Sterling Clime *Australian Equities* Portfolio (SR0014)

Investment Summary
February 2024

Praemium (SMA)

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Market & Economic Commentary

Markets have consolidated four months of gains since November last year ending February higher. Good performance in asset markets was driven by robust economic growth in the US, stable bond markets, declining inflation and strong leadership from US mega-cap technology stocks.

Central banks continue to hold interest rates at high levels. Apart from some "sticky" inflation data, the need for rate cuts does not yet appear compelling as developed economies seem to be coping with rates where they are. The last thing central banks want to do is cut rates too early and spur a reignition of inflationary pressures.

Over February, the ASX 200 Accumulation Index rose by 0.23%, less than most other developed markets. During the month, technology and discretionary retail stocks performed very well, while energy and materials fell. In the US, major indexes were higher across the board, with the S&P 500 up by 5.17%, the Dow Jones by 2.22%, and the Nasdaq by 4.75%. European markets also rose: Germany's DAX was up 4.58%, the French CAC up 3.54%, whilst Britain's FTSE was flat for the month.

Japan's Nikkei 225 was likewise firmer by 7.99% over the month, bringing its calendar year to date rise to an impressive 14%. Indeed, Japan's stock market hit a new record high after a very lengthy 34 years, finally passing the previous record set in December 1989. Chinese markets bounced some 8% off a very low base, with investors remaining concerned about the crisis in its real estate sector and disappointment with its economic recovery post the pandemic. As expected, China has set a new economic growth target of 5% for the year ahead.

US and global bond yields ended the month higher, and prices lower, with inflation data disappointing investors. Central banks are indicating that official rates are likely to stay higher for longer and that they will not be rushing to cut rates in the next few months. US 10-year Treasury yields rose from 4.08% to 4.25%. In Australia, government bonds mirrored Treasuries, with 10-year yields rising to 4.15%. The AUD was largely unchanged over the month and remains weaker than we think it ought to be. Crude oil rose on increased tensions in the Middle East, and gold was a touch firmer.

As noted previously, central banks have likely reached the end of their hiking cycles. That has shifted attention to the timing and pace of eventual rate cuts. Typically, central banks are loathe to cut rates too early, instead easing only after recessionary conditions – such as an increase in unemployment – become apparent. But this business cycle is highly unusual, and even unprecedented due to the pandemic, with historical precedents providing limited insights. We still expect central banks to start cutting in the second half of the year, and for the Reserve Bank of Australia (RBA) to wait until after the US Federal Reserve (Fed) has initiated cuts, as it will not want to place undue pressure on the AUD.

We remain optimistic that inflation will continue to decline, and that the elusive "soft landing" for the global economy is probable. 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 construction spending. On the other hand, retail sales, disposable household income, consumer sentiment and residential building approval levels remain weak. In all likelihood, these factors point to a below-trend growth year for the Australian economy.

While many share markets are hitting new all-time highs and there is increasing commentary about markets being "exuberant", our view is that excellent buying opportunities on the ASX remain available, particularly for companies at the quality end of the spectrum and in the small cap sector. We continue to be optimistic about prospects for asset markets in 2024.

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Portfolio Snapshot

Inception Date	SMA Model Code	Portfolio Objective	Benchmark
20th October 2017	SROO14	Deliver strong risk-adjusted total returns	Australian Equities Index

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

STERLING MANAGED INVESTMENTS
The Right Investment Decision

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Portfolio Performance* (29/02/2024)

	1 m	3 m	6 m	1 y p.a	3 y p.a	Inception p.a
Portfolio Return	-0.1%	6.6%	3.9%	4.1%	6.1%	6.6%
Capital Return	-0.3%	6.2%	2.2%	0.5%	2.5%	3.2%
Income Return	0.3%	0.5%	1.7%	3.6%	3.6%	3.4%
Sharpe Ratio	-	-	-	0.00	0.32	0.33
Sterling Australian Equities Index	0.8%	9.4%	7.4%	10.6%	9.3%	8.4%
Difference	-0.9%	-2.7%	-3.5%	-6.6%	-3.2%	-1.8%
Number of Individual Holdings (excluding cash):	24					

**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 -0.1% for the month of February, underperforming its benchmark which returned 0.8%. 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 equity markets enjoyed their fourth straight month of gains, rising again in February logging the best start to a year since 2019. Many indices are now at or near their all-time highs.

Negative Attributors	Comment
CSL Limited (CSL)	CSL provided HY results in Feburary which were broadly inline with consensus. CSL's core business Behring saw a recovery in gross margins. This was offset by the challenges that remain with the dialysis business Vifor, aswell as seasonality in the flu vaccination business Seqirus. Their drug development update was also dissapointing, with the failure of heart attack prevention drug CSL112. Despite a -5% share price decline over the month, we maintain a bullish stance on CSL, anticipating their resilient portfolio to drive double-digit earnings growth in FY24 and beyond.

Portfolio Activity

BUY	Comment
Commonwealth Bank of Australia (CBA)	CBA's 1H24 update surpassed market expectations, demonstrating robust top-line revenue growth and bottom-line cash profit. Despite a reduction in overall book size, the bank increased its share of interest income, highlighting its franchise power and maintaining a favourable risk/reward profile. The provision for credit losses came in 20% lower than consensus, aligning with their risk management approach. While CBA's current price-to-earnings ratio for FY24 earnings is relatively high at 19.7 times, their strong track record in managing capital and focus on maintaining return on equity through prioritising margin over volumes justify the valuation. As a result, we are increasing our position in CBA to address our underweight stance relative to the market.
Worley Limited (WOR)	The recent price weakness in WOR is due to short term concerns with the company's sales pipeline, specifically a large US gas contract. The share price has declined further than the relative earnings impact of a contract delay which has created an opportunity to add to our position. We continue to view WOR as a high quality company with the ability to expand its margins and sustain long term growth.

SELL	Comment
Amcor PLC Shs Chess Depository Interests (AMC)	AMC's half yearly result showed that management had made good headway through their cost reduction program. While this has helped protect margins, the earnings still came in slightly below our expectations. There remains uncertainty around the volume outlook for the balance of the year, and we do not see much catalysts for upside. We have decided to exit and reallocate the proceeds to other opportunities.
Incitec Pivot Limited (IPL)	We like managements strategy of divesting its volatile fertiliser segment, and believe the remaining explosives business is of higher quality. However, we expect the continual issues at Phosphate Hill to hinder the sales process. In the context of the broader portfolio we see better investment opportunities elsewhere, and therefore exited the IPL position.
National Australia Bank Limited (NAB)	NAB had an incredible run over the December quarter and into January with market sentiment improving overall for the local economy. Historically, NAB has slightly underperformed in capital management as well as dividend growth compared to some of the other major banks, and NAB's current valuation is getting harder to justify with the stock trading above multiple metrics such as price to earnings, price to book and dividend yield versus its peers (excluding CBA).

Top 5 Holdings

Security	Weight (%)
CSL Limited	8.6%
BHP Group Ltd	7.9%
Macquarie Group Ltd	6.0%
National Australia Bank Limited	5.8%
Telstra Group Limited	4.6%

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