

Drummond Dynamic Portfolio

Quarterly Investment Review – Q4 2023

We believe we are in an era of increased 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 enjoyed a strong fourth quarter as investors cheered the Federal Reserve policy pivot

Global equities rose strongly in the December quarter, with the MSCI ACWI index rising 9.5%. After dipping into October as interest rate fears intensified, equity markets bounced significantly as the Federal Reserve signalled that further interest rate hikes were off the table in an effective policy pivot. With a supportive Federal Reserve, ongoing fiscal stimulus, robust employment and cooling inflation, investors wholeheartedly embraced the goldilocks environment. While the Nasdaq outperformed, making up for the ground it lost in the previous quarter, the rally showed signs of broadening out as financial conditions loosened, with lagging sectors such as real estate and small caps delivering strong returns late in the quarter. Emerging markets and Australian equities were also strong, rallying 7.9% and 8.4%, respectively, over the quarter.

Fixed income markets also enjoyed a solid quarter, wiping out the previous quarter's losses. Whilst bonds were initially weak on supply concerns and the Federal Reserve indicating a higher for longer stance, the subsequent pivot saw US 10 year government bonds stage a strong rally, rising 5.6% over the quarter and Australian 10 year government bonds rising 4%. Corporate bond markets continued to strengthen, with high yield and investment grade spreads also improving over the quarter as the monetary policy backdrop improved.

Commodities fell sharply over the fourth quarter with the broader commodities (S&P GSCI Commodity Index) index falling -10.7% driven by weaker oil prices, though gold and iron ore were stronger. The AUD rallied 5.9% vs the USD over the quarter as more US interest rate cuts were priced in.

Portfolio Performance & Review

Over the fourth quarter, the Dynamic Portfolio returned 3.8%*. This was marginally behind the FE AMI Mixed-Asset Flexible peer index that returned 3.9% over the period. As is shown in the below, the portfolio continues to perform well when compared to the institutional peer group over the longer term.

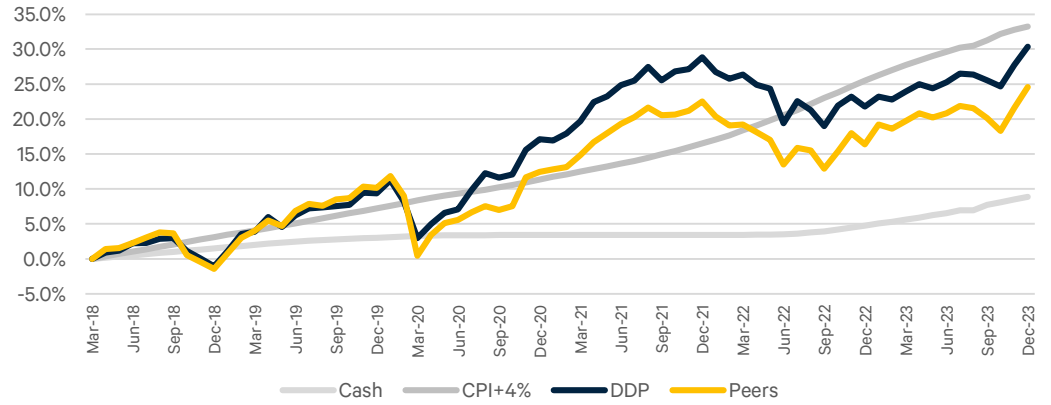
| DRUMMOND DYNAMIC PORTFOLIO PERFORMANCE HISTORY | | | | | |
|--|---------|---------|--------|-------------|----------------|
| | 3 month | 6 month | 1 year | 3 year p.a. | Inception p.a. |
| Dynamic Portfolio* | 3.8% | 3.3% | 6.3% | 3.4% | 4.7% |
| Peers** | 3.9% | 3.1% | 7.1% | 3.5% | 3.9% |
| Outperformance | -0.0% | 0.2% | -0.8% | -0.1% | 0.8% |

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

The portfolio performed marginally behind peers over the fourth quarter. Carrying slightly less exposure to equities in the portfolio as they rose strongly over the quarter was the main detractor in a relative sense versus the FE institutional peer group. At the manager level, returns were broadly in-line with benchmarks outside of global equities where several managers underperformed as the equity rally off the October lows broadened out into riskier parts of the market. Despite this, we continue to maintain an overall core, neutral style tilt in the portfolios given macroeconomic uncertainty remains and valuations are high.

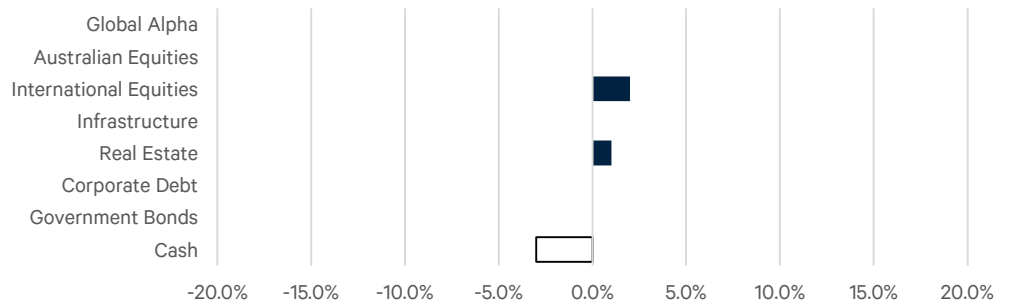
With bond and equity markets displaying extreme price moves over the quarter as the outlook for interest rates changed, few changes were made to portfolios. The main change was continuing to gradually increase global equity exposure as the risk to higher interest rates diminished, whilst also adding to global real estate exposure that has borne the brunt of the rapid increase in rates over the last two years and reducing the cash weighting. These changes further reduced the underweight to growth assets and took overall growth asset exposure from 45% at the beginning of the quarter to 48% at quarter's end. The portfolio continues to be well diversified by asset class and manager.

DRUMMOND DYNAMIC PORTFOLIO RETURN vs. PEERS**

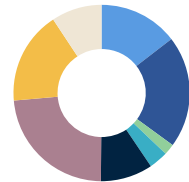
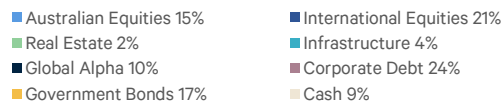


Source: Drummond Capital Partners, Refinitiv, BT Panorama; ** FE AMI Mixed Asset – Flexible Sector

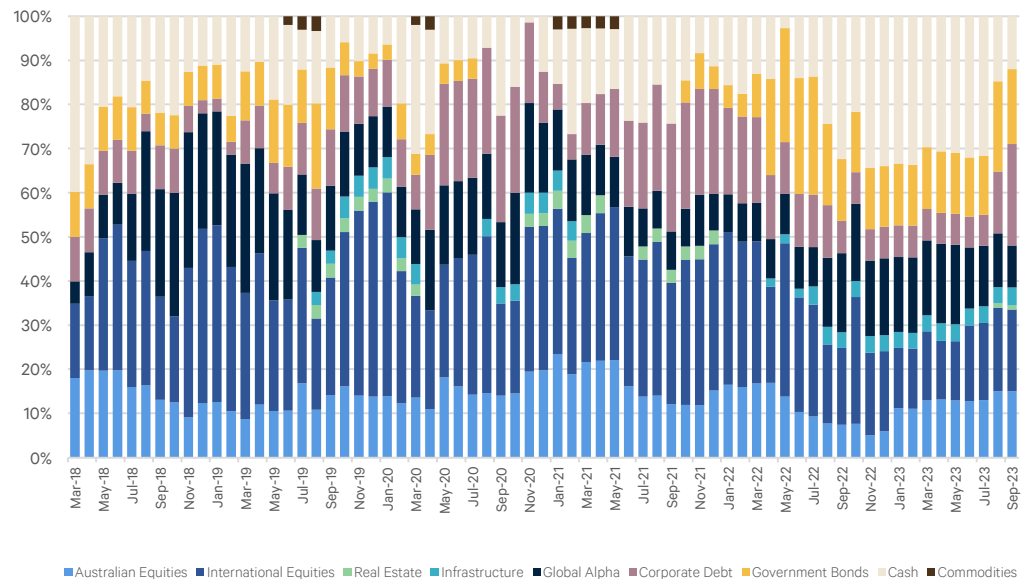
PORTFOLIO ASSET ALLOCATION CHANGES – Q4 2023



PORTFOLIO ASSET ALLOCATION – Q4 2023



PORTFOLIO ASSET ALLOCATION HISTORY

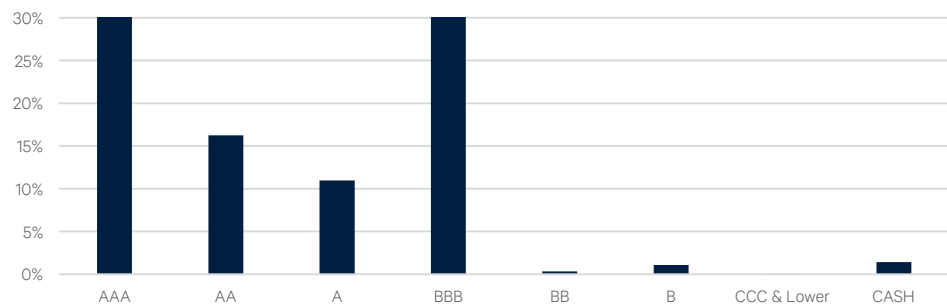


Corporate Debt

Investment grade credit remains well placed to navigate near-term challenges

Tightening spreads helped credit markets over the quarter as did a fall in bond yields. Spreads on high yield debt fell as the funding risk posed by higher for longer US rates for sub-investment grade companies subsided. The greater interest rate sensitivity (duration) of the global investment grade index meant it outperformed high yield with returns of 10.1% over the quarter vs 7.1% for high yield. Despite the risk of an uncertain economic backdrop, we view Australian investment-grade corporate debt as attractive. As such, we have continued to build exposure to this sector and maintain our overweight considering the strong yield of over 6% available.

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



Source: Drummond Capital Partners, manager reports

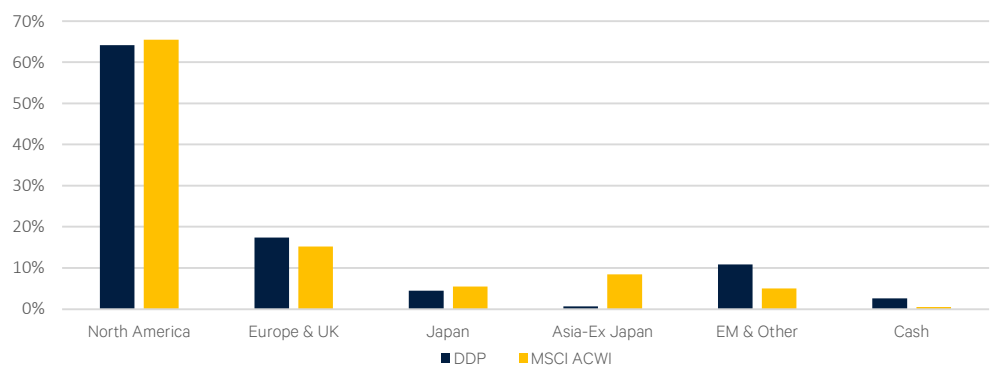
Government Bonds

Bond yields fell sharply as declining inflation and increased rate cut expectations set in

Government bonds rallied during the December quarter as expectations of early central bank rate cuts proved to be pivotal for the sector. The more supportive anticipated path for interest rates saw Australian bonds up 4% and US bonds up 5.6% over the quarter. We have maintained a neutral exposure to Australian government bonds which have a healthier term premium and less fiscal risk than global bonds but remain underweight the asset class overall.

International Equities

PORTFOLIO LOOK THROUGH COUNTRY EXPOSURE vs. BENCHMARK



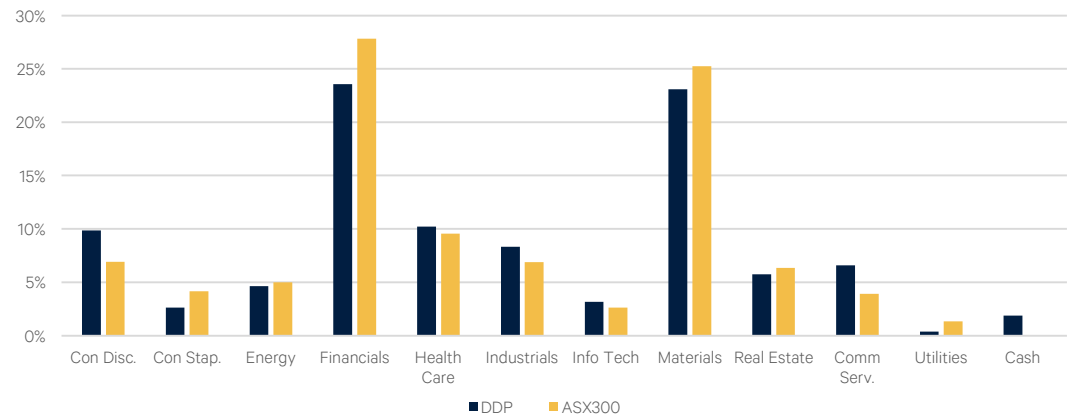
Source: Drummond Capital Partners, manager reports

International equities delivered a welcome Christmas present for investors in Q4

World equities (MSCI ACWI) rallied over the December quarter (+9.5%) as an end of the 'higher for longer' rates fears boosted growth stocks and effectively reversed the third quarter's narrative. Unsurprisingly, the S&P 500, with its growth tilt, was the best performing major equity index over the quarter and its returns for the full year were largely driven by the so called 'Magnificent Seven' tech stocks, which contributed circa 80% of the index returns. Pleasingly, value stocks also delivered a commendable return as the rally broadened with around 1/3rd of the index reaching new 52-week highs in December. Moreover, some of the most oversold sectors such as global small caps and real estate, which had suffered amidst the prospects of higher rates, bounced back as the market priced in six rate cuts for the US Fed in 2024. Emerging market equities delivered 7.9% despite being constrained by weak Chinese market performance. Increasing growth concerns meant Chinese equities fell. However, this was offset by strong returns elsewhere, particularly in Latin America.

Australian Equities

AUSTRALIAN EQUITIES SECTOR EXPOSURE vs. BENCHMARK



Source: Drummond Capital Partners, ASX

Australian shares also rallied into year-end, with the ASX 300 up 8.4% for the December quarter. Like other markets, rates relief triggered a 'bad news is good news' rally within the Australian share market. The Australian economy continues to slow and faces headwinds as higher interest rates impact household balance sheets and consumer spending. In terms of market composition, the only sectors not in the black were energy (-9.1%) and utilities (-2.1%) whilst the standout sector was real estate, which surged (+15.8%) due largely to the sharp fall in bond yields. Major miners BHP, Rio Tinto and Fortescue were strong as iron ore rallied and building materials group James Hardie was also a standout on strong results. Overall exposure to Australian shares was maintained during the quarter.

Hard Assets (Infrastructure / Real Estate / Commodities)

Real estate and infrastructure were both positive over the fourth quarter, aided by falling bond yields and their 'bond proxy' attributes. The Australian REITs index (+16.5%) posted a stellar result and significantly outperformed both domestic and international shares. Global infrastructure rose 5%.

The broad commodity market was one of very few markets to not participate in the 'everything rally' of Q4 with the S&P GSCI Commodity falling -10.7%. The index decline was led by weakness in energy prices, with oil down circa -20% despite the OPEC+ nations efforts in convincing the world of further supply cuts.

Global Alpha

Global alpha managers delivered mixed results in the fourth quarter. Exposure to the asset class was progressively reduced over the quarter in favour of investment-grade floating-rate credit. This moved our exposure to Global Alpha to underweight, which is reflective of the attractive opportunities in higher grade credit.

Outlook

The Federal Reserve meeting in December was a universal market surprise. Fed Chair Jerome Powell had spent many speech minutes telegraphing a higher for longer stance on interest rates to ensure inflation returned somewhere close to their 2% target. Bond and equity markets were fretting on rates so much that US equities were flat for the year as late as October and US bond yields had touched 5%. Surprisingly, the Fed delivered an effective pivot, stating they were done with higher rates. Interest rate markets priced in more rate cuts for 2024 and US bonds dropped below 4%. Several equity market indices such as the Russell 2000 went from 52-week lows to 52-week highs in one of the shortest timeframes in decades.

Despite the pace of interest rate increases, the banking crisis, not inconsequential geopolitical issues, very narrow market leadership, and high valuations, equity markets are back towards their highs. We, like many, thought that 2023 would bring the economic recession that typically occurs when interest rates rise. The dominance of large cap technology stocks has gone a long way to producing a good year for equities. Although in hindsight the enormous level of US fiscal stimulus and the strength of corporate and consumer balance sheets cannot be ignored, playing a stronger than expected role in the economic resilience that supported most companies outside of the Magnificent Seven during 2023.

Australian shares rallied into 2023 year-end

Oil sold off on demand concerns despite heightened geopolitical risks

With the Fed no longer hiking, risks have eased. However, markets are priced for perfection

The rationale behind our ongoing gradual increase to risk assets over the last 6 months has primarily been driven by the reality that the likelihood of a recession was receding. With the Fed now looking to cut rates and support growth, there is a better chance they get their soft landing, whilst surprisingly low oil prices and declining inflation have also been positive for risk assets. In 6 months' time, investors will start looking to 2025 S&P500 consensus EPS of ~\$260 which could lead to another reasonable result in a year where interest rates are being cut globally as political leaders look to keep their job amongst multiple national elections.

That said, market valuations today leave little room for error as investors bid up stocks ahead of the expected earnings recovery. While the Fed pivot lowers the probability of a recession in 2024, there are a number of indicators we are watching which would see our caution grow. A weakening labour market (evidenced by spikes in initial jobless claims) and a broad-based weakening in economic data (which our growth barometer will show) remain top of the list. And despite what the Fed has said and the market has priced, the downside to a soft economic landing may just be renewed strength in inflation, which will pivot the pivot and compress valuations once more. All remain possible, which leads us to once again enter a new year with a degree of caution, just less so than this time last year.

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. Performance data greater than 1 year is annualised.

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