CLEARWATER PORTFOLIO MANAGEMENT PTY LTD

FEBRUARY 2021

CONTACT US

Clearwater Dynamic Portfolio

INVESTMENT STRATEGY

The investment process is always dynamic, which is why we keep a close eye on our portfolios to ensure that investment objectives are met. Our goal is to help investors create wealth over time through a portfolio designed to deliver long term capital growth by making investments through financial 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 ongoing research into financial markets.

2. Combining growth assets in a manner that provides high-growth returns, but includes the appropriate diversification to lower volatility to equity markets. High tolerance and capacity for risk are 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 to benefit from the illiquidity premium available.

PORTFOLIO MANAGER COMMENTARY

The Clearwater Dynamic Portfolio (CDP) gained 0.13% over the course of February as volatility gripped the bond and equity markets. Despite this being below our target, we have delivered an impressive 10.96% in the eight months since July 2020.

After a strong start to the month, fears of inflation and interest rates rising led to losses. The US Federal Reserve and other global central banks have made it clear that they don't intend to increase official interest rates until 2024 or later. However, rates in financial markets can and do move on an ongoing basis, regardless of official policy.

Bond markets are currently second-guessing what others think about inflation rather than considering actual inflation itself. This one-upmanship drove our Australian 10-year government bond yield considerably higher in one of the worst monthly bond market routs in recent history.

Market rates are increasing, even when central banks have no intention of increasing official rates. That's because of an expectation of better economic news on the horizon. Government stimulus packages, and the successful vaccine rollout in the US, UK and other countries, has resulted in theories that higher wages could happen sooner than expected. And that would mean higher inflation and higher interest rates.

It's a familiar pattern. Financial markets often rebound after a global economic crisis. Fears then emerge that central banks won't be as supportive as they were during the depths of the crisis leading to behaviour often described as 'climbing the wall of worry'.

Unfortunately, on top of last month's volatility in the markets, our performance was affected by our holding in the Bennelong Long Short Fund. While this fund often sees large moves - both positive and negative - the loss was well outside our expectations. This result is concerning, so we're meeting with the manager in mid-March. On a positive note, historically, Bennelong's worst months have been followed by their strongest.

We've also made it a priority to meet with our other Australian share managers this month. That way, we can decide whether we need to make any adjustments so we can continue to get the best return on your investment.

ECONOMIC AND MARKET COMMENTARY

Equity market volatility reappeared in the month of February alongside rising interest rates. Adding to the concerns surrounding rising rates and its potential impact on inflation, the price of crude oil surged 10% in the back half of the month to one-year highs after OPEC decided against raising production levels meaningfully. The 10-year yield in the US traded above 1.5%, and rising inflation expectations were evident when the 5-year TIPS breakeven topped 2.5% for the first time since 2008. Speculative growth stocks, in particular small caps, experienced a sharp pullback, while value stocks outperformed, led by the bounce in energy markets. In Australia, the ASX200 gained around 1.5%, notably less than the 2.7% rise in global equity indices. Earnings season was broadly robust, but even this could not offset the worries around rising interest rates late in the month. The 10-year Australian Government Bond yield ended the month of February at 1.88%, up from 0.97% at the start of 2021.

ASSET ALLOCATION REVIEW

ASSET CLASSES	NEUTRAL ALLOC.	CURRENT ALLOC.	VARIANCE
Cash	0%	8%	8%
Fixed Income	10%	8%	-2%
Alternative	10%	12%	2%
Property	10%	11%	1%
Australian Equity	30%	28%	-2%
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	0.13%	1.21%	6.97%	7.89%	12.04%
Multisector Aggressive Investor	0.35%	7.82%	9.99%	1.52%	12.76%
S&P/ASX 200 TR	1.45%	3.00%	11.47%	6.48%	10.28%
MSCI World Ex Australia GR	1.67%	0.78%	6.84%	8.34%	23.93%
BBgBarc Global Aggregate TR Hdg	-1.56%	-1.87%	-0.98%	-0.17%	5.81%

PORTFOLIO RISK REPORT

MARKET REPORT