Portfolio Overview

Feb / Jun Highlights

COL	+8.93%
AMC	+7.00%
CSL	+4.28%

Feb / Jun Lowlights

HCW	-28.01%
SUL	-25.53%
GMG	-22.10%

February / June Portfolio Update

By Rudi Filapek-Vandyck and the Vested Team,

All-Weather Portfolio: Weathering The 2022 Global Bear

The year ending on June 30th, 2022 will go down in history as one truly exceptional outlier, not in the least because of the sharply different dynamics that characterised the first half and the second six months period.

The first six months simply continued on the same trends and trajectory that had firmly been established in the final quarter of FY21.

By the time the calendar changed from 2021 into 2022, a major momentum switch took place, which has since again reversed as the global investment community prepares for what seems inevitable when central banks go head-to-head, toe-to-toe with supply-driven, sticky inflation:

Asset prices need to fall, economies need to lose (a lot) momentum. Are economic recessions now inevitable?

The All-Weather Model Portfolio enjoyed a total gain of 24.63% between January-December of 2021, but the sudden switch in market momentum during the opening weeks of 2022 hit the Portfolio particularly hard.

It's not as if we had not experienced anything like it before.

In a heavily polarised market, with large segments either in or completely out of fashion, an All-Weather Portfolio strategy that excludes energy producers, miners and other cyclicals, at times encounters gut-wrenching push backs as market participants seek better returns in lower quality and cyclicals.

Such broad-based push-backs had happened in early 2015, in late 2016, in late 2018, and again in late 2020.

On each occasion, the All-Weather Portfolio took a beating, but it never proved long-lasting - as also shown in the performance figures that were achieved over those years (see pages 6 & 7).

This time, however, this time was not your ordinary market momentum switcheroo. Time to dust off the manual of how best to navigate through the next Global Bear Market.

Time To Act – Our Response

Realising what was most likely at stake, and why (central banks versus inflation), the All-Weather Portfolio made two key decisions:

-Concentrate the Portfolio around (mostly) solid and dependable businesses that can withstand the challenges of decelerating economic growth

-Significantly raise the level of cash to have a comfortable buffer against unknown unknowns and impossible-to-predict unfavourable developments

We also added a small exposure to gold, via an ETF, as insurance against stronger-for-longer inflation and an expanding war zone; both scenarios we rather not contemplate.

To use an over-used cliche quote from Ice hockey legend Wayne Gretzky:

"Skate to where the puck is going, not where it has been."

While others joined the bandwagon that saw banks, energy and mining stocks temporarily become the favoured Go-To destination in equity markets, the All-Weather Portfolio prepared for what will be the next challenge for companies and investors in the months ahead:

Corporate profits.

The Next Challenge

With costs rising, margins come under pressure while question marks are building over the trajectory for demand as household budgets and housing markets feel the pinch of both inflation and central bank tightening.

Bear Markets, especially the bigger, longer-lasting ones, move through distinctive phases.

At first nothing worked outside of inflation protective cyclicals, but eventually the market focus returns to quality, solid businesses whose operations do not freeze up when economies temporarily dip into a hole.

As such we are pleased to witness buyers return for shares in the likes of Amcor (AMC), CSL (CSL), ResMed (RMD) and TechnologyOne (TNE).

All stocks mentioned are held with a long-term horizon in mind; and this time around with conviction those operational challenges ahead shall not damage these companies' admirable track record.

Alas, re-positioning the Portfolio has also meant we needed to sell out of companies we'd thought we could own for a much longer while.

The Portfolio no longer includes Ansell (ANN), Breville Group (BRG), Charter Hall (CHC), Endeavour Group (EDV), Hub24 (HUB), NextDC (NXT), Pro Medicus (PME), REA Group (REA), Seek (SEK) and Xero (XRO).

Selling those shares was a tough decision to make and all of those companies remain on the radar for future re-inclusion.

King Cash

The sad observation is, however, that no matter how hard we try to justify all the changes we made in our response to the changing context since early January, the key reason as to why the Portfolio has kept overall losses contained, outperforming the broader index over one month (June), three months (Q2) and the entire FY22 is not because we owned the Portfolio we have - it's because we moved a chunk of it out of equities in the safety of cash.

Here's an invaluable lesson for young and old: sometimes, the only thing that works is cash - because it doesn't fall out of bed overnight.

In 2022, no other asset has been able to make a similar claim as all of equities, bonds, commodities, precious metals and crypto assets have been dragged into this year's extremely volatile maelstrom.

While Energy and real estate might still be able to claim otherwise, investors should have little doubt the last ones standing in this Global Bear Market won't be left unscathed forever.

The All-Weather Model Portfolio moved into the new financial year with circa 34% in cash, which shall be deployed in a measured and conservative manner because we don't think this year's general de-rating of financial assets has fully run its course just yet.

For this to happen, central bankers need to become confident their actions have successfully slayed the inflation dragon, while analysts forecasts need to re-align with the tougher outlook that awaits into 2023.

One For The Ages…

FY22 will go down in history as one of the few financial years that saw superannuation funds in Australia post losses for their members with industry data suggesting negative returns likely range between -2.5% and -3.5%, depending on how high the percentage in allocation to equities.

While final numbers are not yet available, it is anticipated FY22 might be the fourth-worst for Australian super funds and only the sixth time in 35 years a negative outcome could not be avoided.

Preliminary estimates put the median balanced super fund's performance at -3.3% - if confirmed, this will be the third lowest return since the introduction of the superannuation guarantee in 1992.

Part of the explanation can be found in the fact that both bonds and equities felt the fall-out from central bankers embarking on a speedy tightening path as inflation proved stickier than previously thought.

In Australia, most government bond benchmarks as compiled by Standard & Poor's suffered double digit percentage losses over the year past.

The ASX200, unadjusted for dividends, fell -11.90% in the closing three months of the financial year, of which -8.77% occurred in June.

As such, that closing quarter, when investor attention shifted from inflation protection to preparing for recession, has become responsible for the local share market's negative outcome for the whole of FY22.

Sans dividends the 12 months performance ended as a negative -9.93%. Including dividends those losses remained limited to -6.50%.

A so-called Blended Balanced Portfolio, consisting of 50% bonds and 50% equities as measured by S&P, retreated by -10.23% over the year.

While some of those statistics are among the worst over multiple decades, the Australian share market still stands out positively when compared to the rest of the world.

Standard & Poor's index for global equities lost -14.88% over the year to June 30th. The S&P500 in the US retreated by -19.27%.

With both bonds and equities suffering losses, the popular 60/40 portfolio in the US fell -16.1% over the first half of 2022.

The one sole year that turned out worse over the past fifty years was 2008, when the decline for your average 60/40 allocation reached -20.1% for the whole year.

The All-Weather Portfolio kept total losses limited to -3.93% in June, and to -7.02% for the June-quarter.

It proved insufficient to catch up on the heavy losses incurred early in the year with the six months performance a negative -10.66%.

From a statistical point of view, June thus equally became responsible for the -2.59% outcome for the Portfolio over the full year.

This makes FY22 the third worst negative performance for the All-Weather Portfolio since inception.

The worst performance to date remains reserved for FY17 (-10.93%), followed by FY19 (-4.17%).

Stock Of The Month In June

The All-Weather top stock for the June period was Iress Ltd (IRE), which ran 8.18% over the month despite market wide sell downs across the board.

Although a large proportion of this rally can be attributed to an on market buy-back initiated by the company, Iress has been powering ahead since mid-June, also helped by a switch in market focus towards a potential economic recession (lower bond yields).

Earlier, Iress communicated it is no longer looking to divest its UK mortgage business which posted a Net Profit After-Tax (NPAT) of $74m for 2021.

All Weather Portfolio Performance Since Transitioning to WealthO2

Period Ending 30/06/2022								
Name	Code	Type	1 mth	3 mths	6 mths	1 year	3 years	5 years
All Weather Portfolio	M00701	Capital	-4.06%	-7.16%	-11.24%	-3.60%	-	-
All Weather Portfolio	M00701	Income	0.13%	0.13%	0.58%	1.01%	-	-
All Weather Portfolio	M00701	TR	-3.93%	-7.02%	-10.66%	-2.59%	-	-
S&P/ASX Blended Equity and Bond - Conservative Index - Primary	CONSERVINDX	TR	-3.92%	-6.73%	-10.37%	-10.16%	-	-
S&P/ASX 200 Accumulation Index - Secondary	XJO	TR	-8.76%	-11.83%	-9.70%	-6.07%	-	-
S&P/ASX Bank Bill Index - RiskFreeRateIndex	SPBDABBT	TR	0.02%	0.04%	0.06%	0.06%	-	-

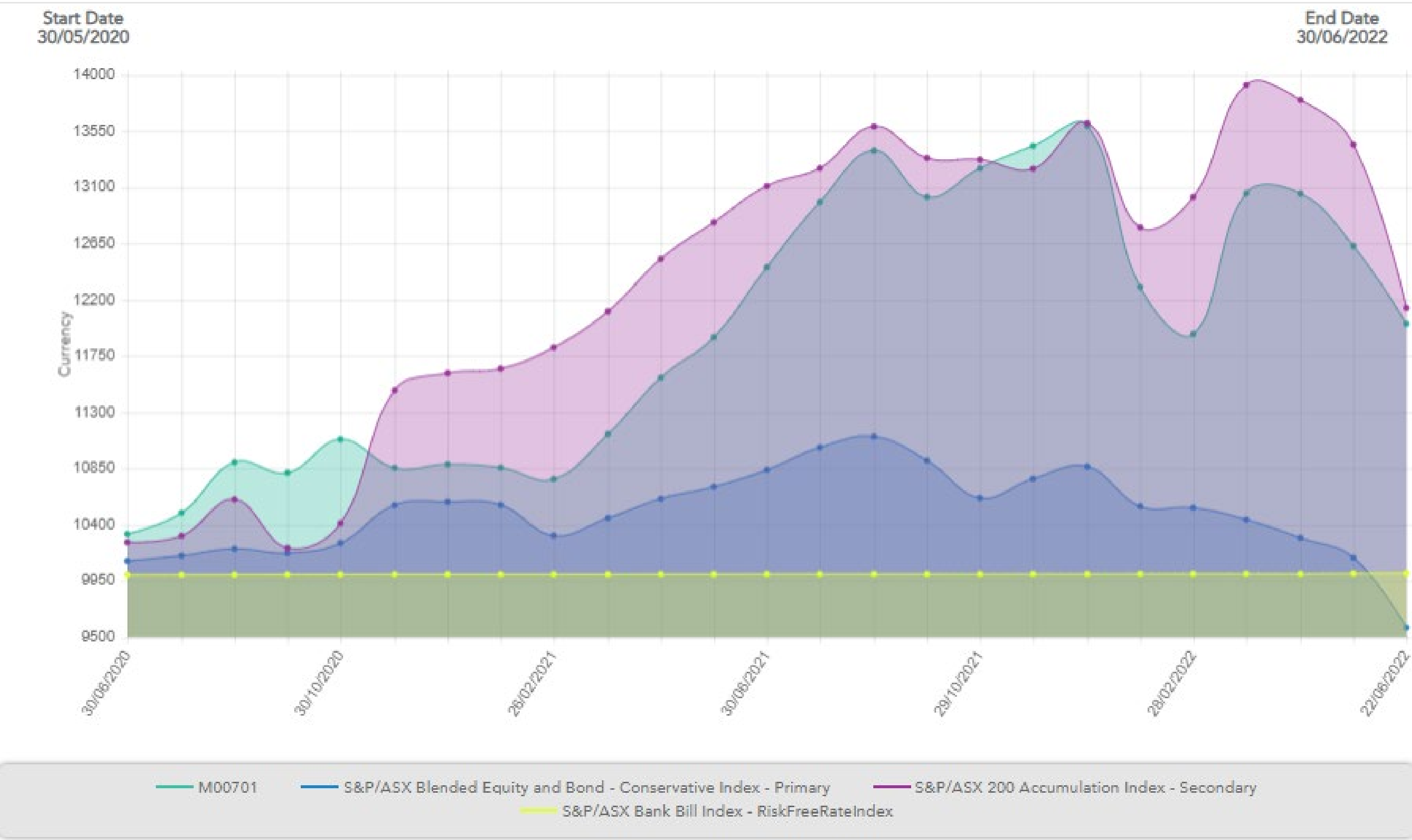
<u>Portfolio Performance:</u>

Calendar year 2021: 24.63%

Financial year 2021: 20.72%

PLEASE SEE THE NEXT PAGE FOR THE PRAEMIUM PLATFORM'S PAST PEFORMANCE

GROWTH OF $10,000 INVESTED SINCE 30/05/2020



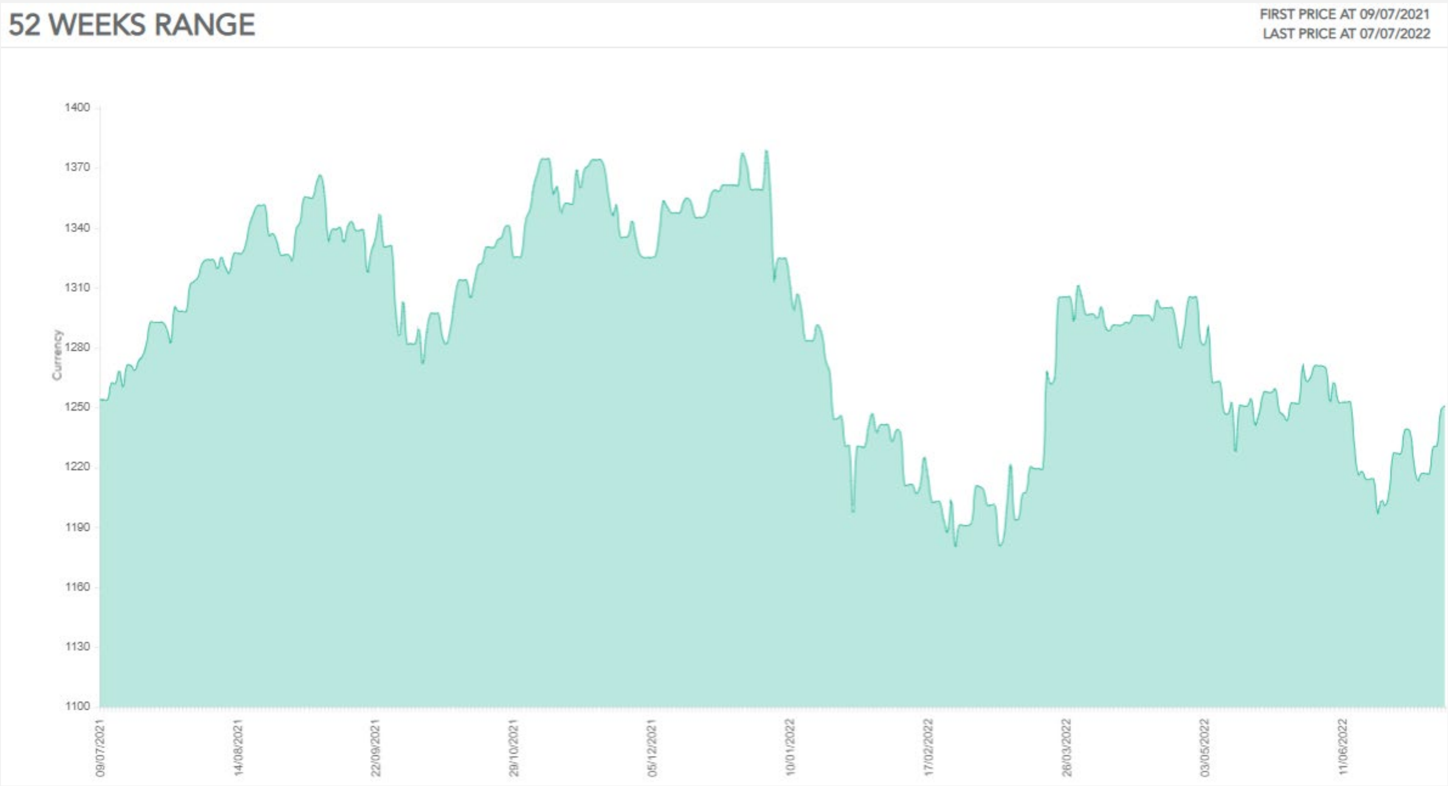
All Weather Portfolio Performance Since on the Praemium Platform***

All-Weather Portfolio Performance on Praemium Platform (calendar years)			
Calendar Year	All-Weather Model Portfolio (%)	ASX200 Accumulation Index (AXJOA) (%)	Relative Performance (%)
2015	7.77	2.56	5.21
2016	4.52	11.8	-7.28
2017	14.43	11.8	2.63
2018	1.34	-2.84	4.18
2019	22.08	23.4	-1.32
30/06/2020	-1.73	-10.42	8.69

All-Weather Portfolio Performance on Praemium Platform (financial years July-June)			
Calendar Year	All-Weather Model Portfolio (%)	ASX200 Accumulation Index (AXJOA) (%)	Relative Performance (%)
FY16	14.4	0.56	13.84
FY17	3.16	14.09	-10.93
FY18	17.28	13.01	4.27
FY19	7.38	11.55	-4.17
FY20	5.64	-7.68	13.32

Average annual performance for the 5.5 years (Jan 2015 - June 2020)		
All-Weather Model Portfolio (%)	ASX200 Accumulation Index (AXJOA) (%)	Relative Performance (%)
8.51	5.99	2.52

*ASX 200 Accumulate Index
**Returns unaudited and exclusive of fees and brokerage
***There is an overlapping time period between the Praemium platform and the Wealth O2 Platform. If you require more specific information on past platform performance, please send an email to your advisor.


52 WEEKS RANGE
FIRST PRICE AT 09/07/2021
LAST PRICE AT 07/07/2022
Currency
1400
1370
1340
1310
1280
1250
1220
1190
1160
1130
1100
09/07/2021
14/08/2021
22/09/2021
29/10/2021
05/12/2021
10/01/2022
17/02/2022
26/03/2022
03/05/2022
11/06/2022

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