Sterling Clime *Conservative* Portfolio (SR0010)

Investment Summary
November 2023

Praemium (SMA)

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Market & Economic Commentary

Markets had a very strong month in November, largely driven by the belief that inflation has been falling slightly faster than expectations, bond market yields have likely peaked, and that interest rate rises are probably over.

The ASX 200 Accumulation Index rose by 4.52%, which was relatively disappointing compared with the stellar returns experienced in most other developed markets. In the US, major indexes were sharply higher across the board, with the S&P 500 up by 8.92%, the Dow Jones by 8.77%, and the Nasdaq by 9.52%. European markets were likewise strong performers: Germany's DAX was up 9.49%, the French CAC up 6.17%, and whilst the British FTSE rose 1.8%, it did not show the strength that other developed markets did. Japan's Nikkei 225 was similarly firmer by 8.53% over the month.

US and global bond yields fell, and prices rose as markets anticipated that rate rises have likely peaked, although they may plateau at current levels for some extended period before falling – perhaps in the second half of 2024. In line with global trends, Australian 10-year bond yields were likewise lower, falling from 4.81% to close the month at 4.43%. The view that Australian rates are still too low relative to underlying inflation and to US rates means that there is a possibility of a further rate increase in early 2024, although forward markets are mixed on this possibility. After trading below USD 0.6230 in October, the AUD surged off its lows to close November above USD 0.6600.

Gold rose over the month to above USD 2,000, iron ore prices remained elevated, but crude oil drifted around USD 5 per barrel (/b) lower to end the month around USD 75/b.

Of course, one has to temper enthusiasm with caution. The interplay between financial markets, the economy and central banks is like walking on a tightrope, with recession risks on one side and undesirable economic strength and inflation on the other. For central banks, the manoeuvring room has diminished as rates have risen. We are cognisant of two specific issues:

1. Will higher rates lead to a gentle "soft landing" or a tough recession?
2. Will inflation resurge if rates are not quite restrictive enough?

Taking all factors into account, we remain cautiously optimistic that inflation will surprise on the downside, and that a soft landing will eventuate. With that said, recession risk still looms. Given the inherent high risk associated with any economic downturn for equities, exercising prudence is advised.

While the prevailing narrative that rates have peaked has resulted in some markets surging, our view is that buying opportunities remain available, particularly for investments at the quality end of the spectrum and in the small cap sector (which has been left behind in the scramble to get set for the market recovery). Most markets still appear to be reasonably valued, particularly if one excludes some of the popular Mega-Cap Tech companies, and smaller companies are cheaper still.

Portfolio Snapshot

Inception Date	SMA Model Code	Portfolio Objective	Benchmark
20th October 2017	SROO10	Deliver strong risk-adjusted total returns	Blended Conservative Index[1]

1 Sterling Clime Blended Conservative 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* (30/11/2023)

	1 m	3 m	6 m	1 y p.a	3 y p.a	Inception p.a
Portfolio Return	2.5%	0.1%	2.7%	3.6%	4.4%	4.4%
Capital Return	2.1%	-1.0%	0.5%	-0.7%	1.0%	1.0%
Income Return	0.3%	1.1%	2.2%	4.3%	3.4%	3.4%
Sharpe Ratio	-	-	-	-0.02	0.46	0.38
Sterling Conservative Index	3.8%	-0.6%	0.5%	1.6%	0.1%	3.2%
Difference	-1.3%	0.7%	2.2%	2.0%	4.3%	1.2%
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 Conservative portfolio returned 2.5% for the month of November, underperforming its benchmark which returned 3.8%. The key drivers of portfolio performance and major portfolio changes are outlined in the tables below.

Positive Attributors	Comment
Vanguard MSCI Index International Shares (Hedged) ETF (VGAD)	Global markets gave investors an early Christmas present following exceptional gains in November driven by the view that inflation is falling faster than expectations, bond market yields are peaking, and interest rate hikes are likely over.
CSL Limited (CSL)	CSL's stock price bounced back in November. Despite this we think there is still value in the company which we expect will grow earnings at a compound annual growth rate of +14% from FY23-FY27 driven by margin recovery across the business. We think CSL should also benefit from peaking interest rates, so we remain bullish on the outlook and anticipate a re-rating from here.

Negative Attributors	Comment
Woodside Energy Group Ltd (WDS)	Short term weakness in the price of oil translated to a lower share price for WDS during the month, driven by higher than expected US oil supply and a weaker global growth outlook. We are constructive on the potential merger between WDS and STO which could be an accretive deal to drive synergies between the two oil and gas majors.

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Portfolio Activity

BUY	Comment
NIB Holdings Ltd (NHF)	Private health insurance for temporary residents is a necessary product that is extremely profitable for NHF. Historically, during strong migration periods, as we are experiencing currently, NHF benefits from margin expansion. Current hospital activities remaining subdued post COVID, is a tailwind as claims cost goes down. The prevailing interest rate environment should boost NHF's investment income and we expect the company to print strong top and bottom line numbers and with the recent drop in the share price we initiated a position.
Rio Tinto Ltd (RIO)	We have initiated a position in RIO funded by a reduction in our BHP allocation. This change serves to diversify our iron ore exposure between the two majors. We remain constructive on the price strength of iron ore going into 2024 and see upside to earnings expectations for both miners.
Macquarie Group Limited (MQG)	MQG's share price has struggled to recover, unlike other retail banks, given market activities such as initial public offerings (IPOs) and merger and acquisition (M&A) opportunities have been silent on the back of the aggressive rate hike cycle. As the peak in rates approaches, we see MQG as well positioned to perform well as market activities and volumes pick up.
Light & Wonder Inc. (LNW)	LNW is one of the world's leading creators and developers of gaming experiences across land-based poker machines, Social Casino's and iGaming. We have initiated a position based on our outlook of the resilient industry backdrop with high barriers to entry and LNW's experienced management team that is successfully executing its cross-platform technology solution. With a transformed balance sheet enabling strong investment into Design & Development, we view LNW's content-led gaming portfolio with enviable margins as well positioned to capture further market share gains.

SELL	Comment
IPH Ltd (IPH)	We sold our position in IPH after the announcement of its third Canadian acquisition. Whilst our valuation is still showing upside, several small missteps appear to have taken the wind out of the company's sails. Notably, the cyber incident which occurred earlier in the year combined with larger than industry inflationary price rises, appear to have caused some customer churn, in what is typically a very sticky business. Further, a drop in filings in IPH's China/HK business and paying at the top end up acquisition multiples for subsequent Canadian acquisitions has weighed on our return outlook for the company. Whilst we still like the defensive investment attributes of IPH, we see better value elsewhere for now.
ANZ Group Holdings Ltd (ANZ)	ANZ's recent major strategy of pursuing volume to gain market share has resulted in net interest margin compressing harder than its peers. With the rate cuts sometime next year becoming more probable, this will likely put pressure on ANZ's top-line volume growth as the credit cycle turns around with ANZ having less room to grab market share strongly whilst margins compress.
BHP Group Ltd (BHP)	The BHP allocation has been reduced to fund the addition of RIO. This serves to diversify the portfolio's iron ore exposure between the two majors. We remain constructive on the price strength of iron ore as we head into 2024 and see upside to earnings expectations.

Top 5 Holdings

Security	Weight (%)
Realm High Income Fund	10.0
VictoryShares Short-Term Bond ETF	7.0
iShares Core Cash ETF	5.9
ATLAS Infrastructure Australian Fdr Fund (Hedged)	5.2
AB Global Equity Fund	5.0

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