

# **Sterling Clime Balanced Portfolio (SR0011)**

Investment Summary  
January 2024



Praemium (SMA)

## Market & Economic Commentary

Markets consolidated the exceptional gains of November and December and ended January a touch higher. Good performance in asset markets was driven by inflation falling faster than expectations, bond market yields lower, and central banks pivoting from raising rates to thinking about when rates might be lowered.

After major economies showed surprising resilience in 2023, some anticipated a mild contraction in 2024. But the steepest interest-rate-hiking cycle in decades has set global economic activity on a course that is difficult to map. The much talked about ‘soft landing’ appears to have arrived – at least in the US. American exceptionalism has been demonstrated by its strong GDP growth compared with G7 peers, reflected in new record highs achieved by its share market indices in late January.

Over January, the ASX 200 Accumulation Index rose by 1.18%, somewhat less than most other developed markets. In the US, major indexes were higher across the board, with the S&P 500 up by 1.59%, the Dow Jones by 1.22%, and the Nasdaq by 2.7%. European markets generally rose: Germany’s DAX was up 0.91%, the French CAC up 1.51%, and the British FTSE was down 1.33%. Japan’s Nikkei 225 was firmer by 8.44% over the month. Chinese markets continued to perform poorly, reflecting the crisis in their real estate sector and disappointment with their economic recovery post the pandemic.

US and global bond yields ended the month mostly unchanged, first rising but then declining at month’s close. Bond rates appear to indicate that inflation risks are receding, and 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. The AUD slipped lower over the month, from around USD 0.6800 to close at around USD 0.6570. Crude oil rose a few dollars on increased tensions in the Middle East while gold was a touch weaker.

After rallies across many financial markets in late 2023 and continuing into 2024, riskier assets appear priced for an economic soft landing and may be underestimating downside risks. Most equity markets have been rising due to price/earnings (PE) expansion, rather than robust earnings per share (EPS) growth. Of course, as interest rates come down later in the year, this might provide the impetus required for corporate profitability growth, and so justify current valuations.

Taking all factors into account, we remain 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 a low risk of recession.

The Australian economy is supported by strong immigration, rebounding tourism and substantial construction spending. On the other hand, retail sales, disposable household income, consumer sentiment and residential building approval levels remain weak. However, we expect these weaknesses to turn as rate rises are put on hold and housing bottoms. The labour market remains strong, and households still have some excess savings left over from the pandemic. Likely, this combination of factors points to another below-trend growth year for the Australian economy. We continue to be optimistic about prospects for asset markets in 2024.

## Portfolio Snapshot

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

<sup>1</sup> 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\* (31/01/2024)

|  | 1 m  | 3 m   | 6 m   | 1 y p.a | 3 y p.a | Inception p.a |
|--|------|-------|-------|---------|---------|---------------|
| <b>Portfolio Return</b>                                | 1.1% | 7.7%  | 3.4%  | 6.0%    | 4.9%    | 5.9%          |
| <b>Capital Return</b>                                  | 1.0% | 7.0%  | 2.0%  | 2.7%    | 1.9%    | 2.7%          |
| <b>Income Return</b>                                   | 0.1% | 0.7%  | 1.4%  | 3.3%    | 3.1%    | 3.2%          |
| <b>Sharpe Ratio</b>                                    | -    | -     | -     | 0.32    | 0.37    | 0.42          |
| <b>Sterling Balanced Index</b>                         | 0.9% | 11.1% | 5.0%  | 6.7%    | 5.0%    | 6.1%          |
| <b>Difference</b>                                      | 0.2% | -3.4% | -1.6% | -0.7%   | -0.1%   | -0.2%         |
| <b>Number of Individual Holdings (excluding cash):</b> | 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 Balanced portfolio returned 1.1% for the month of January, outperforming its benchmark which returned 0.9%. The key drivers of portfolio performance and major portfolio changes are outlined in the tables below.

| Positive Attributors  | Comment  |
|---|--|
| <b>Vanguard MSCI Index International Shares (Hedged) ETF (VGAD)</b> | In January 2024, international share markets displayed a mixed performance. Several markets experienced notable gains, propelled by positive economic indicators, strong corporate earnings, and optimism surrounding global recovery efforts. However, certain regions faced headwinds, influenced by concerns related to geopolitical tensions and uncertainties surrounding central bank policies. Overall, the global markets showcased resilience amid a dynamic landscape, with investors carefully navigating through various factors influencing market sentiment. The month witnessed a complex interplay of geopolitical events and economic data. |

| Negative Attributors   | Comment   |
|--|---|
| <b>Newmont Corporation Registered Shs Chess Depository Interests Repr 1 Sh (NEM)</b> | The NEM share price has performed poorly post acquisition of Newcrest Mining, as operational setbacks at Brucejack and Telfer along with currency moves relative to Australian gold miners created headwinds. There is also market uncertainty for the 2023 full year results, potential resource revisions and changes to capital projects. We continue to view NEM as a high quality gold miner approaching 5-year PE lows offering a quarterly dividend north of 4.5% p.a. |

## Portfolio Activity

| BUY | Comment |
|-----|---------|
|-----|---------|

N/A

| SELL | Comment |
|------|---------|
|------|---------|

**Mineral Resources Ltd (MIN)**

We have exited MIN on price strength post the reporting of its December 2023 quarterly. Cyclically weak lithium prices have downgraded the earnings profile of MIN, and due to its sizable debt position the company's balance sheet is stretched. We have decreased total portfolio exposure to lithium with PLS to remain in the portfolio at a small weight. Clime is optimistic on the growth outlook for mining services which is a high quality division of MIN, however we will seek exposure to this thematic through investments in pure play mining services businesses.

## Top 5 Holdings

| Security  | Weight (%) |
|---|------------|
| AB Global Equity Fund                                 | 13.2       |
| Vanguard MSCI Index International Shares (Hedged) ETF | 7.9        |
| Realm High Income Fund                                | 7.0        |
| ATLAS Infrastructure Australian Fdr Fund (Hedged)     | 4.2        |
| ETFS US Treasury Bond (Currency hedged) ETF Units     | 4.1        |

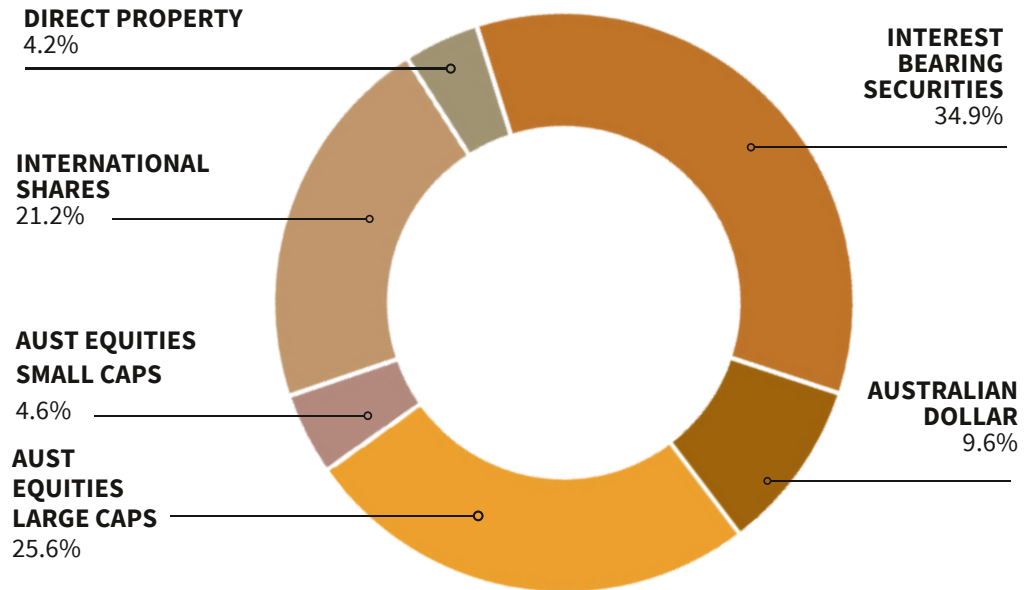
## About the Model Manager

**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



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