

The Strategic Series combines the four pillars of Drummond's investment process - strategic asset allocation, tactical asset allocation, investment manager research and portfolio construction. This portfolio has a neutral exposure to growth assets of 30% and is suitable to investors with a moderate tolerance to risk and a focus on regular income. The majority of the assets are defensive such as government bonds, corporate debt and high interest cash products.

Market Overview

Equity markets climbed higher in the first quarter despite diminished expectations for Federal Reserve rate cuts in 2024

Global equities delivered impressive returns in the first quarter of 2024 as resilient economic data offset the threat of interest rates staying higher for longer. The MSCI ACWI Index climbed 9.6%, thanks in large part to the performance of technology stocks, especially the companies seen as the greatest beneficiaries of artificial intelligence. The best performing market of the quarter was Japan where the TOPIX rose 18.1%, despite the Bank of Japan announcing an end to its negative interest rate policy in March. Emerging market equities underperformed developed market peers, with the MSCI EM Index returning 2.4% as investors remained sceptical about China's economic growth in the absence of a bold fiscal package and large-scale reforms. Australian equities were strong, rallying 5.3% over the quarter.

It was a more challenging period for fixed income markets with performance constrained by the prospect of the US Federal Reserve pushing back rate cuts until later in the year due to inflation data coming in above expectations in both January and February. US Government bonds being the most exposed to changes in these interest rate expectations posted a loss of -0.9% as yields rose. Meanwhile, corporate bond markets continued to experience a tightening in credit spreads over the quarter, thanks to resilient economic data.

Commodities rallied sharply over the quarter with the broader commodities index (S&P GSCI Commodity Index) up 10.4%, driven by strength in the oil price (+16.8%) on the back of ongoing supply cuts and geopolitical tensions. Gold also surged since early March (+7.2%) to an all-time high of \$2,330 (despite a rising US dollar) in part due to central banks and Chinese investors buying record amounts of the precious metal. The AUD fell -4.5% vs the USD over the quarter as the US Federal Reserve's interest rate cuts were pushed back.

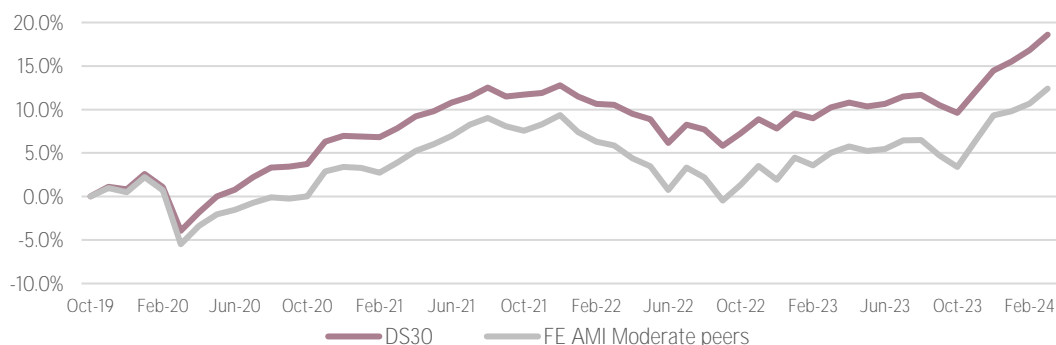
Portfolio Performance & Review

The portfolio performed ahead of the peers over the first quarter

Over the first quarter, the DS30 Portfolio returned 3.6%*. This was ahead of the FE AMI Moderate peer index that returned 2.8% 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.

The portfolio performed ahead of peers over the first quarter. At the manager level, strong relative returns were generated by the international equity managers more exposed to the technology sector than peers. The core nature of the Australian equity managers meant returns here were broadly in line with the benchmark. We continue to maintain an overall core, style neutral tilt in the portfolios though have built broader market segment exposure as recession probabilities diminish.

DS30 PORTFOLIO RETURN vs PEERS**



Source: Drummond Capital Partners, Refinitiv, BT Panorama. ** FE AMI Mixed Asset - Moderate Sector

With growth remaining resilient and prospects for rate cuts falling, the main changes over the quarter related to reducing infrastructure exposure in favour of global equities and adding global small caps as earnings prospects improve. These changes brought growth exposure to 30% (neutral vs. the SAA) vs. 28% at the beginning of the quarter. The portfolio continues to be well diversified by asset class and manager.

PORTFOLIO PERFORMANCE & RISK (Since Inception – Nov. 2019)

PERFORMANCE*	3M%	6M%	1YR%	3YR%	S.I. p.a.	Vol %	Sharpe	Max DD
DS30	3.6	7.3	7.6	3.2	3.9	3.3	0.4	-6.4%
FE AMI MOD PEERS	2.8	7.3	7.0	3.6	2.7	5.6	0.0	-8.8%

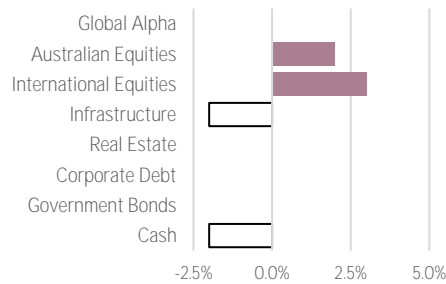
Source: Drummond Capital Partners, BT, Refinitiv. *FE AMI Mixed Asset – Moderate Sector. Inception Date is November 2019.

TOP 5 ACTIVE HOLDINGS & PORTFOLIO CHARACTERISTICS

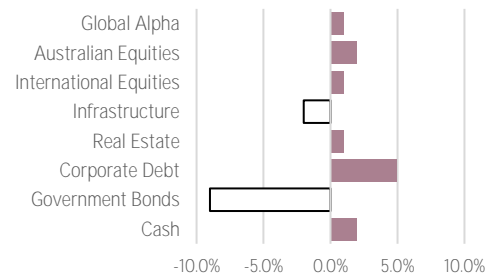
MANAGER	ASSET CLASS	WEIGHT	CHARACTERISTICS	
Realm Short Term Income Fund	Corporate Debt	10%	No. Holdings	20
Daintree Core Income Fund	Corporate Debt	10%	Active / Passive	63%
Janus Henderson Diversified Credit Fund	Corporate Debt	8%	Manager MER	0.32%
Mutual Cash and Term Deposits	Cash	7%	Duration (yrs)	1.74
PIMCO Wholesale Plus Global Bond Fund	Bonds	7%		

Allocations to Australian and global equities were increased in the quarter

PORTFOLIO CHANGES Q1 2024



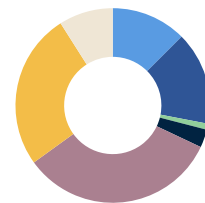
ASSET ALLOCATION vs. SAA



PORTFOLIO ASSET ALLOCATION

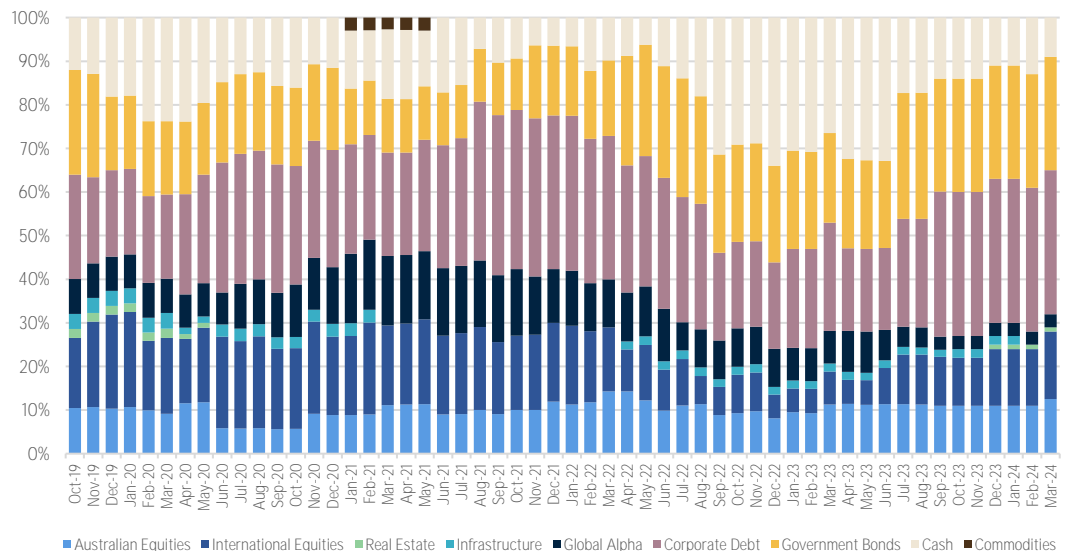
The portfolio has neutral exposure to growth assets and is overweight credit

- Australian Equities 13%
- International Equities 16%
- Real Estate 1%
- Infrastructure 0%
- Global Alpha 3%
- Corporate Debt 33%
- Government Bonds 26%
- Cash 9%



HISTORICAL PORTFOLIO ASSET ALLOCATION

Corporate debt and government bonds are the biggest asset class exposures



The yields available in Australian investment grade corporate debt remain attractive versus cash and government bonds

Strong inflation prints in the US contributed to a lacklustre quarterly performance for bonds

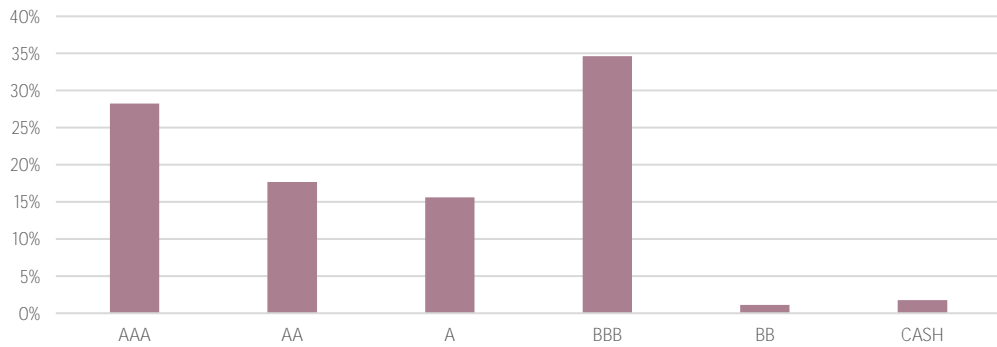
International equities pushed higher in Q1 despite the threat posed by interest rates staying higher for longer

Corporate Debt

High yield outperformed investment grade thanks to its lower interest rate sensitivity and easier financial conditions. The US high yield index posted a return of 1.5% while the global investment grade index ended the quarter with a negative return of -0.9%. We continue to view floating rate Australian investment-grade credit as attractive. As such, we maintain our overweight position given the healthy yields on offer.

Government Bonds

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

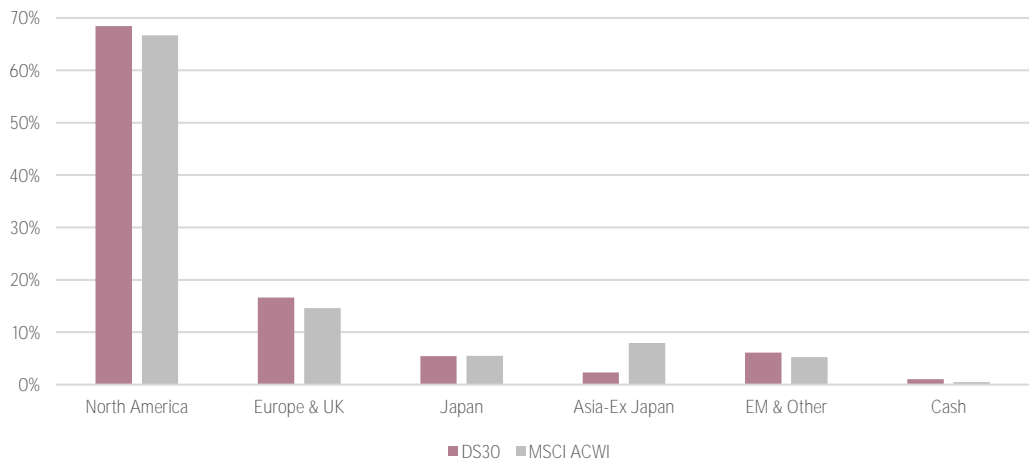


Source: Drummond Capital Partners, Manager Reports

Government bonds faced a challenging period due to hotter than expected US inflation prints, robust economic activity, and some hawkish commentary from some central bank members. The lower probability of interest rate cuts saw US bonds down -0.9% over the quarter whilst Australian bonds delivered a modest positive return of 0.8%. We prefer Australian government bonds which have less fiscal risk than global bonds but remain underweight the asset class overall.

International Equities

PORTFOLIO LOOK THROUGH COUNTRY EXPOSURE vs. BENCHMARK

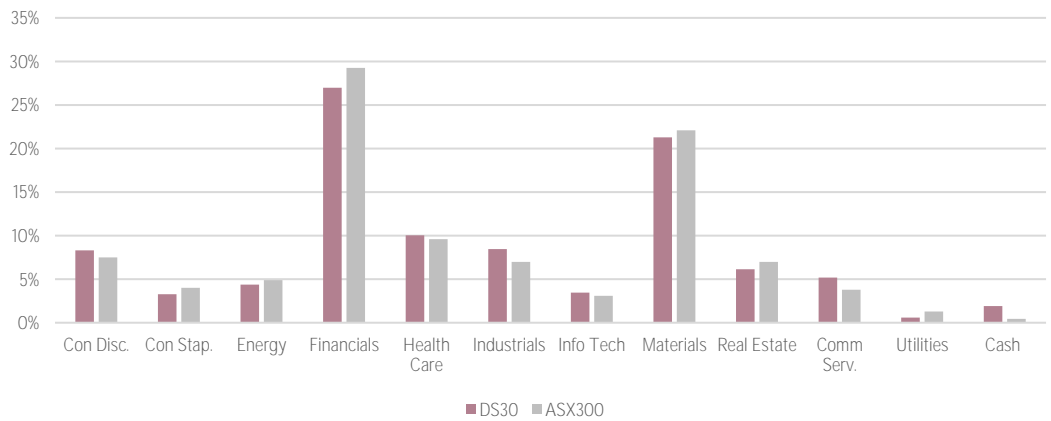


Source: Drummond Capital Partners, Manager Reports

International equities (MSCI ACWI) rallied over the March quarter (+9.6%) despite diminished expectations for US interest rate cuts. Volatility also remained low over the period. Growth stocks continued to stage impressive returns, led by technology companies. This was most notable in the US, where the S&P 500 rose 10.6%, largely due to the strong performance of a handful of mega-cap technology stocks. However, the best performing market of the quarter was once again Japan with the TOPIX index gaining 18.1%. While some European equity indexes, such as the French CAC 40, reached new all-time highs, European equities overall continued to lag the US and Japan. Emerging market equities underperformed their developed market peers, with the MSCI EM Index returning 2.4% as investors remained sceptical about China's economic growth in the absence of a bold fiscal package and large-scale reforms.

Australian Equities

DRUMMOND EQUITIES SECTOR EXPOSURE vs. BENCHMARK



Source: Drummond Capital Partners, Manager Reports

Australian equities also rallied during the first quarter, with the ASX 300 up 5.3%, however lagged global peers. In terms of market composition, the standout sector was information technology (+24.4%), followed by listed property (REITs +15.3%). The only sector in the red was materials (-6.2%). Valuations continue to rise as earnings expectations have not experienced material downward revisions. During the quarter, we slightly increased our exposure to Australian shares taking our exposure to a moderate overweight position.

Hard Assets (Infrastructure / Real Estate / Commodities)

Real estate and infrastructure both performed strongly over the first quarter, despite the market pushing out US Federal Reserve rate cuts. The Australian REITs index (+15.7%) posted a stellar result and significantly outperformed both domestic and international shares given the strong performance of Goodman Group which is over a third of the index. Global infrastructure rose 5.4%.

Global Alpha

Global alpha managers delivered mixed results in the first quarter. Exposure to the asset class has been progressively reduced over the last 12 months in favour of investment-grade floating-rate credit. Our exposure remains underweight, which is reflective of the attractive opportunities in higher grade credit.

Outlook

Global equity markets have been strong in 2024. AI driven technology earnings growth has played their part. So too has the downward trajectory of inflation allowing the Federal Reserve to continue to forecast rate cuts in 2024. Whether it's 2 or 4 cuts, a pivot to policy easing lowers the risk of a recession by supporting growth and has driven easier financial conditions.

Underlying these developments, the US economy continues to remain solid as evidenced by the strength in the US PMI alongside low jobless claims. The Conference Board's February leading index rose for the first time in two years and home builder conditions improved in March as did housing starts and existing home sales. A similar story can be found when looking at other surveys such as company CEO confidence levels, South Korean exports, and bank lending conditions which are on track towards easing again supporting credit growth in the economy. China has been less bad than expected and Australia has managed to see green shoots despite a larger drag from the higher interest rate regime as record immigration levels support the economy.

At the same time, the US fiscal deficit has been rising due to a combination of lower tax receipts and increased spending. Normally in an environment of strong economic growth, it would be narrowing, dragging on growth. However, unusually, the net effect of current policy has been the opposite. With an election this year, both major political parties in the US are unlikely to take any steps to rectify this problem.

Australian equities performed well but lagged global equities due to a lower weighting to technology stocks

Hard assets were strong, led by Australian REITs and commodities (oil & gold)

The US economy and surveys of future conditions are supportive of earnings growth

It's therefore not surprising to see equity (and credit) markets going in one direction. Developments around AI and the impact on large technology company profits had dominated headlines for some time. Yet the current set of conditions should bring better earnings prospects for the broader market in 2024. Surprisingly, the energy sector has outpaced technology so far this year. Goldilocks indeed.

As we noted last quarter, the downside to a soft economic landing may just be renewed strength in inflation, which will pivot the pivot and compress valuations once more. If the economy is indeed improving, how much can inflation lift before investors, especially bond markets, fret over already sticky core inflation mixed with rising headline numbers? We can't help but maintain a hint of scepticism towards the market's full embrace of the Federal Reserve's miracle soft landing...

Regards,

The Drummond Capital Partners team

*Inception date is 1/11/2019. 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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