lift interest rates further and cut or delay some of the state and federal government's \$150 billion worth of infrastructure projects. As a result, the federal government is reviewing its major projects with decisions likely to be announced in next month's mid-year budget update.

The IMF is forecasting that Australian economic growth will ease from 1.8% this year to just 1.2% in 2024. Economic growth at that rate, given Australia's strong population growth, would suggest a per capita recession.

Outlook

Recent declines of over 10% in various equity markets have increased the attractiveness of equities in the short term. The prevailing uncertainty in the outlook and resulting market decline means that buying opportunities are emerging, particularly for companies at the "high quality" end of the spectrum. The US equity market appears reasonably valued if one excludes some of the mega-cap tech companies from the valuation calculation, and smaller companies are cheaper still.

Portfolio Snapshot

Inception Date	SMA Model Code	Portfolio Objective	Benchmark
20th October 2017	SRO011	Deliver strong risk-adjusted total returns	Blended Balanced Index ¹

¹ Sterling Clime Blended Balanced Index is comprised of a 45% weighting to S&P/ASX 200 Accumulation Index, 5% to S&P/ASX 200 A-REIT Accumulation Index, 10% weighting to MSCI World ex Australia Index (AUD), 35% weighting to the Bloomberg AusBond Composite Index and 5% weighting to the RBA Cash Rate.

Portfolio Performance* (31/10/2023)

	1 m	3 m	6 m	1 y p.a	3 y p.a	Inception p.a
Portfolio Return	-1.8%	-4.0%	-1.9%	3.4%	4.4%	4.9%
Capital Return	-1.8%	-4.7%	-3.5%	0.2%	1.5%	1.7%
Income Return	0.0%	0.7%	1.6%	3.1%	2.9%	3.2%
Sharpe Ratio	-	-	-	-0.05	0.36	0.33
Sterling Balanced Index	-2.9%	-5.5%	-4.5%	2.0%	3.7%	4.5%
Difference	1.1%	1.5%	2.6%	1.3%	0.7%	0.4%
Number of Individual Holdings (excluding cash):	39					

*Due to rounding, the sum of the capital and income return figures may not add up to the portfolio return figure.

Portfolio Commentary

The Sterling Clime Balanced portfolio returned -1.8% for the month of October, outperforming its benchmark which returned -2.9%. The key drivers of portfolio performance and major portfolio changes are outlined in the tables below.

Positive Attributors	Comment
Northern Star Resources Ltd (NST)	Strong upward movements in the price of gold during October supported a sector wide rally in gold miners. This was caused by increased geopolitical unrest in the Middle East. We continue to see value in NST as a high quality gold miner with strong production growth and cost control.
BHP Group Ltd (BHP)	BHP performed strongly in October, reflecting upwards movements in the price of iron ore towards USD 120 per tonne, driven by tight iron ore inventory in China and higher than expected steel mill production rates. We continue to see value in BHP as a high quality diversified miner with attractive future facing growth projects in both copper and potash.
Negative Attributors	Comment
AB Global Equity Fund (ACM0009AU)	International stock markets fell again as broad-based weakness continued to underscore the narrowly led market. Two key market catalysts have been weighing on stock prices and remained front and center in October: inflation and interest rates. Geopolitical risk moved into focus, following the tragic events in the Middle East, whilst market volatility remained subdued.

Portfolio Activity

BUY	Comment
QBE Insurance Group Limited (QBE)	Recently the Australian Bureau of Meteorology has declared an El Nino event, meaning the US is expected to experience less catastrophic events that incur high claims payouts for insurers. Additionally, interest rates staying higher for longer should benefit QBE's investment income where the gain in yield outweighs the interest cost on their debt. This makes QBE an attractive option that is likely to outperform the market given its price to earnings ratio is down at 8.9x compared to the ASX 200 which is sitting at 15.3x for the next twelve months.
Woodside Energy Group Ltd (WDS)	WDS remains the premium Australian Oil and Gas operator with strong forecast production growth across a globally diversified portfolio. Recent weakness in the share price, reflecting a pull back energy prices, see the stock below our share price target. Moreover, rising global tensions in the middle east, marked by the recent Israeli-Palestinian conflict will likely see a risk premium return to energy plays. Stable global demand, shortages in global supply and increasing tensions lays a strong backdrop for the sector, with WDS our preferred exposure given low gearing and premium growth projects.
Global X US Treasury Bond ETF hedged (USTB)	USTB provides portfolios with dedicated government bond exposure at relatively attractive yields. It also provides significant downside protection should a global recession play out.
SELL	Comment
James Hardie Industries PLC Chess Units of Foreign Securities (JHX)	We expect JHX to continue to deliver growth over the medium term as it executes its strategic plan to increase its share of an under-supplied US housing market. However, post a recovery in housing starts and commensurate recovery in the share price we believe surging mortgage rates in the US will impact industry growth, and hence impacting the JHX near term outlook. We exit the position and look to buy back into the high quality operator when foreseen risks are better reflected in the share price.
Qantas Airways Limited (QAN)	Over the last quarter QAN has faced significant scrutiny in the public arena, which has impacted both its brand and share price. While the company will need to increase investment to regain the public's trust we do not see the current issue as impacting the company long term. What is stark when we look at the broader global airline industry is that the stock's fall is broadly in line with the performance of the global airline industry. Post a surge in leisure travel and uncertainty around the economic outlook, our view that oil prices will remain high given geopolitical uncertainty compounding apparent shortage in supply, the outlook for the airline industry, including QAN, is unlikely to improve in the short term. As such we exit the position and utilise proceeds to tilt the portfolio to better respond to market and economic changes underway.
Charter Hall Maxim Property Securities (COL001AU)	The state of the real estate market including factors such as tightening lending standards, elevated office vacancies, and downward trends in capitalisation rates is a cause for concern. As a result, we remove the Charter Hall fund from our portfolios maintaining exposure to infrastructure within the property and infrastructure space.

Top 5 Holdings

Security	Weight (%)
Global X US Treasury Bond (Hedged) ETF	26.3
AB Global Equity Fund	9.5
Vanguard MSCI Index International Shares (Hedged) ETF	5.5
Realm High Income Fund	5.4
iShares Core Cash ETF	4.4

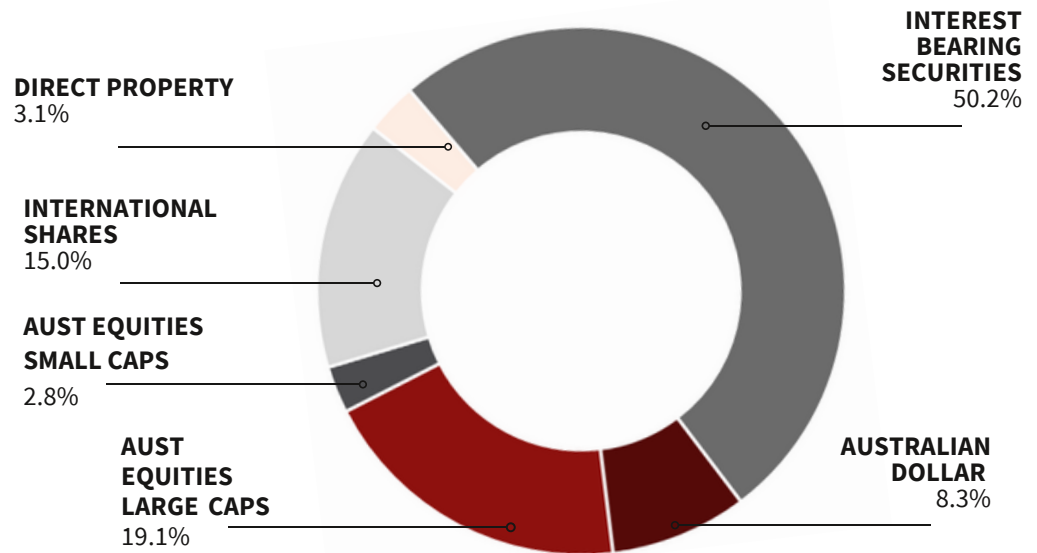
About the Model Manager

Clime applies a consistent approach to identify the most attractive investment opportunities within the universe of stocks.

Clime invests with a focus on quality and a strong valuation discipline. Our investment solutions are centred on helping clients grow their wealth.

Asset Allocation

Note: the sum here may not add up to 100% due to rounding



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