Sterling Clime *Conservative* Portfolio (SR0010)

Investment Summary September 2024

Praemium (SMA)

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Market & Economic Commentary

As widely anticipated, the US Federal Reserve (Fed) commenced its rate cutting pivot on 18 September, setting the stage for a strong month for risk assets. Somewhat surprisingly, the Fed cut by 50 basis points rather than the more typical 25 basis points. Other major central banks have likewise started to ease, and a boost to economic growth prospects was provided by a major stimulus package unveiled by the Chinese administration late in the month.

In the US, indexes ended September higher, with the benchmark S&P 500 up 2.02%, and up 20.81% year to date. The Dow Jones was up 1.85% for the month, and up 12.31% year to date, while Nasdaq rose 6.14% in September, and is up 23.18% year to date. Other global markets were mostly higher: Germany’s DAX was up 2.21%, the French CAC was flat, Britain’s FTSE was down -1.67%, and Japan’s Nikkei was -1.24% lower. Emerging markets were strongly positive.

The ASX 200 joined the party, and over September rose 2.20% to achieve a new record high. Mining was the ASX’s best sector, up on the back of China’s stimulus news and higher commodity prices. Technology was the second-best sector, supported by the best earnings growth momentum of the major ASX sectors. Health was the worst performing sector as earnings downgrades partly due to the appreciating AUD more than offset a generally positive market.

US and global bonds ended the month with yields slightly lower and prices higher. Australian 10-year yields were barely changed. Global bond yields have been in a downward trend since April on the back of softening economic data, with markets celebrating broad rate cutting policies amongst most developed economy central banks, and now confirmed by the Fed.

The AUD rose against the USD and is now up around 6% over the last 6 months. We think it could rise higher still, boosted by the Chinese stimulus package and higher commodity prices. Resources were mostly higher, especially industrial and precious metals.

China stimulus

As noted above, China launched a comprehensive stimulus plan to bolster its economy in the last week of September, the plan includes:

- Interest rate cuts.
- Reduced reserve requirements for banks.
- Support for the real estate sector.

The People's Bank of China (PBoC) lowered its seven-day reverse repurchase rate and mortgage rates, while also freeing up more capital for banks to lend. Further measures include increased lending for property acquisitions and potential relaxation of home buying restrictions in major cities. Markets responded with great enthusiasm, and the main Chinese share market index leapt around 12% in the space of a week.

Up until the stimulus announcement, Chinese policy makers had done the bare minimum to support growth during the 3-year property-driven downturn. The result was a growing loss of confidence among households, investors, and companies in China. The worry has been that expectations get entrenched, causing the economy to tip into a deflationary decline. The best interpretation of Beijing’s strategy is that this has now changed as Chinese policymakers began a more concerted effort to shift opinion and support the economy.

China’s economic growth rate and the trends within its economy have enormous implications for Australia. As would be expected, the stimulus announcements in Beijing boosted commodity prices and the AUD, although whether or not this is a sustainable change in direction remains an open question.

Outlook

At the end of the September quarter, we can observe positive sentiment across multiple markets now that the Fed has started cutting rates. At this stage at least, the US economic soft landing has been achieved. Yet prudence would suggest noting that positive sentiment is stretched, valuations are high, geopolitical/economy risks elevated, and uncertainty around policy and politics as election time approaches is growing. We conclude that a cautious and defensive stance remains sensible, even as positive market momentum appears to be the path of least resistance.

Portfolio Snapshot

Inception Date	SMA Model Code	Portfolio Objective	Benchmark
20th October 2017	SROO10	Deliver strong risk-adjusted total returns	Blended Conservative Index

1 Sterling Clime Blended Conservative 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* (30/09/2024)

	1 m	3 m	6 m	1 y p.a	3 y p.a	Inception p.a
Portfolio Return	1.0%	4.1%	4.1%	10.9%	4.3%	5.2%
Capital Return	0.7%	3.1%	1.6%	6.3%	0.5%	1.6%
Income Return	0.3%	1.1%	2.5%	4.6%	3.8%	3.6%
Sharpe Ratio	-	-	-	1.55	0.25	0.46
Sterling Conservative Index	1.2%	4.4%	3.7%	12.7%	2.4%	4.4%
Difference	-0.2%	-0.3%	0.4%	-1.8%	1.9%	0.9%
Number of Individual Holdings (excluding cash):	33					

**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 Conservative portfolio returned 1.0% for the month of September, underperforming its benchmark which returned 1.2%. The key drivers of portfolio performance and major portfolio changes are outlined in the tables below.

Positive Attributors	Comment
BHP Group Ltd (BHP.ASX)	Easing monetary policy conditions in China and vocalisation that the recent stimulus will be followed by further fiscal policy measures caused short covering in China equities and rapid repositioning towards China exposed miners such as BHP. The iron ore price rallied to above USD 100/t during the month in anticipation of improving economic conditions post the Golden Week shutdown and potential stimulus. We retain a positive outlook for BHP's diversified strategy and its growing exposure to copper.
Rio Tinto Limited (RIO.ASX)	Easing monetary policy conditions in China and vocalisation that the recent stimulus will be followed by further fiscal policy measures caused short covering in China equities and rapid repositioning towards China exposed miners such as RIO. The iron ore price rallied to above USD 100/t during the month in anticipation of improving economic conditions post the Golden Week shutdown and potential stimulus. We retain a positive outlook for RIO's diversified strategy and its growing exposure to base metals.
Negative Attributors	**Comment**
CSL Limited (CSL.ASX)	CSL fell over the month on limited news flow. Recent industry data continues to support a double digit growth outlook for CSL's key plasma franchise. We interpret the soft performance for CSL to be the result of large investors repositioning away from defensives toward cyclicals following China stimulus news late in the month. The strong AUD against the USD was also a headwind given CSL reports earnings in USD.
Light & Wonder, Inc. Shs Chess Depository Interests Repr 1 Sh (LNW.ASX)	LNW delivered disappointing performance in September following an initial court ruling injunction on one of its gaming titles, Dragon Train. While the risk was a known potential, the discovery process brought to light information that was unknown to LNW and the market. We highlight that intellectual property infringements are common within the gaming industry and following several industry channel checks we do not see this as impacting LNWs ability to grow its market share over the long-term, as this only represents one game out of its 130 developed each year.

Portfolio Activity

BUY	Comment
Transurban Group Ltd. (TCL.ASX)	Transurban (TCL) is an owner and operator of toll roads in Australia and North America. While TCL's earnings and dividends continue to grow, TCL's share price has been held back in recent years by the backdrop of higher interest rates. With policy rates now being reduced by central banks globally, we view TCL's current dividend yield of 4% with growth of 5% p.a. as attractive.

SELL	Comment
Karoon Energy Ltd (KAR.ASX)	Following a period of poor operational performance and lack of exploration success in the Gulf of Mexico we have downgraded our outlook for KAR and have exited the position. KAR's Who Dat assets have disappointed relative to expectations and this now places too much growth risk on lower probability exploration in both the Gulf of Mexico and Brazil. With slowing global growth, which typically leads to lower oil prices, we are reducing our exposure to commodities tied to economic slowdown, including oil. Exiting KAR aligns with this strategy and reduces risk in the portfolio.

Top 5 Holdings

Security	Weight (%)
TORICA ABSOLUTE RETURN INCOME FUND	12.3%
Realm High Income Fund	12.2%
iShares Government Inflation ETF	9.8%
Vanguard Australian Government Bond Index ETF	9.8%
ETFS US TREASURY BOND (CURRENCY HEDGED) ETF (Currency Hedged) Exchange traded Fund Units	9.8%

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