

# 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 0.72% over October, and has now added 7.69% in the last six months. This period is important as we have been able to get closer to our target allocation for growth assets. We continue to build a portfolio that can deliver high returns over the long term. In these early days, we are patient and careful. We are balancing the need to allocate to growth assets, without over-committing and taking unnecessary risks. While we won't get this right 100% of the time, we are building a solid track record.

While we are happy with the managers we invest with, we continue to examine these closely and consider alternatives. This involves twice yearly in-person reviews with the managers and weekly reviews of their performance.

It is also worth noting that a number of our investments don't add a steady amount to our investment performance each month and will contribute larger amounts at irregular intervals. One example is our investment in the Inception Trust (Judo Capital), an investment in one of Australia's newest Banks, Judo Bank. The business will continue operating in a growth phase for some years before being established and adding value to the portfolio. We have made this investment with the expectation that the returns will be well above average.

Currently, we see the key issues for markets as the impact of the new US Government, both in the US and overseas, the impact of the worsening pandemic, China, and the progress of a vaccine. Competing forces that could drag the markets and portfolios lower or push them higher.

After falls in late October, the positive news is lifting markets in the first weeks of November. It appears that a vaccine is a key factor that will lead to share markets moving higher. Being positioned for this, while remaining aware of the risk continues to be part of the role we are playing in managing the portfolio.

## ECONOMIC AND MARKET COMMENTARY

In the month of October, US Stocks, on average fell -2.77% whilst local shares fell approximately -1.87%. It was a tumultuous month, as we saw volatility spike to above 40 in the final few days before November (i.e. per the VIX, a key indicator of uncertainty sometimes referred to as the "fear index"). This is normally a rare high, however it is the third time this year it reached this level. From the mid-month US stock market peak to trough on the final day of the month, stocks fell over -8%. The markets were under pressure due to the failure of the US government to agree to much needed fiscal stimulus. Furthermore, increasing global Covid-19 numbers, and the uncertainty regarding the US election (with the potential for riots in the event of a very close result) weighed heavily against share prices. The markets since buoyed following election day as uncertainty reduced, with market soaring higher the following week as Biden was widely acknowledged by the media to have beaten Trump and positive vaccine news was released by Pfizer and Moderna.

## ASSET ALLOCATION REVIEW

| ASSET CLASSES             | NEUTRAL ALLOC. | CURRENT ALLOC. | VARIANCE |
|---------------------------|----------------|----------------|----------|
| Cash                      | 0%             | 6%             | 6%       |
| Fixed Income              | 10%            | 11%            | 1%       |
| Alternative               | 10%            | 11%            | 1%       |
| Property & Infrastructure | 10%            | 10%            | 0%       |
| Australia Equity          | 30%            | 25%            | -5%      |
| Global Equity             | 40%            | 36%            | -4%      |

## 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        | 0.72%   | 2.33%    | 7.69%    | 3.03%  | 5.09%           |
| Multisector Aggressive Investor     | -0.93%  | 2.46%    | 11.27%   | -1.52% | 4.03%           |
| S&P/ASX 200 TR AUD                  | 1.93%   | 0.98%    | 8.67%    | -8.15% | -2.85%          |
| MSCI World Ex Australia GR AUD      | -1.10%  | 2.11%    | 5.17%    | 3.25%  | 14.43%          |
| BBgBarc Global Aggregate TR Hdg AUD | 0.00%   | -0.34%   | 1.44%    | 3.77%  | 7.25%           |

## PORTFOLIO RISK REPORT

## MARKET REPORT

