

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 (CDP) gained 0.44% during May as some of the managers that performed so well for us last month (and for that matter over the course of the previous year) struggled against the concerns about inflation. Lower stock market valuations in some sectors didn't help either. That said, our long-term numbers remain impressive, delivering 16.47% over the last twelve months and 7.54% per year, after fees since the portfolio was established in May 2019.

On the inflation front, the real question is whether these results are sustainable. It's true that we're seeing impressive economic numbers. However, it's essential to keep in mind that the starting point for the annual calculations was when we - and most of the world - were enduring a recession. The consensus remains that the results are not sustainable. And while there is cause for concern, there appears to be little case for inflation becoming a serious, long-term problem. Moreover, the level of government spending indicates that there is a continued need to support the economy.

On top of that, the RBA met last week and acknowledged the ongoing economic recovery. However, they anticipate both inflation and wages growth to increase only gradually. Based on this opinion, they advised that they expect the cash rate to remain on hold at 0.1 per cent until 2024 at the earliest. Nonetheless, inflation will likely increase earlier than expected. However, attempting to predict the timing and the extent is a risky strategy. When it comes to strategy, some of our managers take a more 'growth' perspective when choosing stocks. Take the Munro Global Growth Fund and the Hyperion Global Growth Fund, for example. They've found the fears of rising inflation hard going. This is because inflation and the implications of increasing interest rates dramatically affect the valuation of growth stocks.

A similar fear of inflation emerged in the early stages of recovery of the GFC-inspired global recession ten years ago. Back then, a comparable pattern of 'climbing the wall of worry' dominated. However, over the longer term, growth style managers still proved their worth. Interestingly, despite those concerns ten years ago, inflation is at a lower rate now than it was then, proving itself to be incredibly stubborn. For this reason, we're remaining with our present allocation to growth style managers (along with other styles) within the portfolio. We acknowledge that at times there will be periods when growth style managers will underperform. But the same is true of any type of manager.

We're comfortable that we have a good mix of managers and manager styles, along with holdings with good defensive qualities. One such holding is the Inception Trust (Judo Capital), otherwise known as Judo Bank. This investment continues to perform well and has a positive outlook. Based on their performance, we recently made a significant addition to this investment. At the same time, we continue to invest our available cash in our existing holdings and remain focused on continuing to deliver the portfolio objectives with your investment return in mind.

ECONOMIC AND MARKET COMMENTARY

The S&P500 and the Dow Jones climbed back to within striking distance of all-time highs as May drew to a close. US New Home Sales figures seemed to suggest that the surge in US home prices has caused some buyers to walk away from newly built homes. President Biden released the details of a \$6T budget that is sure to get push back from Republicans as the infrastructure debate looks to drag into June. Positive late-season retail earnings reports and corporate commentary indicated consumer strength has returned to 2019 levels and even accelerated into the current quarter. Inflation remained the overarching topic foremost in most investors minds. The narrative didn't change, even though the Fed's preferred measure of inflation, core PCE, saw the April y/y number reach its highest level since the early 90s.

Australia's April jobs report showed the unemployment rate falling to 5.5% as the labour market continues to improve much quicker than expected. COVID flare-ups and the expiration of the JobKeeper program may see the numbers start to slow in the coming months. The ASX200 enjoyed a solid 2.3% gain in May, outperforming most other major global indices. Financials, Consumer Discretionary and Materials all lead the charge higher while IT and Utilities pulled back in the month. The Chinese Yuan broke out to its strongest level against the US Dollar in roughly 3-years.

ASSET ALLOCATION REVIEW

ASSET CLASSES	NEUTRAL ALLOC.	CURRENT ALLOC.	VARIANCE
Cash	0%	4%	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

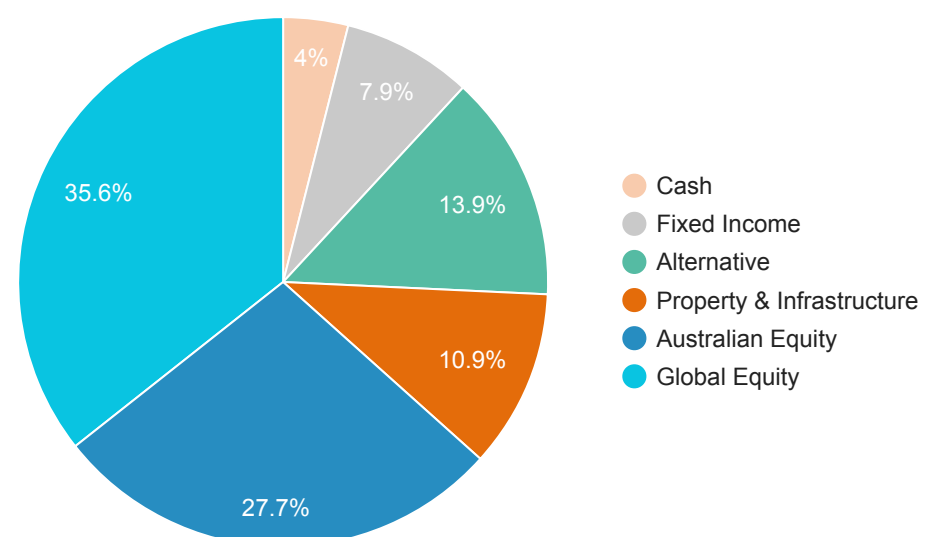
Clearwater Portfolio Management (CPM) - As Portfolio Manager CPM has responsibility for the day to day operations and management of the Clearwater Dynamic Portfolio. CPM oversees the portfolio research and the portfolio construction process. To assist in portfolio research and construction, CPM has engaged 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	0.44%	4.19%	5.45%	16.49%	16.73%
Multisector Aggressive Investor	1.98%	4.41%	7.39%	18.70%	19.25%
S&P/ASX 200 TR	2.34%	8.47%	11.72%	28.22%	19.62%
MSCI World Ex Australia GR	1.25%	9.90%	10.76%	20.99%	36.20%
Vanguard High Growth Index [VAN0111AU]	1.73%	8.09%	11.07%	25.07%	28.03%

PORTFOLIO RISK REPORT

MARKET REPORT



Fixed Income	10%	8%	-2%
Alternative	10%	14%	4%
Property	10%	11%	1%
Australian Equity	30%	28%	-2%
Global Equity	40%	36%	-4%

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