

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 Portfolio (CDP) rose 5.05% over April as markets rebounded from the worst of the Coronavirus fears. After protecting in March, our increased level of cash holdings dragged on our upside performance, but this is a price we are comfortable with given the prevailing uncertainties. Markets surprised with the strength of the rebound in April and it seems equity markets are expecting a 'V-shaped' economic recovery from the global shutdowns. We are not so optimistic and as a consequence, we maintain a slightly defensive stance until a clearer picture emerges of the economic and market backdrop.

What is a fact, however, is that the economic numbers and corporate earnings data are truly woeful and are unprecedented in terms of the impact of the business shutdowns. The rise in unemployment is a clear example. We are comfortable taking a slightly defensive approach and not chasing an equity market rally which may prove to be unwarranted. We maintain a high level of cash as we look for opportunities to add to our portfolio. This too adds to the overall defensiveness as if the worst were to happen and signs of a second severe downturn were to manifest, we have cash to defend the CDP. We feel that such an approach is warranted given the unprecedented nature of the situation we are facing.

ECONOMIC AND MARKET COMMENTARY

Despite a high level of uncertainty regarding Covid-19, depression level unemployment and a global slowdown in economic activity (which in many ways is unprecedented), the markets extended their bounce in April off the mid-March nadir (i.e. around -35% from their peak). US equity markets were up approximately +12% whilst domestic markets were up +9% for the month. Market volatility by measure of the VIX has gradually declined from its near all-time high of 82, to around 35 at the end of April; a level which is still quite high relative to its multi-year average of 15 and gives an indication that uncertainty and risk persists in the markets. A slew of monetary and fiscal measures have been implemented in key developed markets around the world. This had the effect of temporarily stabilising markets in, what may be, a bear market rally. Further to this, virus countermeasures appear to have been successful in some countries. For instance, the number of infections and deaths in the US fell gradually through April, further fuelling the bounce. However, the reopening of the US economy and the rate at which this may occur without triggering a resurgence of illness is largely unknown, may prove deadly and could lead to wild swings in the markets. Until a clearer picture of how and when this may happen, global growth and the impact on the domestic economy is unlikely to improve significantly (at best).

ASSET ALLOCATION REVIEW

ASSET CLASSES	NEUTRAL ALLOC.	CURRENT ALLOC.	VARIANCE
Cash	0%	26%	26%
Fixed Income	10%	7%	-3%
Alternative	10%	2%	-8%
Property & Infrastructure	10%	9%	-1%
Australia Equity	30%	24%	-6%
Global Equity	40%	32%	-8%

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	5.05%	-8.96%	-4.32%	-	-2.41%
Multisector Aggressive Investor	5.35%	-11.32%	-7.21%	-	-1.51%
S&P/ASX 200 TR AUD	8.78%	-20.32%	-15.48%	-	-10.60%
MSCI World Ex Australia GR AUD	3.67%	-9.49%	-1.82%	-	8.81%
BBgBarc Global Aggregate TR Hdg AUD	1.50%	0.96%	2.30%	-	5.73%

PORTFOLIO RISK REPORT

MARKET REPORT

