Sterling Clime *Conservative* Portfolio (SR0010)

Investment Summary
December 2023

Praemium (SMA)

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Market & Economic Commentary

Markets had a strong month in December, capping off a far better year than had been expected. Good performances in asset markets were driven by inflation falling faster than expectations, bond market yields peaking, and the view that interest rate rises are over.

Over calendar 2023, the ASX 200 Accumulation Index rose by 7.84%, which was relatively disappointing compared with the stellar returns experienced in many other developed markets. In the US, for example, major indexes were sharply higher across the board, with the S&P 500 up by 24.23%, the Dow Jones by 13.70%, and the Nasdaq by 43.53% for the year. European markets were likewise strong performers for the 12 months to 31 December: Germany's DAX was up over 19%, the French CAC up 15.6% and Japan's Nikkei 225 increased by almost 33%. Chinese markets performed poorly, however, reflecting disappointment with their economic recovery post pandemic lockdowns.

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 further – perhaps in the second half of 2024. US 10-year bond yields fell from 4.22% at the start of December to 3.88% by year end, as growing optimism about interest rate cuts by the Federal Reserve in coming months fueled a rebound from a low baseline.

Prices of government debt around the world followed the US higher, with yields declining. In line with global trends, Australian 10-year bond yields were lower, falling from 4.40% to close December at 3.96%. There is a view that Australian cash rates are still too low relative to underlying inflation and to US rates, which implies that there is a possible further rate increase in early 2024, although forward markets suggest otherwise. After trading below USD 0.63 in October, the AUD surged off its lows to close the year over USD 0.68.

Gold rose over the month to USD 2,080, iron ore prices increased from USD 133 per tonne (/T) to USD 142/T and remained elevated, but crude oil has drifted aimlessly to end the year around US 71 per barrel.

Australia's position in global markets

As noted above, the Australian share market underperformed its global peers in 2023. The US was exceptionally strong over the year, with growing expectations of a US Federal Reserve (Fed) pivot from raising rates to leaving them at current levels for a while, before starting to reduce rates mid-year. In addition, the US dollar is coming off its peak, and there are growing expectations of a soft landing for the US economy. While Australian markets have their particular drivers, it is still the case that the ASX usually follows Wall Street, and that is likely to continue. Therefore, we would expect the ASX to play catchup in the coming year, representing an opportunity for investors to get set.

Outlook for 2024

Further to our update last month, we remain cautiously optimistic that inflation will surprise on the downside, and that a soft landing for the global economy is the most probable outcome. 2024 is likely to see positive returns helped by falling rates in the latter half of the year, with the risk of a shallow recession.

We expect the Reserve Bank of Australia (RBA) cash rate to fall around a percent or so by the end of 2024, and the AUD to rise closer to USD 0.70. Commodity prices will probably be a mixed bag, with green transition metals like lithium, copper and nickel recovering from sold off levels, and oil remaining volatile. Gold is likely to remain firm while the USD weakens. The property sector, particularly residential, may face some profit-taking.

While the prevailing narrative that rates have peaked has resulted in some markets surging, our view is that buying opportunities remain available, particularly for companies at the quality end of the spectrum and in the small cap sector. We are optimistic about prospects for asset markets in 2024.

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* (31/12/2023)

	1 m	3 m	6 m	1 y p.a	3 y p.a	Inception p.a
Portfolio Return	2.3%	3.6%	4.2%	6.3%	5.1%	4.7%
Capital Return	1.9%	2.8%	2.4%	2.2%	1.7%	1.3%
Income Return	0.4%	0.8%	1.7%	4.2%	3.4%	3.4%
Sharpe Ratio	-	-	-	0.49	0.56	0.42
Sterling Conservative Index	3.9%	5.4%	4.9%	8.1%	1.3%	3.8%
Difference	-1.6%	-1.8%	-0.7%	-1.7%	3.8%	0.9%
Number of Individual Holdings (excluding cash):	40					

**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 2.3% for the month of December, underperforming its benchmark which returned 3.9%. 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.

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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 (%)
Realm High Income Fund	10.1
ETFS US Treasury Bond (Currency hedged) ETF Units	7.1
iShares Core Cash ETF	5.9
ATLAS Infrastructure Australian Fdr Fund (Hedged)	5.4
AB Global Equity Fund	5.1

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