Sterling Clime *Australian Equities* Portfolio (SR0014)

Investment Summary
December 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	SROO14	Deliver strong risk-adjusted total returns	Australian Equities Index[1]

1 Sterling Clime Australian Equity Index is S&P/ASX 200 Accumulation Index

Portfolio Performance* (31/12/2023)

	1 m	3 m	6 m	1 y p.a	3 y p.a	Inception p.a
Portfolio Return	5.2%	5.8%	4.0%	4.8%	6.1%	6.5%
Capital Return	5.1%	5.1%	2.4%	1.4%	2.5%	3.1%
Income Return	0.1%	0.7%	1.5%	3.4%	3.6%	3.4%
Sharpe Ratio	-	-	-	0.08	0.34	0.32
Sterling Australian Equities Index	7.3%	8.4%	7.6%	12.4%	9.2%	8.3%
Difference	-2.0%	-2.6%	-3.6%	-7.7%	-3.2%	-1.8%
Number of Individual Holdings (excluding cash):	25					

**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 Australian Equities Growth portfolio returned 5.2% for the month of December, underperforming its benchmark which returned 7.3%. The key drivers of portfolio performance and major portfolio changes are outlined in the tables below.

Positive Attributors	Comment
CSL Limited (CSL)	CSL rose +9.31% during December. Despite this rally we think there is still value in the stock which we expect will grow earnings at a compound annual growth rate of +14% for the next 3 years driven by margin recovery across the business. We think CSL should also benefit from peaking interest rates, we remain bullish on the outlook and anticipate a continued re-rating from here.
BHP Group Ltd (BHP)	BHP has continued to perform strongly, driven by sustained strength in the iron ore price above USD130 per tonne. An improving view of China's economic conditions in 2024, tight iron ore inventory and higher than expected steel mill production rates have aided the price of iron ore. We see value in BHP as a diversified and high quality miner with attractive future facing growth projects.

Portfolio Commentary (cont.)

Negative Attributors	Comment
QBE Insurance Group Limited (QBE)	QBE underperformed in the month, as rate cut expectations builds up following the US central bank's rate decision in December. The USD weakened against the AUD, and future revenue is expected to decrease further due to a decline in the yield of the company's investment income. QBE still appears attractive as its portfolio managed to contain catastrophe costs below its provision, and although yield has retracted in the US, the company should be able to maintain a level of return in their investment book that will provide some buffers in their bottom line numbers.
NIB Holdings Ltd (NHF)	NHF underperformed during December as rate cut expectations built up, weakening the expected future investment yield revenue, as well as the investment focus cycling back to growth stocks. NHF remains to have great value in the future as net migration numbers persist to stay high and more Australians taking up private health insurance as pointed out by APRA's data.

Portfolio Activity

BUY	Comment
Newmont Corporation (NEM)	NEM, a globally diversified gold miner, recently dual-listed after acquiring Newcrest Mining. With robust gold and copper production growth, strategic divestitures of non-core assets, and a leading quarterly dividend yield, NEM is an attractive replacement for NST in the portfolio.
Jumbo Interactive Ltd (JIN)	JIN is the leading reseller of OzLotto and Powerball lottery tickets in Australia, through its web and app-based platforms. The company has been founder led and listed on the ASX in the early 1990s, seeing steady market share growth since then. JIN also provides white label lottery systems and software infrastructure and support to charities who hold large, national lotteries. It also has charity lotteries operations in the UK and Canada. The company is currently seeing some share price weakness off the back of a weak run of jackpots, which statistically will revert to the mean over the medium term. This provided us with an opportunity to initiate a position.

SELL	Comment
Northern Star Resources (NST)	NST has been a strong performer for the portfolio with gold remaining a key commodity overweight position. However, due to NST's unfavourable tax position leading to unfranked distributions in 2024, it will be replaced by NEM. NEM not only provides a more robust quarterly dividend yield but is also our preferred gold exposure, driven by our positive outlook on its production growth profile and intensified focus on tier-1 jurisdiction opportunities.
Aristocrat Leisure (ALL)	We reduced our weighting in ALL post initiating a position in LNW. While we classify both ALL and LNW as clear market leaders and can operate as a duopoly, we see greater potential upside on offer via LNW underpinned by its new management team, transformed balance sheet and content led portfolio translating to enviable margins.
GPT Group (GPT)	Australian real estate investment trusts (AREITs) rallied during November as investor sentiment shifted to expect rate cuts in 2024. Following a strong rally in the GPT share price, we decided to trim the top off the GPT position to manage the position size and redeploy the cash into other investments.

Top 5 Holdings

Security	Weight (%)
CSL Limited	9.6
BHP Group Ltd	8.4
National Australia Bank Limited	6.3
Macquarie Group Ltd	5.2
Telstra Group Limited	4.8

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