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) generated 2.65% during August. This result builds upon our July performance, which proved to be a great start to the 2021/22 financial year. Our long-term results now sit at 10.12% per year after all fees since the fund was established over two years ago. At this point, the financial markets appear to be taking the ongoing spread of the Delta variant of the Covid virus in their stride. So, as we move towards October – a month known to be highly volatile for share markets - it's good to see markets still reaching new highs.

That said, as a result of the harsh lockdowns in New South Wales and Victoria, the economic toll is starting to be seen. This means we now expect the September quarter's GDP to be negative. And depending on how long the lockdowns last, the December quarter could be negative as well. If this is the case, Australia will qualify for an infamous 'double-dip' technical recession. A technical recession is determined by two successive quarters of negative economic growth. Clearly, this would not be good news for the economy. Particularly bearing in mind that we only recorded our first technical recession in response to the Covid crisis during the first half of the last calendar year. If there is a silver lining to this dark Covid cloud, it's that interest rates are lower than ever before, and the "wall of money" provided by the central banks is buoying up the economy. For this reason, we remain cautiously optimistic about the prospects for financial markets. But we'll be monitoring the situation carefully.

As part of our monitoring process, we have recently decided to introduce a position in the Perennial Private to Public No.3 fund. This is an opportunity an independent investor would find difficult to access, which illustrates one of the many benefits of investing in the CDP. Perennial invests in companies at the small and micro-size end of the share market. Their strategy is to invest early and work with companies on their journey through to listing on the ASX - holding on to some for much longer. Small and micro-cap companies have been performing well for the CDP over recent months – both domestically and abroad. This leads us to believe that while low-interest rates and central bank support continues, they will continue to do well, so we're confident in our Perennial position.

ECONOMIC AND MARKET COMMENTARY

The month of August saw strong returns across the board in global equity markets, with the ASX200 gaining around +2.4%, S&P500 +2.9% and the Nikkei225 in Japan the most notable with a +3.1% rise. European equity indices and Emerging markets also lifted around +2.2%, respectively (all quoted in AUD terms). The Aussie dollar experienced some mild volatility in August, trading down to around 0.71 vs the USD late in the month, mainly on the back of swings in the iron ore price and chatter that the RBA would postpone the tapering of its bond-buying program. Interestingly, it ended the month flat, closing around the 0.73 level after seeing strength in other commodity prices and the RBA confirming they would not change course.

Iron ore futures fell sharply in the month, giving up around -20% from the opening month highs. Ongoing concerns around the Chinese economy slowing, industrial production target cuts and seasonal factors are all to blame for the pullback in iron ore prices. Iron ore ended the month around $152 USD/tonne after trading as high as $220 USD/tonne in July.

ASSET ALLOCATION REVIEW

ASSET CLASSES	NEUTRAL ALLOC.	CURRENT ALLOC.	VARIANCE
Cash	0%	1.9%	1.9%
Fixed Income	10%	4.7%	-5.3%
Alternative	10%	14.3%	4.3%
Property	10%	12.1%	2.1%
Australian Equity	30%	30.5%	0.5%
Global Equity	40%	36.5%	-3.5%

INVESTMENT OBJECTIVE

Target return	RBA Bank Bills +6%
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	Total Return Cumulative
Clearwater Dynamic Portfolio	2.65%	7.57%	12.08%	19.88%	25.56%
RBA Bank Bills +6%	0.50%	1.50%	3.02%	6.17%	14.81%
Vanguard High Growth Index [VAN0111AU]	2.51%	6.99%	15.65%	26.92%	36.99%
S&P/ASX 200 TR	2.50%	5.97%	14.95%	28.13%	26.76%
MSCI World Ex Australia GR	3.13%	12.40%	23.54%	31.98%	53.10%

PORTFOLIO RISK REPORT

MARKET REPORT