CLEARWATER DIVERSIFIED FUND JUNE 2024

PORTFOLIO MANAGER COMMENTARY

The Clearwater Diversified Fund (Diversified) rose +0.74% over the month of June, net of all fees, building on the Fund's strong start to 2024 and taking the 1-year return for the Fund to a solid +7.6%. The monthly performance was ahead of target. Performance in June was driven to a significant extent by our International Equity managers.

This month we provide an update on inflation, employment and interest rate, and how we are dealing with the macroeconomic backdrop.

Recap

After embarking on swift rate hiking cycles in 2022 and 2023, many central banks have been on pause since mid-2023 to allow their economies time to digest the largest dose of monetary tightening in a generation. In determining their next course of action, central banks remain data dependent. A majority of central banks target inflation explicitly, with some, like the US Federal Reserve, having dual mandates requiring them to also target employment levels in their economies. As such, monthly inflation data and employment data are critical for markets today. For both data series, as with all high frequency data points, we believe it is important not to overreact to short term gyrations and instead to identify the trends in place.

Inflation and Employment

Inflation data has fallen materially from the extreme peaks reached in 2022, but the pace of decline has meaningfully slowed in the last 6 to 9 months. In the US, headline annual inflation peaked at 9.1% in June 2022, fell to 3.2% in October 2023, but has moved sideways since then. In Europe it is a similar story, with inflation peaking at 10.6% in October 2022, falling sharply over the following 12 months, and printing between 2.9% and 2.4% since October 2023. At home, Australian inflation peaked at 7.8% in December 2022 and fell steadily to 3.6% at 31 March 2024 (remembering that unlike other developed market economies, Australia relies mostly on a quarterly inflation series). Another common trend we see throughout economies today is that sticky inflation is being driven by high services (including shelter) inflation, with goods/manufacturing inflation low or even negative in many economies. Unfortunately, it is this services inflation that is traditionally least sensitive to moves in central bank cash rates.

The employment picture has been much stronger. Unemployment levels have remained unexpectedly low, with the tightening of policy having very limited impact on labor markets to date. There are possibly signs of cracks emerging in the employment picture, with developed market unemployment rates having ticked up modestly, job vacancies falling, the four-week average of the US weekly jobless claims running slightly higher, and hiring intentions weakening in surveys, but as yet there has not been a material weakening in labor markets that has impacted consumer spending.

Interest rates

This leaves central banks in a precarious position. Many have made it clear their preference today is to cut rates and that is likely to be their next move. But they can ill afford a preemptive move on rates after their misclassification of inflation as transitory in 2021 and their dovish tilt in late 2023/early 2024 that has been followed by upside inflation surprises. This leaves central banks data dependent and backward looking. While this increases uncertainty in the outlook and arguably increases the probability of a policy error that leads to recession, central banks appear somewhat cornered.

Summary

Inflation has fallen a long way from the highs but remains elevated versus pre-covid levels, preventing central banks from cutting rates meaningfully. The inflation shock of 2021/2022 appears to be behind us though, and economies have so far coped well with higher inflation and higher interest rates. Employment markets remain strong and should be supportive for economies, although weakness here can cascade so close monitoring of leading indicators of employment is critical. Economic growth has weakened compared to the very strong 2023 growth, but growth remains at or around trend in 2024 year to date.

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<u>Actions of the Clearwater Investment Team</u>

While we are on high alert for signs of employment and economic weakness following the monetary tightening cycle, we haven't yet identified catalysts to position the funds defensively. We therefore remain constructive on the outlook.

In June we initiated a position in the Plato Global Alpha Fund across Diversified and Dynamic following due diligence that began earlier in the year. We have created a short list of global small cap managers as we look to review our preferred exposure in that space. We recently reduced our domestic equity exposure in favor of global equities and have continued to opportunistically rebalance the funds towards our preferred target exposures.

We remain optimistic about the medium to long term outlook and believe we have a strong line up of investment vehicles that in conjunction with our active asset allocation can allow us to capitalize on the opportunities that lie ahead, whichever way the data turns.

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PERFORMANCE REPORT

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a.
Clearwater Diversified Fund	0.74%	0.23%	7.57%	2.24%	4.65%	5.52%
Benchmark (Cash +4.0%)	0.68%	2.05%	8.37%	6.40%	5.61%	5.90%

INVESTMENT OBJECTIVE

Target return	Cash + 4.0% per year, after fees over 5 -year periods
Timeframe	Minimum 5 years
Defensive / Growth	30% defensive / 70% growth
Min Investment	$1,000
Redemption Liquidity	Approximately 2 weeks to process, subject to product disclosure statement (PDS) guidance.

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ASSET ALLOCATION

ASSET CLASSES	CURRENT ALLOCATION
Cash	4.5%
Fixed Income	17.1%
Alternatives	21.5%
Property & Infrastructure	16.5%
Australian Shares	24.4%
Global Shares	16.0%
Total	100.0%

TOP 5 PERFORMERS IN JUNE 2024

FUND NAME	PERFORMANCE
Munro Global Growth Fund	3.5%
Northcape Capital Global Emerging Markets Fund	3.2%
Aoris International Fund Class C (AUD Hedged)	2.5%
PAC Global Fund	2.3%
PAC Global Esports Fund	2.2%