

Drummond Dynamic Portfolio

Quarterly Investment Review – Q1 2022

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 weak in the first quarter, led by technology companies and emerging markets as inflation risks and the outbreak of war weighed

Global equity markets were weak in the first quarter, with the MSCI ACWI index falling 4.6% in local terms after losing over 12% at the March lows. A multitude of issues drove the negativity led by an increasingly aggressive US Federal Reserve intent on getting a grip on rising inflationary pressures. In addition, Russia unexpectedly invaded Ukraine, exacerbating the problem through higher commodity prices (namely oil and grains), while China suffered its worst Covid outbreak to date driving new lockdowns and adding to supply chain issues and weakening global growth. Australian equities were a standout given the large exposure to commodities within our equity market whilst emerging markets continued to lag.

Bond markets did not provide their usual portfolio ballast, suffering their most negative period in decades and extending the selloff that began last year. Unfortunately, the issues plaguing equity markets, higher inflation, and interest rates, are also negative for bond markets.

Commodities stole the show over the quarter, with Russia's invasion of Ukraine intensifying a rally which began in mid-2020. Brent crude rallied almost 40% over the quarter (at its peak was up almost 80%) leading energy shares to significant outperformance. Gold prices were up 6% while the AUD rallied 3%.

Portfolio Performance & Review

Over the quarter, the Dynamic Portfolio returned -1.9%*. This was ahead of the FE AMI Mixed-Asset peer index that returned -2.4% 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*	-1.9%	0.6%	5.6%	6.7%	6.0%
Peers**	-2.4%	-0.8%	4.0%	4.5%	4.4%
Outperformance	0.5%	1.5%	1.5%	2.2%	1.6%

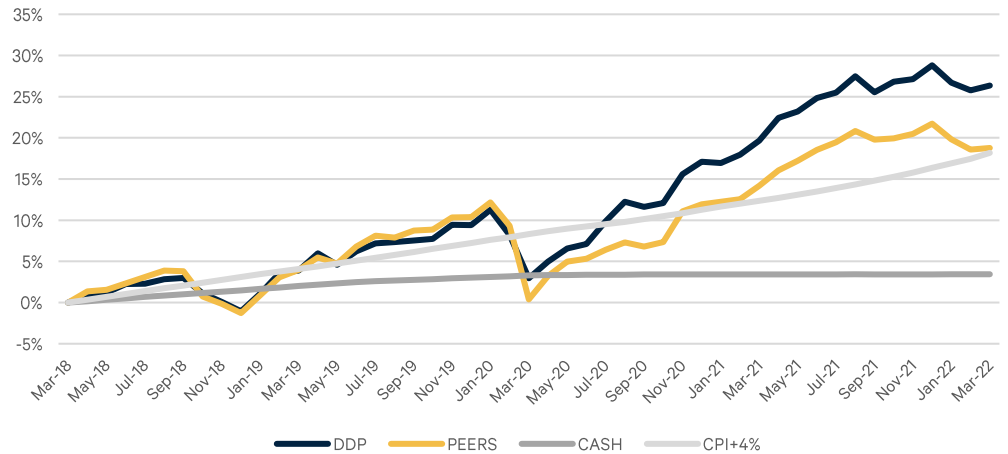
Source: Drummond Capital Partners, *BT Panorama, Refinitiv; **FE AMI Mixed Asset – Flexible Sector

The portfolio performed ahead of with peers over the first quarter despite our remaining exposure to growth managers giving back the relative gains of last quarter as expectations for higher interest rates increased. After increasing the exposure to Australian equities last quarter, the portfolio benefitted from the country's outperformance on strong commodity prices though we have historically held less exposure than peers across our portfolios to this region. The portfolio continues to be well diversified by asset class and manager.

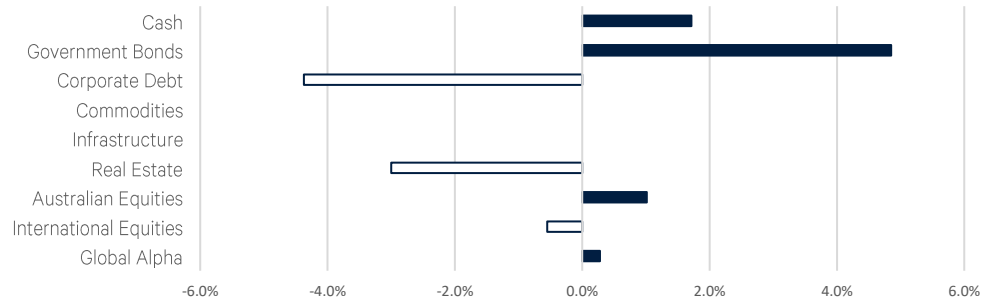
The changes made to the portfolio during the quarter consisted of increasing Australian equities at the expense of global equities and we also reduced corporate debt exposure in favour of Australian government bonds after the biggest selloff in bonds in many decades. These changes improved the portfolios overall quality and defensiveness. We again added marginally to emerging market equities (Asia) post the significant selloff in March as covid lockdowns added to rising commodity price pressure. Combined, these changes took overall growth asset exposure from 53% at the beginning of the quarter to 55% at quarter's end.

Changes to increase the portfolios quality and defensiveness were of benefit to the portfolio over the quarter as market risks escalated

DRUMMOND DYNAMIC PORTFOLIO RETURN vs. PEERS**

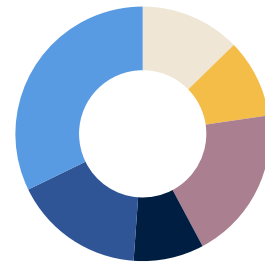
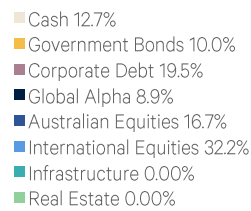


PORTFOLIO ASSET ALLOCATION CHANGES – Q1 2022



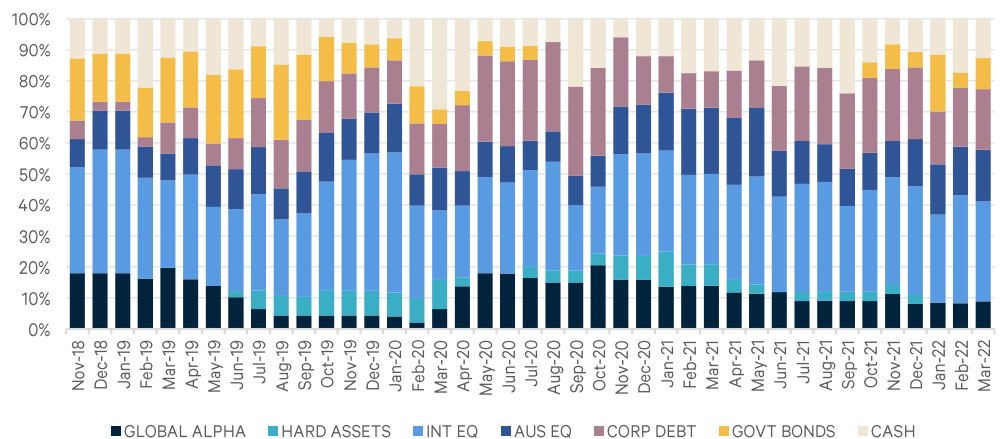
PORTFOLIO ASSET ALLOCATION – Q1 2022

The portfolio is neutral growth assets, overweight cash and underweight government bonds and corporate debt



PORTFOLIO ASSET ALLOCATION HISTORY

International equities and corporate debt are the biggest asset class exposures

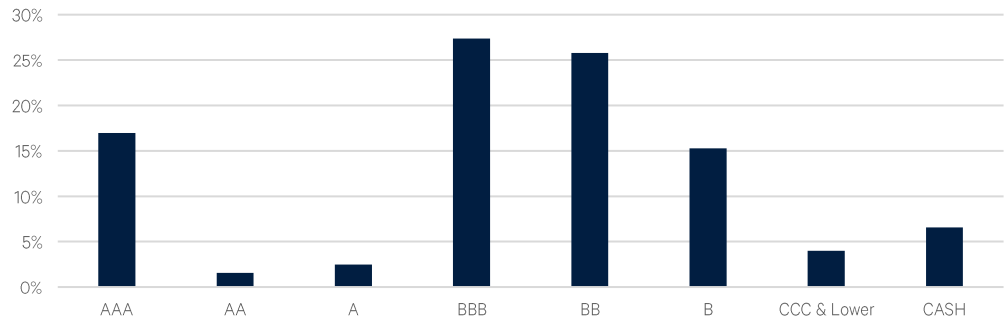


Corporate Debt

We still prefer floating rate credit and loans however we have begun to reduce overall exposure

While investors were bracing for higher interest rates in 2022, escalating inflation drove the Federal Reserve to become increasingly hawkish in the quarter with the market moving from pricing 4 rate hikes to over 9 for the year. Russia's invasion of Ukraine and subsequent spike in commodity prices only added to the pressure on interest rates. Credit markets reflected this rapid rise and subsequent uncertainty over future economic health with credit spreads widening 0.64% to 1.85% at its worst in mid-March before tightening into month end. Our preference for floating rate credit and loans helped buffer against losses suffered by the broader sector over the quarter. We continue to prefer these subsectors however have begun to reduce the portfolio's overall credit exposure given the weaker medium-term growth outlook.

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



Source: Drummond Capital Partners, manager reports

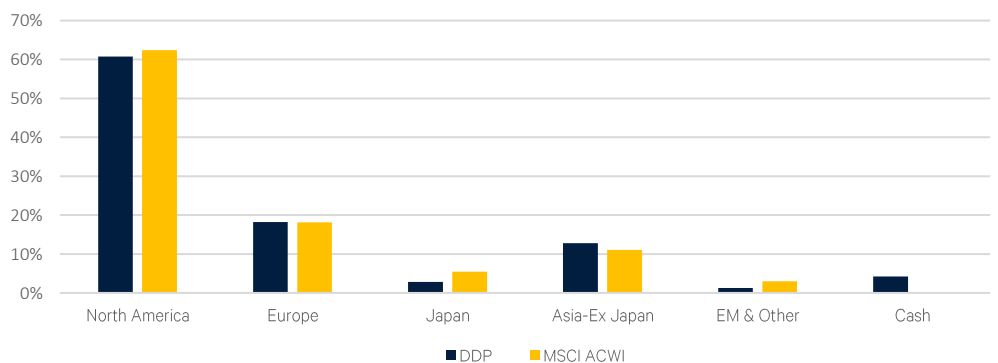
Government Bonds

We continued to add to Australian government bonds during the quarter as prices fell significantly

Government bond prices fell heavily over the first quarter as central banks moved from a gradual tightening bias to being outright aggressive in their fight against inflation. With the US Federal Reserve now set to undertake the fastest hiking cycle in recent history, the US yield curve began to reflect investor concerns about the impact of higher interest rates on economic growth. Australian government bonds fell hardest as the RBA telegraphed a need to increase interest rates in 2022 (vs. 2024 previously). Interest rate markets in Australia have priced the RBA moving rates well beyond 3%, which appears excessive given lower domestic inflation, the highly leveraged household sector and weak Chinese growth. We feel there is value in government bonds with inflation peaking in the near-term and continue to increase our exposure predominately via Australian government bonds.

International Equities

PORTFOLIO LOOK THROUGH COUNTRY EXPOSURE vs. BENCHMARK



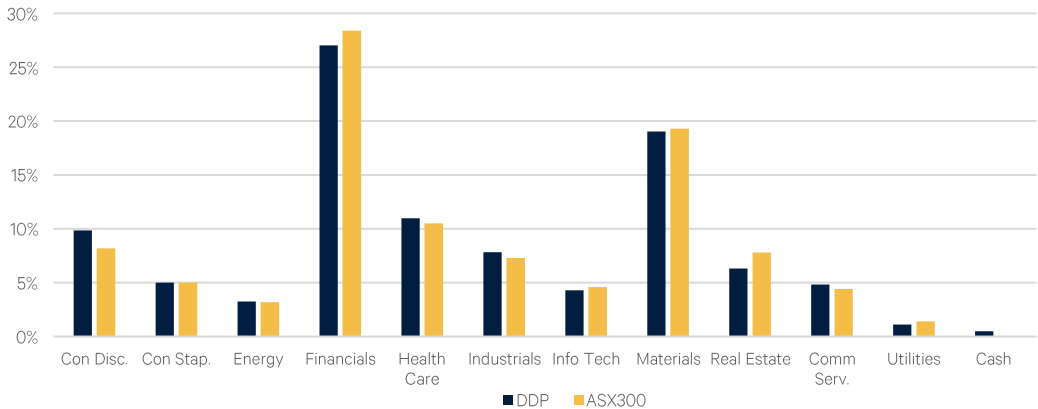
Source: Drummond Capital Partners, manager reports

Developed equity markets were weak in the quarter as multiple issues weighed on the economic outlook

World equities (MSCI ACWI) fell heavily in the first quarter, retreating 4.6% in local terms. Losses at the March lows were much more significant while emerging markets and technology shares fell even more. The acceptance by central banks of the need to act faster to combat inflation set the negative tone early in the quarter which was exacerbated by Russia's unprovoked invasion in February and severe lockdowns in China as they battled covid outbreaks. Growth equities significantly underperformed value equities (boosted by exposure to energy companies). This was a favourable environment for the value managers within our global and Australian exposures.

Australian Equities

AUSTRALIAN EQUITIES SECTOR EXPOSURE vs. BENCHMARK



Source: Drummond Capital Partners, ASX

Australian shares rose 2.2% over the quarter, significantly outperforming global equities by almost 8%. As investors sought to hide from global equities and emerging markets, both significantly impacted by rising commodity prices and threat of war, the large exposure of our market to resources drew investors in. Not surprisingly, given the rise in oil prices and commodity prices more broadly, resources and energy shares led the market higher over the quarter. Overall exposure to Australian shares was increased over the quarter during the worst of the March selloff as we continued to increase overall portfolio defensiveness.

Hard Assets (Infrastructure / Real Estate / Commodities)

Portfolio exposure to infrastructure and real estate was minimal at the quarter end. Our recent research suggests both will struggle versus other growth asset classes over the long-term investment horizon, however they should be more defensive in periods of equity market volatility and could provide some inflation hedging characteristics.

Global Alpha

Absolute performance of our global alpha growth managers was strong over the quarter as equity and bond markets were weak. After struggling against strong markets for some time, an aggressive 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 opportunities across both growth and defensive asset classes whilst also providing diversification benefits to the portfolio.

Outlook

High inflation and slowing economic growth with a sprinkle of war tends not to be a good recipe for risk assets. At its worst, global equities (MSCI ACWI) had fallen over 12% from the peak at the start of January to the low on the 8th of March. Somewhat surprisingly, equity markets staged an impressive comeback, gaining over 9% until month end, driven in part by the unwinding of extreme negative sentiment, optimism over a Ukraine solution and perhaps some remnants of the 'buy the dip' strategy that worked wonderfully when central banks were ultra-accommodative.

Bond markets however continued to weaken, reflecting the worsening interest rate outlook and changing role of central banks in the market. While central banks have only recently commenced the rate hiking cycle, the bond market has already priced two years' worth of hikes that is affecting the cost of funding today. Yields on 10-year Australian government bonds now sit at ~3.1%.

With US core inflation running at 6.4% year on year (Australia is at 3.5%), the Federal Reserve is now tasked with steering the economy through a period of rapidly rising interest rates to bring inflation under control. Prospects for achieving a reasonable economic outcome during such interest rate hiking cycles are low given that most similar environments since the 1970's led to a recession. Yet the Federal Reserve is simultaneously withdrawing liquidity via quantitative tightening, reducing the excess liquidity it put into financial markets to support them and the economic recovery post Covid. Given how rare

Australian shares had a very strong relative quarter, boosted by strong commodity prices and overall defensiveness versus global equities

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

Ongoing inflationary pressure drove a more aggressive response from central banks while the outbreak of war added to concerns

and difficult this environment is for central bankers, we accept that the risk of negative economic outcomes has increased. While we don't believe an economic recession is the most likely outcome over the next 12 months, unless inflation moderates significantly, the risk of a recession in the following year is high.

We began the process of steering the portfolios towards a stronger footing in the fourth quarter last year by removing small caps, reducing exposure to growth stocks and global equities more broadly. The desire to increase portfolio quality continues in 2022. After the worst bond market selloff in decades this year, we see an attractive opportunity to increase our exposure to a defensive asset class we have long been underweight. At the same time, we have taken advantage of the equity markets late March renaissance to go underweight global equities as we await the beginning of quantitative tightening in May. Our ability to be nimble in volatile markets is our advantage. In the context of a relatively cautious stance, we will continue to act on signs of pessimism and exuberance alike in a year that should provide ample opportunity to do so.

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.

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