

# 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 -10.5% in March, the most turbulent month for financial markets since the GFC. We witnessed a broad-based sell-off as it became evident that actions to deal with the current global health crisis were cascading into a global economic crisis. Despite the result, we were pleased with how well the portfolio limited those losses while market volatility was extreme. The Australian share market was down 20.9%, Global markets were down by 10-15%, Oil collapsed -55%, US investment-grade bonds fell 7%, and high yield bonds fell 10%. Currency markets were also volatile, and the Australia dollar declined 6% vs the US dollar, Euro, and Yen.

Our Global equity managers generally fared well with Munro Global Growth (+1.3%) pleasingly posting a positive return and proving true to its Absolute Return label. Loomis Sayles (-7.4%) and Hyperion (-5.9%) both outperformed the benchmark and remain well-positioned. Northcape Emerging Markets was down 10.8%, and the small position in Fidelity India (-21.1%) was hit as lockdown laws took hold.

Australian equity managers struggled as pain was felt across many sectors. Pental Long Short and Solaris Long Short were down 20.0% and 26.3% respectively, and contrarian manager Allan Gray (-26.9%) was impacted by its high energy exposure and minimal Health Care or Iron Ore. Spheria Smaller Companies (-23.1%) also fell in line with its benchmark. Barwon Global Listed Private Equity (-22.2%) was hard hit, but a large part of their universe appears oversold, and the market dislocation is presenting opportunities. RARE Infrastructure Income (-12.2%) also saw sharp falls early in the month which were partly recovered by month-end, and they will continue to upgrade its portfolio and protect its dividend/income profile. Legg Mason Western Asset Australian Bond Fund was exited mid-month as some parts of the fixed income markets lost their defensive characteristics. We increased our exposure to Aquasia Private Investment Fund as they see favourable opportunities which we trust they will access in a disciplined way.

The market is currently rebounding but this has to be viewed with some skepticism with economies still in shut down mode and with so much bad news to flow through. As one commentator said, we have seen maximum panic (the liquidity squeeze) but we have not yet seen maximum pessimism (the economic/virus damage). The Portfolio remains defensively positioned with a higher cash allocation. We are slowly deploying capital into new managers and will be targeted in our choices to top up exposures with inflows.

## ECONOMIC AND MARKET COMMENTARY

The impact of COVID-19 deepened significantly in March. In a continuation of the downward trend, US markets finished sharply lower (-12.5% following a decline of -8.4% in February). Australian markets were down more than -21% in March. Market volatility (as measured by the VIX, also known as the "Fear index") soared to historic highs (above 82 a level not seen since the 2007-08 GFC) and have since tapered toward 50 (still well above recent historical multi-year average of 15). Unemployment has skyrocketed in key economies, while production and sales have also been significantly hit as a result virus countermeasures. Governments (fiscal policy makers) and central banks (monetary policy) around the world have responded to the crisis relatively rapidly. In the case of the US, a "whatever it takes" approach has been endorsed by the Fed, which has unleashed staggering measures to support the economy and reduce the risk of a global liquidity catastrophe. Optimistic investment bank forecasts (which cite a recent flattening of the curve in most key economies) see a global recovery in the second half of the year. However, it is generally accepted that continued monetary and fiscal measures are likely required on an ongoing basis as it remains uncertain as to when the global economy may start to reopen more significantly.

## ASSET ALLOCATION REVIEW

ASSET CLASSES	NEUTRAL ALLOC.	CURRENT ALLOC.	VARIANCE
Cash	0%	30%	30%
Fixed Income	10%	2%	-8%
Alternative	10%	2%	-8%
Property & Infrastructure	10%	10%	0%
Australia Equity	30%	21%	-9%
Global Equity	40%	35%	-5%

## 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

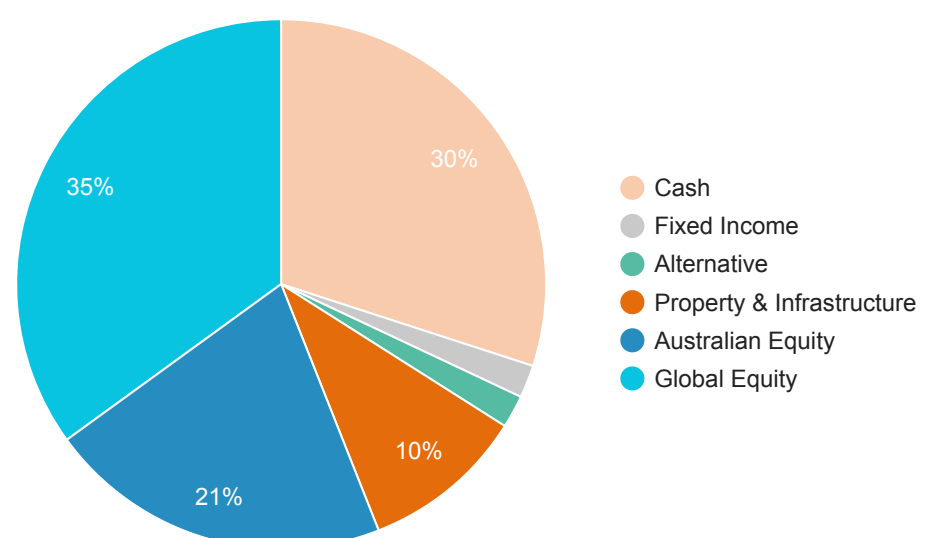
Clearwater Portfolio Management (CPM) - As Portfolio Manager CPM has responsibility for the day to day operations and management of the Clearwater Dynamic Portfolio. CPM oversees the portfolio research and the portfolio construction process. To assist in portfolio research and construction, CPM has engaged 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	-10.54%	-10.34%	-8.75%	-	-7.10%
Multisector Aggressive Investor	-13.68%	-15.58%	-13.15%	-	-8.26%
S&P/ASX 200 TR AUD	-20.65%	-23.10%	-22.58%	-	-17.82%
MSCI World Ex Australia GR AUD	-8.25%	-8.87%	-4.89%	-	4.95%
BBgBarc Global Aggregate TR Hdg AUD	-1.72%	1.27%	0.50%	-	4.17%

## PORTFOLIO RISK REPORT

## MARKET REPORT



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