Drummond Dynamic Portfolio

Quarterly Investment Review – Q4 2021

We believe we are in an era of increasing volatility and uncertainty regarding future asset class returns. The Drummond Dynamic Portfolio (DDP) has been created to provide exposure to a diversified set of global investments, with the aim of protecting capital in bad periods and growing wealth in good periods. This is our core, dynamically managed multi-asset investment portfolio.

Market Overview

Equity markets were strong in the fourth quarter, led by higher quality technology companies

Developed equity markets produced a solid fourth quarter, rising over 7% led by global technology companies. Although the not so transitory inflationary data continued to surprise, the spread of Omicron across the globe led investors to again seek out earnings certainty in large cap technology firms. Australian and European shares were also positive, rising over 2% and 5% respectively. Asia continued to lag though despite actions by China's government to ease financial conditions.

Bond markets sprung to life early in the quarter, reflecting the hawkish Federal Reserve's intention to reduce loose financial conditions through tapering of their QE program and raise interest rates in 2022 as inflation data remains persistent. The uncertainty driven by Omicron however kept the increase in yields to a minimum, maintaining the disconnect between bond prices and economic growth and inflation data.

While surprisingly subdued over the last year despite rising inflation and historically low real yields, gold began to show some life, rising over 3%. Energy prices were largely flat over the quarter and volatility in the AUD was also low.

Portfolio Performance & Review

The portfolio continues to perform strongly with growth asset classes outperforming defensive asset classes

Over the quarter, the Dynamic Portfolio returned +2.6%*. This was ahead of the institutional peer composite that rose +1.4% over the period. As is shown in the table below, the portfolio continues to perform strongly when compared to the institutional peer group. Pleasingly the portfolio is also delivering on the CPI +4% objective for investors coupled with strong risk management.

DRUMMOND DYNAMIC PORTFOLIO PERFORMANCE HISTORY

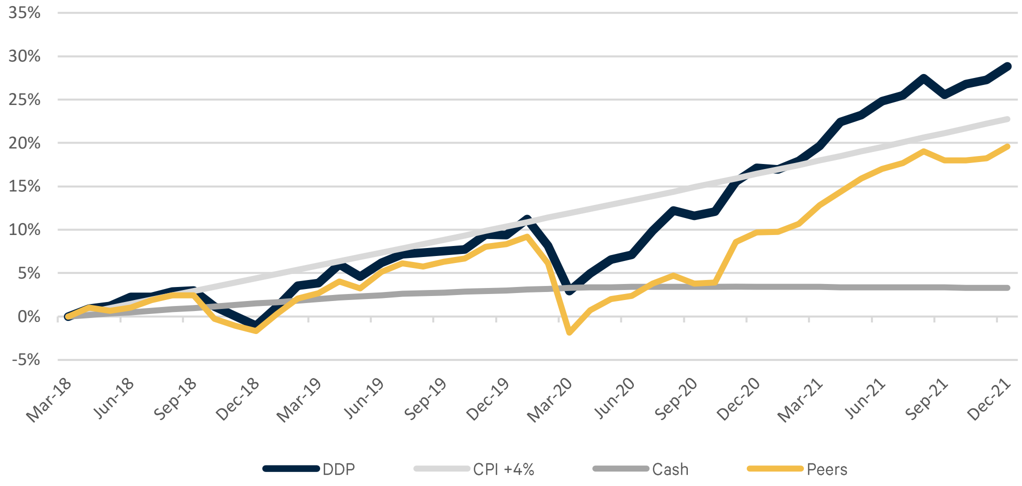
	3 month	6 month	1 year	3 year p.a.	Inception p.a.
Dynamic Portfolio*	2.6%	3.2%	10.0%	9.2%	7.0%
Peers**	1.4%	2.4%	8.8%	6.7%	4.9%
Outperformance	1.2%	0.7%	1.2%	2.5%	2.1%

Source: Drummond Capital Partners, BT Panorama, Refinitiv; **Composite of Institutional real return funds

The portfolio outperformed peers over the fourth quarter with our preference for active quality growth managers benefitting the portfolio as earnings certainty was rewarded due to the outbreak of the Omicron covid variant. Maintaining an above neutral exposure to growth assets as markets continued to rally was also of benefit to the portfolio. The portfolio continues to be well diversified by asset class and manager and is well placed for the coming year.

The changes made to the portfolio during the quarter consisted of increasing global equities via Asian and US value exposure and also increasing Australian equities while we reduced exposure to small caps and global growth managers. These changes improved the portfolios' quality and valuation metrics while reducing sensitivity to increasing interest rates. Given the bond sell off in Australia during October, we added a small position in Australian government bonds. Combined, these changes took overall growth asset exposure from 46% at the beginning of the quarter to 53% at quarter's end.

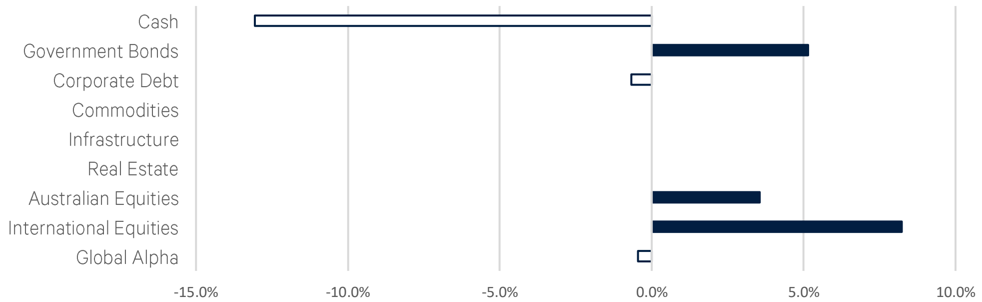
DRUMMOND DYNAMIC PORTFOLIO RETURN vs. PEERS**



Source: Drummond Capital Partners, Refinitiv, BT Panorama; ** Composite of Institutional real return funds

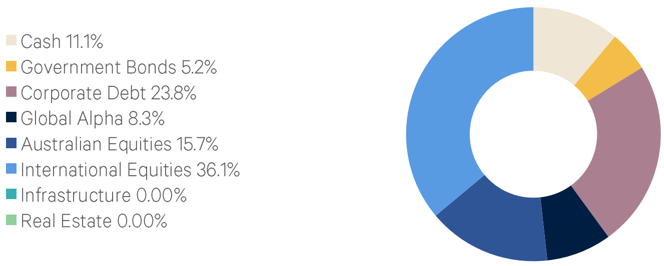
Allocations to growth assets were increased as was exposure to Australian government bonds over the quarter

PORTFOLIO ASSET ALLOCATION CHANGES – Q4 2021



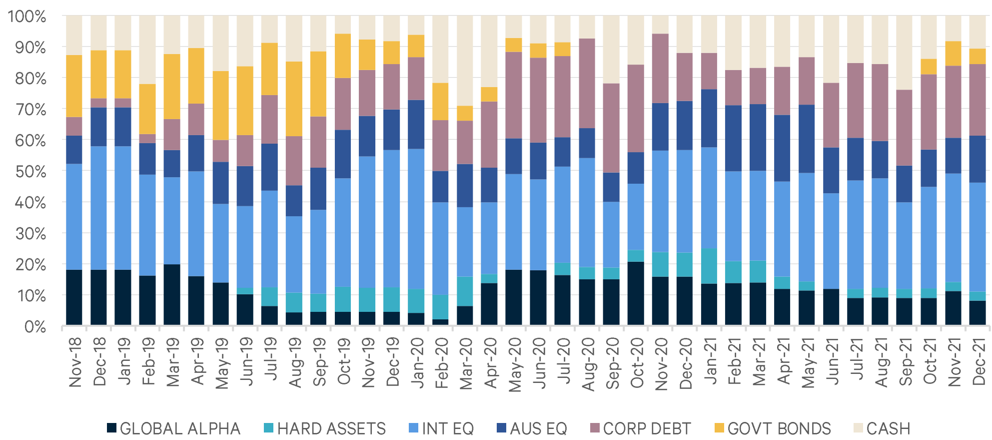
The portfolio is overweight growth assets, overweight cash and credit, and underweight government bonds

PORTFOLIO ASSET ALLOCATION – Q4 2021



International equities and corporate debt are the biggest asset class exposures

PORTFOLIO ASSET ALLOCATION HISTORY

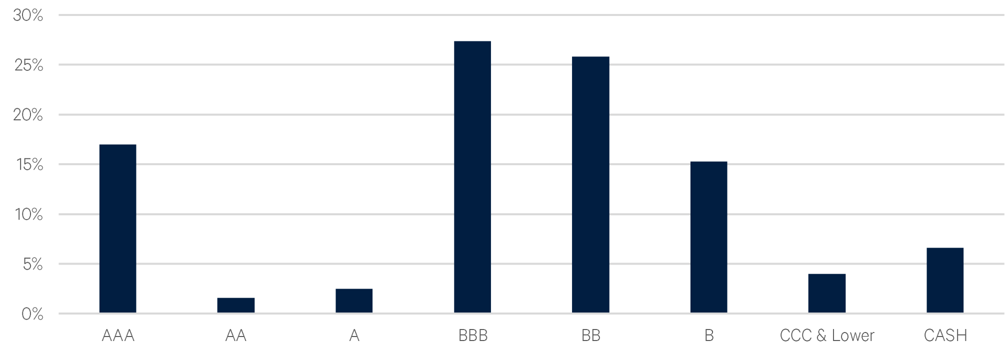


Corporate Debt

We prefer floating rate credit and loans that provide reasonable risk adjusted returns

The onset of the Omicron Covid variant brought some uncertainty to global credit markets during the fourth quarter. Investors were already weighing up the slowing Chinese economy and risks of global stagflation and the spread of Omicron saw investment grade spreads widen almost 20 basis points to 1.3% in early December. Despite a more hawkish Federal Reserve, spreads contracted to finish at 1.2% as the data continued to show Omicron was less severe than Delta. While wages are beginning to rise, economic growth and low interest rates support corporate debt serviceability and solvency. We prefer floating rate credit and loans that provide reasonable returns and are positively exposed to higher interest rates compared to longer term fixed rate bonds.

PORTFOLIO LOOK THROUGH CREDIT GRADE EXPOSURE (CORPORATE DEBT & GOVERNMENT BONDS)



Source: Drummond Capital Partners, Manager Reports

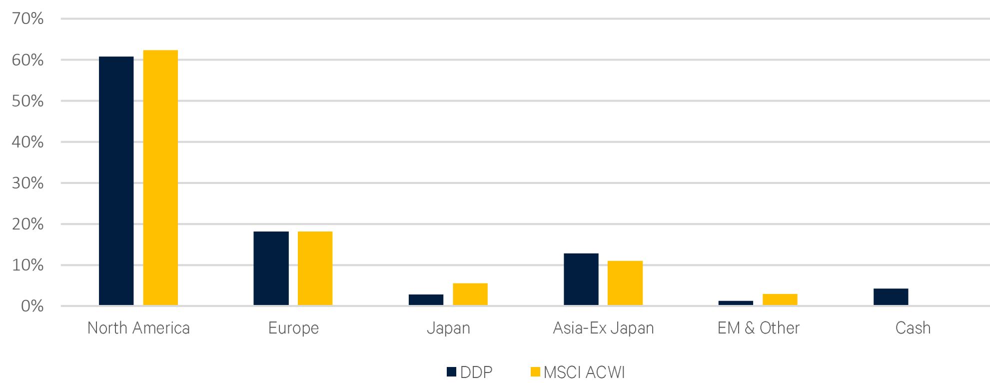
Government Bonds

We added marginally to Australian government bonds during the quarter as prices fell but remain underweight overall

Government bond prices fell early in the fourth quarter as investors continued to discount the tapering of US bond purchases by the Federal Reserve and high inflation prints. Australian government bonds fell hardest as we began to exit one of the world's longest lockdowns and investors looked forward to re-opening and stronger economic growth. The onset of Omicron, that swept across the globe more rapidly than Delta saw some of this enthusiasm pared back with US government bonds finishing flat for the quarter. The rate of inflation and global growth suggests bond prices should be lower still (yields higher) and will most likely drift as tapering continues. We think this should be a gradual process that can be altered should volatility increase dramatically.

International Equities

PORTFOLIO LOOK THROUGH COUNTRY EXPOSURE vs. BENCHMARK



Source: Drummond Capital Partners, Manager Reports

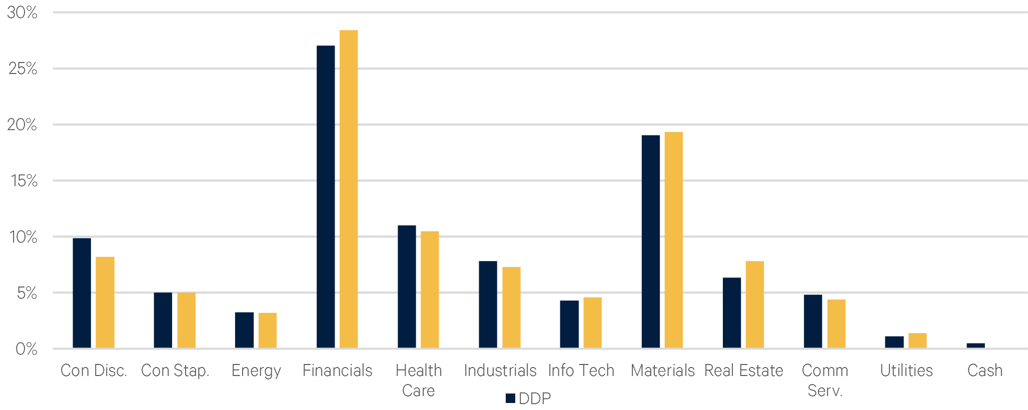
Developed equity markets were strong in the quarter as concern over Omicron eased

World equity markets rallied strongly in the fourth quarter, rising 7.9% in USD terms and 7.1% in local terms, however emerging markets continued to drag, falling over 2% for the quarter as growth concerns continued. Growth equities outperformed value given bond yields were broadly flat (despite inflation concerns and a more hawkish Federal Reserve). This was a favourable environment for the quality growth tilt within our global allocation though we continue to increase the portfolio's exposure to value managers and also added exposure to Asia late in the quarter on signs of waning negative catalysts and more supportive government policy in China.

Australian shares delivered another positive quarter, though lagged offshore markets

Australian Equities

AUSTRALIAN EQUITIES SECTOR EXPOSURE vs. BENCHMARK



Source: Drummond Capital Partners, ASX Data

Australian shares rose 2.1% over the quarter, lagging global equities as large cap growth stocks continued to rally offshore. Resources drove the market higher despite volatility in iron ore and oil prices, while REITs were also strong. Technology stocks suffered driven by falls in Afterpay. Overall exposure to Australian shares was increased over the quarter given the market's defensive value characteristics relative to the US market.

We maintain minimal exposure to real estate and infrastructure within the portfolio

Hard Assets (Infrastructure / Real Estate / Commodities)

Portfolio exposure to infrastructure and real estate remains minimal with the prospect for rising interest rates relatively unfavourable for these sectors and our recent research suggesting both will struggle versus other growth asset classes over the long-term investment horizon.

Global Alpha

Relative performance of our global alpha growth managers struggled against strong equity markets over the fourth quarter. A hawkish Federal Reserve and persistently high inflation continues to lead us to believe that non-directional global alpha funds are well placed to outperform as rising interest rates create opportunity across both growth and defensive asset classes whilst also providing diversification benefits to the portfolio.

Outlook

An increasingly hawkish US Fed battling rising inflation due to tight labour markets and ongoing disruption from Covid-19 has taken bond yields back to the highs of last year in short order as we start 2022. This has upended the equity market rally of last quarter, led by strong selling of growth stocks further up the quality ladder from the pure speculative non-profit tech company selling of last year.

Markets are now entering a rarely faced period of falling liquidity and rising interest rates

Since the Financial Crisis, market participants have been conditioned to expect low and falling interest rates and central banks ready to turn on the stimulus taps at every potential economic turning point. Ever falling bond yields over this period cemented in markets the idea that there is no alternative to equities and that investors would be protected from the risk of serious drawdown by the central bank put. While confidence has risen over the lower severity of Omicron, for the first time in a long time, certainty is rising that we are entering a rarely faced period of falling liquidity and rising interest rates.

The prospect of changing regimes creates a difficult tightrope to walk for investors against a more challenging global growth outlook. Stocks typically do fine early in a rate hike cycle, but while it's not our base case, we can't dismiss a Federal Reserve intent on righting the loose monetary ship in the face of rampant inflation and going too far, killing the recovery entirely.

This however isn't new news - bond markets have priced in more than 4 hikes next year already from only one late last year, and heavy equity market rotation from growth to value is well underway. Though stickier and stronger than expected, it's most probable that inflation does begin to ease and the case for structurally low interest rates (low potential growth and high debt) hasn't changed either. Forward looking inflation expectations have barely budged this year and remain well entrenched within long term ranges. Overall financial conditions remain very supportive and credit markets show no sign of stress. We therefore don't think its curtains for equities just yet as policy normalisation has been well telegraphed and global growth still positive. The rotation to value stocks adds weight to this thesis that despite rotation, overall economic activity and earnings will be fine.

We persist with questioning the ability for growth shares to continue the pace of outperformance enjoyed over the last 2 years given their heady valuations reliant on low rates (this is true for most asset classes to differing degrees). US equity markets are especially susceptible given the dominance of technology shares within the index. At the same time there continues to be the potential for an economic pulse as economies re-open post Omicron, a positive for US value and cyclical companies. Additionally, whilst the medium-term outlook for China's housing market and economic growth remains uncertain, in the short term the authorities are taking action to stimulate the economy via the expansion of credit (which has a strong correlation of leading emerging market equity performance) whilst also providing assurances they will manage the balance of risks in attempting to slow the property market.

To balance these views, we continue to rotate away from US growth equities towards US value and Asia whilst raising the overall quality of the portfolio by reducing exposure to small caps. Forced by stronger inflation, we remain wary of further tightening signals from the Federal Reserve and have been active in changing the portfolio positioning over the last quarter accordingly.

Regards,

The Drummond Capital Partners team

*Inception date is 31/3/2018. Source: BT Panorama. The returns shown are net of fund manager fees and do not incorporate any other fees including Advisory Fees, Admin Fees or Portfolio Manager Fees. They are calculated from the model portfolio within BT Panorama and as such may vary over time and vary by individual client.

D R U M M O N D

CAPITAL PARTNERS