

# **Sterling Clime Balanced Portfolio (SR0011)**

Investment Summary  
May 2024



Praemium (SMA)

## Market & Economic Commentary

May was a month of "wait and see" following strong returns in the previous quarter and consolidation in April. While some markets bucked the trend, equities and bonds largely treaded water. The key factor driving markets remained interest rate expectations, with disappointing inflation data suggesting the US Federal Reserve (Fed) would keep rates at a two-decade high until clear evidence of declining inflation towards their 2% target. The Fed's preferred inflation measure, the personal consumption expenditures price index, showed a 2.7% annual gain, aligning with Wall Street's expectations.

### Equities and bonds

In May, the ASX 200 Accumulation Index was barely changed (+0.49%). US major indexes saw gains with the S&P 500 rising 4.8%, the Dow Jones 2.3%, and the Nasdaq 6.9%. Global markets were mixed: Germany's DAX up 3.2%, the French CAC unchanged, and Britain's FTSE up 1.6%. Chinese markets were slightly lower, while Japan remained mostly unchanged.

US and global bond yields ended the month marginally higher, with the US ten-year Treasuries stabilizing around 4.5% and Australian ten-year bonds rising to 4.4%.

### Global economic outlook

The global inflation shock sparked by the pandemic continues to concern markets, but many countries are gaining confidence that they are winning the fight against inflation. The European Central Bank (ECB) is likely to be the first major central bank to lower rates, possibly in June. The global outlook shows signs of improvement, although growth remains modest. Tighter monetary conditions are affecting housing and credit markets, but global activity is resilient, with improving private sector confidence. Labour market imbalances are easing, unemployment is creeping up but remains close to record lows, and real incomes are improving as inflation moderates. Growth varies by region, with stronger growth in the US and some emerging markets offsetting softer outcomes in advanced economies, especially Europe.

### US economic performance

The US is outperforming its peers, driven by President Biden's industrial policy and pandemic support, getting the economy back on track. However, strong growth means a slower retreat for inflation, delaying rate cuts by the Fed. Predictions of a US rate cut have varied, with economists now forecasting a cut in September 2024 amid signs the economy remains robust.

### Australian economy

The S&P/ASX 200 slipped after the Reserve Bank of Australia (RBA) minutes suggested a mild tightening bias. The index has fluctuated in a choppy range after breaking above 7,500 earlier this year. Consumer sentiment in Australia remained subdued due to cost-of-living concerns. The latest CPI report was disappointing, showing a year-on-year increase to 3.6% instead of the expected decline, driven by rising health insurance premiums and weather-related fruit and vegetable cost increases.

The RBA has held the cash rate stable since November 2023, with inflation still hovering above its 2-3% target. Economists will focus on the services component of inflation data, which has proven resilient to higher rates. Globally, traders are pushing out rate cut expectations mainly due to resilient labour markets and economies. In Australia, there is uncertainty about the next rate move, although a rate increase is unlikely given the economy's current strength.

### Outlook

Despite potential setbacks, there is optimism that inflation will continue to decline, leading to a probable soft landing for the global economy. Positive share market returns are expected in 2024, supported by falling rates later in the year. With markets reaching new highs, constructing resilient and diversified portfolios is essential. The ASX offers excellent investment opportunities, particularly in quality companies and the small cap sector.

## Portfolio Snapshot

| Inception Date    | SMA Model Code | Portfolio Objective                        | Benchmark              |
|-------------------|----------------|--|------------------------|
| 20th October 2017 | SROO11         | Deliver strong risk-adjusted total returns | Blended Balanced Index |

1 Sterling Clime Blended Balanced Index is comprised of a 45% weighting to S&P/ASX 200 Accumulation Index, 5% to S&P/ASX 200 A-REIT Accumulation Index, 10% weighting to MSCI World ex Australia Index (AUD), 35% weighting to the Bloomberg AusBond Composite Index and 5% weighting to the RBA Cash Rate.

## Portfolio Performance\* (31/05/2024)

|  | 1 m   | 3 m  | 6 m   | 1 y p.a | 3 y p.a | Inception p.a |
|--|-------|------|-------|---------|---------|---------------|
| <b>Portfolio Return</b>                                | 0.8%  | 1.5% | 6.9%  | 9.6%    | 3.6%    | 6.0%          |
| <b>Capital Return</b>                                  | 0.5%  | 0.5% | 5.3%  | 6.2%    | 0.5%    | 2.8%          |
| <b>Income Return</b>                                   | 0.3%  | 1.0% | 1.7%  | 3.4%    | 3.2%    | 3.2%          |
| <b>Sharpe Ratio</b>                                    | -     | -    | -     | 0.84    | 0.16    | 0.43          |
| <b>Sterling Balanced Index</b>                         | 1.1%  | 1.0% | 8.3%  | 10.0%   | 3.9%    | 6.1%          |
| <b>Difference</b>                                      | -0.3% | 0.5% | -1.3% | -0.4%   | -0.3%   | -0.1%         |
| <b>Number of Individual Holdings (excluding cash):</b> | 42    |      |       |         |         |               |

\*Due to rounding, the sum of the capital and income return figures may not add up to the portfolio return figure.

## Portfolio Commentary

The Sterling Clime Balanced portfolio returned 0.8% for the month of May, underperforming its benchmark which returned 1.1%. The key drivers of portfolio performance and major portfolio changes are outlined in the tables below.

| Positive Attributors   | Comment  |
|--|--|
| <b>Vanguard MSCI Index International Shares (Hedged) ETF (VGAD.ASX)</b>                | Global equities rebounded to new highs at the start of May, following the April sell-off. This followed better-than-expected earnings reports from companies such as Amazon, Sony and UnitedHealth along with investors continuing to anticipate interest rate cuts, albeit with US (and Australian) cuts likely to come later than in some other regions.   |
| Negative Attributors   | Comment  |
| <b>Resmed Inc CHES Depositary Interests on a ratio of 10 CDIs per ord.sh (RMD.ASX)</b> | RMD detracted from portfolio performance in May, despite the company's strong Q3 2024 results released in late April. The quarterly update highlighted significant gross margin expansion due to higher device sales growth, with further improvements expected in FY25, surpassing consensus expectations. We believe the underlying industry conditions have never been more supportive for RMD to see continued strong top-line growth, as concerns over GLP-1 have subsided and the group dominates market share with its main rival, Philips, out of the market. RMD remains a key overweight in the portfolio. |

## Portfolio Activity

| BUY                     | Comment  |
|-------------------------|--|
| <b>ALD-AU (ALD.ASX)</b> | ALD's share price declined in May, presenting a buying opportunity. The refinery-wide steam outage in April impacted production levels, reducing refining volumes by 8% and slightly lowering margins below the anticipated USD 13.5/barrel. Despite this, non-refining earnings before income tax (EBIT) matched 1Q23 levels, and Convenience Retail showed positive momentum. With the Asia Pacific Refining Margin index reflecting recent geopolitical uncertainties, we believe margins will revert to their long-term averages. We increased our exposure to ALD, confident in its resilient non-refining segments and the anticipated recovery in refining margins. |

|                         |  |
|-------------------------|--|
| <b>ALL-AU (ALL.ASX)</b> | ALL's strong 1H24 result confirmed it remains a high quality business, with leading market share and attractive operating leverage across each of its divisions. We have increased the weighting in your portfolio given its valuation is trading near all time lows and the positive outlook is supported by robust underlying industry operating conditions, further growth and market share gains in its key land-based gaming operations, cost optimisation driving operating leverage and a strategic review of Pixel United. |
|-------------------------|--|

| SELL                    | Comment  |
|-------------------------|--|
| <b>RMD-AU (RMD.ASX)</b> | RMD was one of the largest overweight positions in the portfolio since we were confident that the negative sentiment due to weight loss drugs would subside. We had the view that gross margins would recover, which was proven right in the recent 3Q24 update. The announcement featured significant margin expansion, driving big beats to consensus expectations. Following a strong share price reaction we have taken some profits to reduce the position size. We maintain a positive view on RMD, and anticipate further room for margin expansion and a multiple re-rate back toward its long term range. |

## Top 5 Holdings

| Security   | Weight (%) |
|--|------------|
| AB Global Equity Fund  | 12.2%      |
| Vanguard MSCI Index International Shares (Hedged) ETF                                    | 8.0%       |
| Realm High Income Fund   | 7.0%       |
| ATLAS INFRASTRUCTURE AUST FDR FD - HDG   | 4.4%       |
| ETFs US TREASURY BOND (CURRENCY HEDGED) ETF (Currency Hedged) Exchange traded Fund Units | 4.0%       |

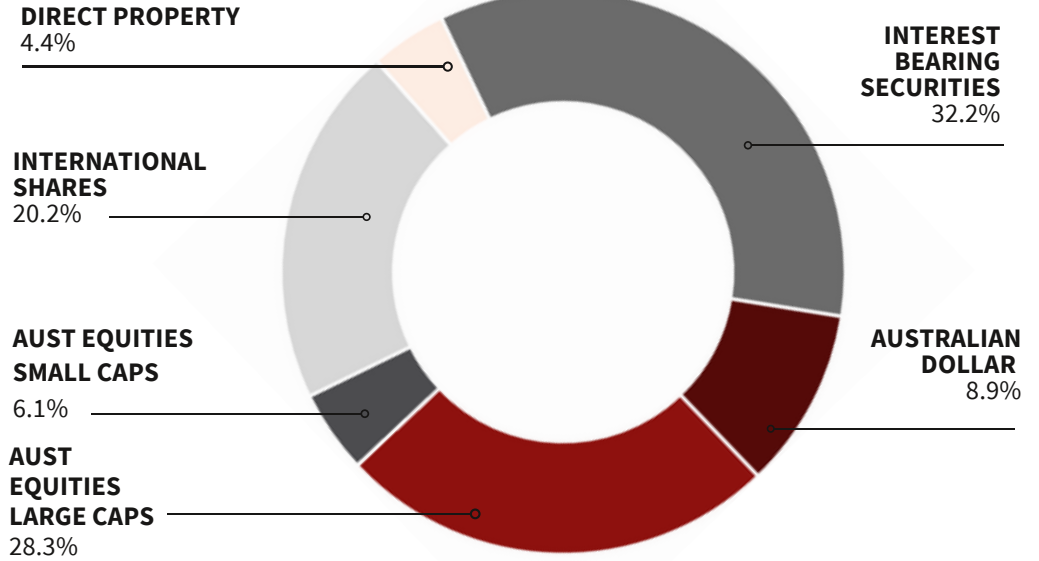
## About the Model Manager

**Clime applies a consistent approach to identify the most attractive investment opportunities within the universe of stocks.**

Clime invests with a focus on quality and a strong valuation discipline. Our investment solutions are centred on helping clients grow their wealth.

## Asset Allocation

Note: the sum here may not add up to 100% due to rounding



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