

# 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

After declining early in the month on weak economic data, global markets staged a rebound (posting a small gain of +0.4%) after news broke that the US and China had reached an in-principle trade deal. Markets embraced this as a potential turning point in trade friction. Adding to the positive trade sentiment was the Federal Reserve cutting rates for a third time this year and global growth indicators stabilising after falling for some time. As a result, higher beta stocks and emerging markets generally outperformed during the month whilst defensives lagged and global government bond yields retraced. Australian equities were mixed with the ASX200 closing down -0.4% as Resources and the major banks faced a difficult month. The AUD rose 1.5c and weak conditions in the domestic economy were reported. In response, the RBA cut rates again during the month to a record low 0.75%. House prices in Sydney and Melbourne have rebounded and the equity market seems somewhat optimistic that the enthusiasm will flow into the broader economy.

Within the domestic equity component of the Portfolio, the best performing strategy was Spheria Small Companies (+0.87%) which had a good month following a return to some normality in the fundamental assessment of the sector. Both Long Short managers in the Portfolio, Pental (-0.12%) and Solaris (-0.01%), posted a small loss and Allan Gray (-3.0%) also detracted. The global equity strategies provided mixed results with Barwon Global Listed Private Equity (+3.27%) the strongest performer again whilst Loomis Sayles (-1.30%) and Munro Global Growth (-0.33%) posting negative returns. However our core exposures in Emerging Markets via Fidelity India (+2.00%), and Northcape (+1.91%) contributed strongly for the month. RARE Infrastructure Income posted a small loss (-0.12%) and along with bond yields continuing to rise we saw the Legg Mason Australian Bond Fund decline -0.48%.

## ECONOMIC AND MARKET COMMENTARY

The outlook for global markets has improved somewhat as we may tentatively have moved into a short-term risk-on period. Trade optimism (in particular, with regard to Trump's declaration of a temporary tariff truce and a "first phase" agreement) along with some positive Brexit news, and accommodative monetary policy are several key factors that have served to buoy markets of late. The US market was up (+2.04%) for October, hitting new highs and trending up around +7% since the first week of the month. Furthermore, volatility (as measured by VIX, also known as "the fear index") trended down to the historical lows of its range (near 12%). Domestic markets however were down slightly (ASX300 -0.40%) despite a 1-Oct RBA 25 basis point rate cut (from 1% to 0.75%) as China posted its lowest GDP figure since it began recording it. Despite the current positive outlook, there is risk of markets becoming overheated before year-end, particularly if extension beyond current all-time highs accelerates without more concrete details of improvement in global trade conditions.

## ASSET ALLOCATION REVIEW

| ASSET CLASSES             | NEUTRAL ALLOC. | CURRENT ALLOC. | VARIANCE |
|---------------------------|----------------|----------------|----------|
| Cash                      | 0%             | 1%             | 1%       |
| Fixed Income              | 20%            | 30%            | 10%      |
| Alternative               | 10%            | 0%             | -10%     |
| Property & Infrastructure | 10%            | 10%            | 0%       |
| Australia Equity          | 25%            | 19%            | -6%      |
| Global Equity             | 35%            | 40%            | 5%       |

## 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       | \$5,000  |
| 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        | 0.19%   | 0.27%    | -        | -      | 2.00%           |
| Multisector Aggressive Investor     | 0.55%   | 0.73%    | -        | -      | 5.71%           |
| S&P/ASX 200 TR AUD                  | -0.35%  | -0.91%   | -        | -      | 5.78%           |
| MSCI World Ex Australia GR AUD      | 0.43%   | 2.83%    | -        | -      | 10.82%          |
| BBgBarc Global Aggregate TR Hdg AUD | -0.28%  | 1.34%    | -        | -      | 3.36%           |

## PORTFOLIO RISK REPORT

## MARKET REPORT

