

Clearwater Dynamic Portfolio

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.

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.

MANAGER COMMENTARY

September markets were in clear contrast to the previous month. August's concerns about global growth, trade wars and geo-politics gave way to a somewhat more optimistic mood in which the relative performance of key asset classes was reversed. In particular, equities rallied while bonds sold off in September. Both the Australian equity market and MSCI World Equity Index (in AUD terms) were up +2.1%.

Within the domestic equity component of the Portfolio, all managers posted positive returns. The best performing strategy was Spheria Small Companies (+4.4%) followed by Allan Gray (+3.2%), Pandal Long Short (+2.3%) and Solaris Long Short (+0.6%). The global equity strategies also performed well in September led by Barwon Global Listed Private Equity (+3.3%) and Talaria Global Equity (+2.4%). Emerging market exposures through Fidelity India (+1.5%), and Northcape Emerging Markets (+1.2%) were positive as well as Loomis Sayles Global Equity (+0.5%). Munro Global Growth (-1.4%) was the only detractor. Our new listed infrastructure exposure RARE Infrastructure Income also provided strong returns (+2.1%). With bond yields rising throughout the month, we saw the Legg Mason Australian Bond Trust decline -0.5%.

Much of the price action between August and September simply cancelled itself out, leaving a bout of volatility in its wake. However, volatility reflects uncertainty, of which there is plenty in the world at the moment, and not just on economic developments. Geopolitical developments including Brexit, the move to impeach Trump, and increasingly violent protest in Hong Kong all contributed. As always, we will be monitoring the economic situation and its implication for markets very carefully and assessing when is a good time add to our exposures as the Portfolio grows.

ECONOMIC AND MARKET COMMENTARY

Equity markets finished up for the month of September; In the US (+1.72%) markets edged higher ahead of the expected mid-month rate cut and sold off slightly afterward i.e. in connection with a lack of expected forward guidance from the Fed and trade concerns. Australian shares were also up for the month (+1.34%) following speculation of further rate cuts by the RBA and anticipation of possible QE. Markets are still not far below all-time highs; however, the global impact of the US-China trade war continues to put a lid on global growth and is keeping central banks around the world committed to very low interest rates for the foreseeable future. At the time of writing, a glimmer of hope may be on the horizon with a "first phase" of a US-China trade agreement (as claimed by Trump). However, the details of a formal proposal are yet to be finalised and made public, until then, risk to global growth and markets persists.

ASSET ALLOCATION

ASSET CLASSES	NEUTRAL ALLOCATION	CURRENT ALLOCATION	VARIANCE
Cash	0%	16%	16%
Fixed Income	10%	9%	-1%
Alternative	10%	8%	-2%
Property and Infrastructure	10%	4%	-6%
Australian Equity	30%	27%	-3%
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	\$5,000
Redemption liquidity	Approx. 1 – 2 weeks to process; settlement is subject to the underlying investment liquidity

PERFORMANCE REPORT

TOTAL RETURN SUMMARY	1 MONTH	3 MONTHS	SINCE INCEPTION
Clearwater Dynamic Portfolio	0.71%	1.27%	1.80%
Multisector Growth Investor	1.32%	1.98%	3.88%
S&P/ASX 200 TR AUD	1.84%	2.36%	7.96%
BBgBarc Global Aggregate Hdq	-0.56%	2.33%	5.08%
MSCI World Ex Australia	2.06%	4.78%	5.56%

PORTFOLIO RISK REPORT

MARKET REPORT

ASSET ALLOCATION

