

Sterling Clime Australian Equity Portfolio SR0014

**Investment Summary
October 2018**



Praemium (SMA)

Investment Approach

Sterling Clime's investment approach seeks to deliver strong risk-adjusted total returns to investors over a medium-term investment horizon. Sterling Clime focuses on delivering consistent results by identifying undervalued investment opportunities and, via the macroeconomic overlay, enhancing return and managing risk. We strive to ensure that risks taken within the portfolio are appropriately compensated and employ a decision framework of:

- Capital Deployed
- At what risk
- For what likely outcome
- Over an appropriate time horizon

Investment Objectives

To provide investors with consistent capital growth and regular income (with some franking) over the long term from investment in a purposeful portfolio of Australian shares. The strategy seeks to deliver strong risk-adjusted total returns over the investment strategy minimum timeframe - provide a return beyond the Sterling Clime Benchmark with a lower level of risk as measured by monthly variability of returns.

Portfolio Update (1 October 2018 to 31 October 2018)

Within the Australian Equity asset class exposures encompass three sub-portfolios: Large Cap (ASX50 universe), Mid Cap (ASX200 ex ASX50 universe) and Small Cap (ex-ASX200 universe). Clime's purposeful approach seeks out high quality investments, that are reasonably priced, where we believe risk taken is appropriately compensated.

The representative Sterling Clime Australian Equity Portfolio delivered a total return of -7.22%² for the September quarter, below the comparison Sterling Clime Index return of -6.05% over the same period.

The following changes were made to the portfolio over the period.

There were several changes in the Sterling Clime Australian Equity model portfolio during the October.

ASX Mid-Cap Sub-Portfolio: Bravura Solutions (ASX: BVS) was promoted to the S&P/ASX 200 during the month. As a result, sold out of Boral Limited (ASX: BLD) and switched these proceeds into HUB24 Limited (ASX: HUB, Small Cap), Speedcast International (ASX:SDA) and Credit Corp Group (ASX:CCP) with an effective date of 22th October 2018.

Portfolio Total Return (31/10/18)

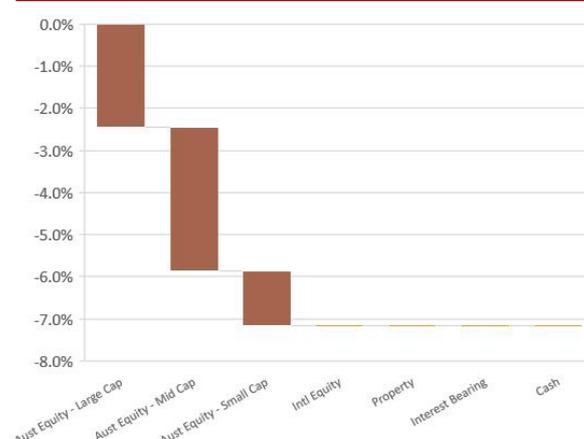
Portfolio Name	Sterling Clime Australian Equity Portfolio
Inception Date	1 st January 2018
SMA Model Code	SR0014
Portfolio Objective	Deliver strong risk-adjusted total returns
Benchmark	Australian Equity Index ¹

Portfolio Performance

Return	1 mth	3 mth	6 mth	Incep
Total Portfolio	-7.22%	-6.74%	-2.54%	-2.78%
Sterling Clime Index	-6.05%	-5.92%	-0.42%	-0.53%
Return vs Index	-1.17%	-0.82%	-2.12%	-2.26%

Number of Individual Holdings (excluding cash): 19

Asset Class Return Contribution



Source: Sterling Clime, Factset, S&P/ASX as at 31 October 2018

¹Sterling Clime Australian Equity Index is comprised of a 100% weighting to S&P/ASX 200 Accumulation Index.

²Source: Sterling Clime, Factset and Praernium. The performance shown represents performance of model portfolios that are periodically restructured and rebalanced based on the Investment Manager's underlying investment process. Individual client accounts may not achieve the same returns as the underlying model portfolios. The model portfolios' returns are presented on a gross basis and do not take into consideration the platform provider's and/or investment management fees. Performance figures are not audited by an external body.

Portfolio Prominent Holdings and Return Contributors

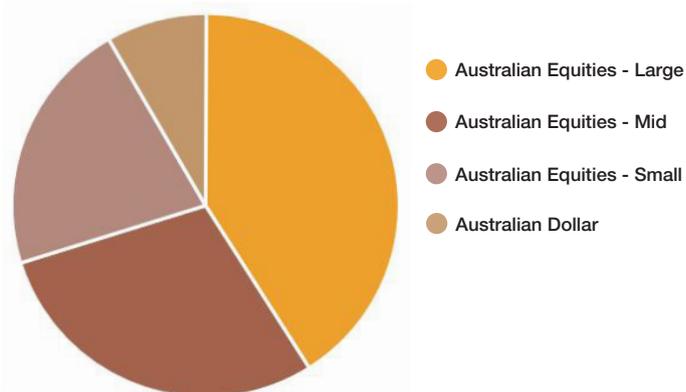
Asset Class	Prominent Holdings and Security Level Returns	1 Month Asset Class Return	Average Asset Class Weight
Australian Shares	Australian Equity Large Cap Sub-Portfolio No significant contributors Stockland (-13.0%), National Australia Bank Limited (-9.3%), CSL Limited (-6.5%)	-6.4%	39.4%
	Australian Equity Mid Cap Sub-Portfolio No significant contributors Webjet Limited (-15.4%), Seek Limited (-14.0%), Boral Limited (-15.1%)	-10.8%	35.3%
	Australian Equity Small Cap Sub-Portfolio No significant contributors Navigator Global Investments Ltd (-16.0%), Nick Scali Limited (-16.5%), Hansen Technologies Limited (-7.2%)	-6.0%	17.3%
	Total Australian Equity	-7.8%	92.0%
International Shares	N/A	-	-
Property	N/A	-	-
Interest Bearing Securities	N/A	-	-
Cash		+0.2%	8.0%

At the start of calendar 2018, investors were filled with optimism. This was driven by an investing backdrop of synchronized global growth, accommodative interest rates, and at the time two years of strong share market advances with barely a blip or a stumble. Most of the world’s supportive economic and financial news came from the United States, including robust growth, a buoyant job market and inflation still very much contained. While disconcerting to many, political dramas in Washington DC proved little more than distracting noise, and trade conflicts had yet to meaningfully surface. The S&P 500 Index reached new highs and corporate earnings rose on vigorous business conditions and tax cuts.

As is inevitably the case, good times do not last forever, and since the end of September, global investment markets have tossed and turned violently. Equity investors were figuratively ‘smacked in the face’ over the month of October, with waves of selling hitting share markets across the globe. Most equity markets recorded their worst one month returns in nine years – since the depths of the GFC in 2009. Unlike the financial crisis, we don’t see contagion across currency, credit (fixed interest) and commodity markets. Rather the October selloff was largely driven by US equities. Tighter financial conditions, trade wars, geopolitical concerns, high valuations and general uncertainty have challenged investor confidence and erased year to date returns. Notwithstanding the recent selloff, valuations in many market segments remain elevated.

The central question for many investors through to the end of this year will be the extent of tightening financial conditions and the path for US interest rates in 2019. Most expect the Federal Reserve (the Fed) under Chair Jerome Powell to continue gradually tightening policy. Complaints from the President (“Tightening now hurts all that we have done”), falling share markets and rising trade tensions seem unlikely to slow the Fed’s current pace and considered path forward. Other concerns for Australian investors include the slowdown in China, falling residential property markets and a likely change of Government at the next Federal Election and the uncertainty that will entail.

Asset Allocation by Market Capitalisation



Source: Sterling Clime, Factset, S&P/ASX as at 31 October 2018

While there are many developments to keep a keen eye on, we remain disciplined in the application of our investment processes. We are utilising more volatile market conditions to invest in high quality investments trading at attractive prices, where we believe risk taken is appropriately compensated.

We maintain our view that longer-term bond yields will gradually move higher (and bond prices lower), notwithstanding oscillation driven by increased volatility and investor uncertainty, and amplified by reduced central bank buying support.

Our view is that the market environment remains supportive of steady but not spectacular growth. We've used opportunities created by market volatility in October (and over calendar 2018 to date) to selectively build out exposures across quality investments.

The Clime Sterling portfolio positioning aligns with our view of an investing landscape where reasonably priced, genuine growth is difficult to find amongst the ASX large caps. We remain constructive on seeking out growth opportunities in selective mid and small cap Australian equities

General Advice Warning

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