

# 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 (CDP) rose 2.68% over May – building upon our recovery from the March pullback. The \$A is rallying, equity markets are well off their lows, and credit markets appear in much better shape than they were earlier this year. All this at a time when the economic news appears to be going from bad to worse. Who would have thought that on a day when Australia recorded a negative GDP result, the ASX 200 and \$A would both be up strongly? It seems 'bad news' is 'good news' at the moment. Indeed, markets appear to have detached from the fundamentals at present and, for this reason, we are remaining cautious.

Our elevated cash levels within the portfolio have been a drag on performance recently as markets overall have adopted a positive mood. This same position served us well when market sentiment was at its worst in March. We view defensive positions such as this as a type of downside insurance for the portfolio. When markets adopt an overly positive mood, the drag on performance from these defensive positions represents a type of insurance premium that needs to be paid and then ideally; it is more than recovered in poor markets.

We feel we are not out of the woods yet when it comes to the full economic impact of COVID-19. In a situation where we feel that markets have detached from the fundamentals, we believe paying away some degree of upside performance for a defensive insurance premium is a prudent thing to do.

Our positioning will continue to be regularly revisited, including at an Investment Committee Meeting in mid-June. We will continue to update you on changes to our strategy.

## ECONOMIC AND MARKET COMMENTARY

In the US, stocks were up (+4.53% on average) for the month of May. Similarly, domestic markets were up (+4.46%). This comes with the backdrop of depression-level economic conditions which the market seems to have, in part, shrugged off i.e. despite millions of people unemployed and the huge hit to global growth and a lack of clear path to full recovery or proved and safe therapeutics or other treatments for COVID-19. Market volatility declined steadily through the month of May until today, at time of writing, where we have seen a surge of volatility up from the high twenties to just over 40 – in an apparent reaction to a resurgence in COVID-19 cases in some US states. Relatively speaking this is very high volatility and a strong indication that a high level of uncertainty and risk remains in the equity markets. The market has been fuelled since mid-March by fiscal and monetary stimulus measures on a breadth and scale of historic proportions, however the market remains at risk of overheating.

## ASSET ALLOCATION REVIEW

ASSET CLASSES	NEUTRAL ALLOC.	CURRENT ALLOC.	VARIANCE
Cash	0%	23%	23%
Fixed Income	10%	10%	0%
Alternative	10%	2%	-8%
Property & Infrastructure	10%	9%	-1%
Australia Equity	30%	24%	-6%
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	2.68%	-3.50%	-3.45%	0.21%	0.21%
Multisector Aggressive Investor	3.25%	-4.31%	-6.51%	1.70%	1.70%
S&P/ASX 200 TR AUD	4.36%	-9.92%	-14.60%	-6.70%	-6.70%
MSCI World Ex Australia GR AUD	3.46%	-1.59%	-3.05%	12.57%	12.57%
BBgBarc Global Aggregate TR Hdg AUD	0.27%	0.02%	2.78%	6.02%	6.02%

## PORTFOLIO RISK REPORT

## MARKET REPORT

