

Clearwater Dynamic Portfolio

INVESTMENT STRATEGY

The investment process is a dynamic one that aims to ensure that the investment objectives of the Portfolio are met. In short, the aim is to help investors create wealth over time through a Portfolio designed to deliver long term capital growth by investing through investment cycles. This is done by:

1. Positioning the Portfolio with the appropriate asset mix to achieve the investment objectives based on forward looking scenarios, asset class valuation models, and further research material.
2. Combining growth assets in a manner that provides high-growth returns, but the appropriate diversification to lower some volatility to equity markets. A high tolerance and capacity for risk is required.
3. Investing across different markets, investment managers and strategies using a rigorous due diligence process.
4. Using both direct and indirect investments, with the ability to invest a portion of the Portfolio in less liquid assets and capture the illiquidity premium available.

PORTFOLIO MANAGER COMMENTARY

The Clearwater Dynamic Portfolio fell -3.13% in February. Whilst a negative return, this was against a backdrop of equity markets here and overseas falling approximately 8% in what became a volatile month. Up until the last week of February, most major market indices were trading flat to up. However, in the last week equities sold off dramatically with most markets down -10% as the realisation that Coronavirus was turning into a global pandemic, heightened concerns about the broader implications for economic growth. This was reflected across all asset classes along with equities. The yield on the US 10-year bond hit record lows of 1%, oil fell 13% to under \$45/barrel and the AUD fell almost 3%, briefly trading below 65 cents versus the USD.

Post month-end we have seen the above numbers further deteriorate as the US Federal Reserve cut 50bps and Reserve Bank of Australia cut 25bps with other central banks looking at stimulus options as the Bear Market takes hold and global recession is on the cards. Within the Australian equity component of the Portfolio all exposures suffered. Falls within the global equities were less dramatic. Our diversified Emerging Market exposure through Northcape and Fidelity India were down modestly less than the developed equity strategies Hyperion Global Growth -3.3% and Loomis Sayles -4.6%. Impressively Munro Global Growth posted a positive number (+0.6%), benefiting from their absolute return focus and no exposure to oil or travel. Barwon Global Listed Private Equity and RARE Infrastructure Income returned -8.7% and -4.0% respectively. Legg Mason Australian Bond Fund, the only Fixed Income exposure, returned +0.8%.

The Portfolio continues to receive inflows through these difficult markets. We have kept the portfolio more defensively positioned with a higher cash allocation whilst at the same time being in the privileged position to deploy capital in a measured way to underlying fund managers, effectively dollar cost averaging. Over the long term we expect this to be a sensible strategy, in line with history, for strong returns when the positive market sentiment returns.

ECONOMIC AND MARKET COMMENTARY

February was a difficult time for markets as the world began to come to grips with the spread and the seriousness of the Coronavirus now known as COVID-19. US markets finished down significantly (-8.41%) after falling more rapidly in a week than any other time in history from their all-time high (made mid-month). Similarly, equity markets around the world were hard hit with Australia down (-8.28%) along with, Europe (-8.47%) and Japan (-8.82%). Conditions worsened as the numbers of infected and dying increased in Hubei, China and spread to countries around the world (with the worst hit outside China including South Korea and Italy – although testing in other countries has been demonstrably lacking). The economic response to the virus has been a combination of monetary and fiscal policy in all major countries affected by the virus. GDP, employment and aggregate demand is expected to be deeply damaged in Q1 and Q2, recession being considered likely. Varying estimates for global recovery have been made by investment bank analysts, however the key indicator appears to be the rate of spread and mortality in each country, as it relates to the cost and effectiveness of health and economic countermeasures by government and central banks.

ASSET ALLOCATION REVIEW

ASSET CLASSES	NEUTRAL ALLOC.	CURRENT ALLOC.	VARIANCE
Cash	0%	21%	21%
Fixed Income	10%	10%	0%
Alternative	10%	3%	-7%
Property & Infrastructure	10%	10%	0%
Australia Equity	30%	23%	-7%
Global Equity	40%	33%	-7%

INVESTMENT OBJECTIVE

Target return	To exceed the Lonsec Traditional Core Model Portfolio High Growth after fees, over a 10 year period.
Timeframe	7 to 10 years
Defensive / Growth	10% defensive / 90% growth
Min Investment	\$1,000
Redemption Liquidity	Approx. 1 – 2 weeks to process; settlement is subject to the underlying investment liquidity

MANAGER PROFILE

Clearwater Portfolio Management (CPM) – As Portfolio Manager CPM has responsibility for the day to day operations and management of the Clearwater Dynamic Portfolio. CPM oversees the portfolio research and the portfolio construction process. To assist in portfolio research and construction, CPM has engaged specialists to lead the process. CPM also operates an Investment Committee that includes these parties, along with representatives from DMG Financial Planning Pty Ltd and is chaired by the CEO of CPM.

PERFORMANCE REPORT

	1 Month	3 Months	6 Months	1 Year	Since Inception
Clearwater Dynamic Portfolio	-3.13%	0.05%	2.73%	-	3.84%
Multisector Aggressive Investor	-5.52%	-3.53%	0.84%	-	4.93%
S&P/ASX 200 TR AUD	-7.69%	-5.20%	-0.63%	-	3.57%
MSCI World Ex Australia GR AUD	-4.84%	-1.49%	5.80%	-	14.39%
BBgBarc Global Aggregate TR Hdg AUD	1.21%	2.75%	1.69%	-	5.99%

PORTFOLIO RISK REPORT

MARKET REPORT

