

Description

Proactive MFM Balanced is fifty percent invested in assets which offer higher long term returns but are subject to volatile market risk over the shorter to medium term. Its aim is to produce a return before tax but after investment costs over rolling eight-year periods which is equal to or better than inflation plus 3.0% p.a. It is suited to investors prepared to take on an average amount of short-term fluctuation in values and some chance of capital loss in pursuit of balanced rates of long term return. In order to achieve balanced growth returns the portfolio is expected to have an average of 50% in growth assets over the longer term.

Commentary

This portfolio has been operating since April 2016 and has a Long-Term Investment Objective of inflation plus 3.0% p.a.

The portfolio is managed with a focus on:

- Long-term Strategic Asset Allocation (SAA) across the major asset classes which is the main driver of longer-term returns and achieving a margin over and above inflation. The SAA is normally reviewed annually together with a set of Asset Allocation Operating Ranges.
- Dynamic Asset Allocation, shifting the actual asset allocation within the ranges to reduce the volatility in returns in the portfolio caused by financial market instability. DAA is normally reviewed monthly but not necessarily changed. There may be several shifts happening within any given year.
- Adding value through sound selection of funds within each asset class using a well-developed investment process that employs quantitative analysis and selection criteria as well as the experience and expertise of the members of the Investment Committee using inputs from external expert sources.

International equities, as measured by the MSCI world index in Australian dollar terms, returned -0.50% while Australian equities as measured by the ASX200 returned +1.21%. Given the relative portfolio weightings to Australian and International equity holdings, these market conditions produced a positive portfolio return for December.

Calendar 2020 was the year everyone wanted to see end. The pandemic has been the defining event that we will remember our entire lives – not just because it supposedly “came out of nowhere”, but because it shook our confidence and proved to us that life is full of surprises and that nothing, least of all our prosperity and comfort, should be taken for granted.

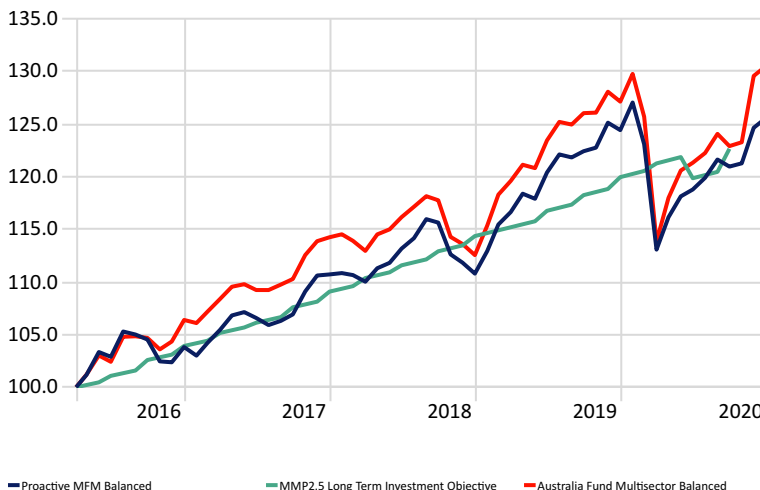
The pandemic closed down large segments of the global economy, confined many of us to our homes for weeks or even months on end, saw the disappearance of immigrants, tourists, and overseas students from Australian shores, and caused unemployment to rocket and economic activity and financial markets to collapse. There are likely to be longer term scars with a setback to globalisation, more social tensions, bigger government and public debt, massive money printing (risking higher inflation), faster embrace of technology, and more consumer caution. In Australia, we will see lower population growth (at least for the next year or two), and have already experienced growing tensions with our largest trade partner, China.

While share markets plunged in March in the early stages of the pandemic, they then progressively rebounded over the next three quarters thanks to massive fiscal stimulus and limited economic re-openings, low interest rates and bond yields that made shares look comparatively cheap. In the last two months, good news on vaccines has enabled investors to look forward to recovery in 2021. For those investors who stayed the course from the beginning of the year, there were double-digit gains from US and global equities and solid returns from bond markets. The MSCI World index was up 14%. The Australian ASX 200 Index had a flat annual return, held back by greater exposure to cyclical sectors. Japanese and European markets also generally underperformed.

The target allocations to asset classes and individual holdings were not changed in December. We are monitoring the situation very closely with a view to deploy some of the cash reserves and reposition the portfolios to benefit from the recovery.

Cumulative Total Investment Return

Time Period: 5/04/2016 to 31/12/2020

**Return vs Volatility of Return**

Time Period: 1/05/2016 to 31/12/2020

Calculation Benchmark: MMP2.5 Strategic Benchmark

**Trailing Returns**

	Return	Std Dev	Sharpe Ratio
1 Month	0.75	0.17	0.14
1 Year	0.93	9.14	0.11
3 Years	4.29	6.10	0.56
5 Years			
Inception	4.92	5.22	0.71

The reported returns for the portfolio, since inception, are net of the underlying funds' investment costs as well as the Proactive management fee of 0.10% p.a.

Leading Contributors

Time Period: 1/01/2016 to 31/12/2020

	Weight	Return	Contribution
Hyperion Australian Growth Companies	8.38	92.54	8.66
AB Managed Volatility Equities	10.75	53.67	5.67
Vanguard International Shares Index	9.46	42.92	5.35
Vanguard International Shrs Idx Hdq AUD	1.68	42.41	5.27
Magellan Global Open Class	7.57	66.56	4.45
Vanguard Australian Shares Index	7.87	41.25	3.12

Trailing Contributors

Time Period: 1/01/2016 to 31/12/2020

	Weight	Return	Contribution
Magellan Infrastructure (Unhedged)	0.48	-1.18	-0.05
AMP Capital Core Infrastructure A	2.46	-0.46	-0.04
Smallco Broadcap	1.78	3.68	0.34
Legg Mason Martin Currie Property Secs A	1.36	4.71	0.51
Vanguard Australian Property Secs Idx	0.41	13.69	0.57
Investors Mutual WS Australian Share	6.13	4.03	0.79

Asset Allocation Summary

	% Actual	% Long Term	% Minimum	% Maximum
Cash and equivalents	19.20%	20.00%	5.00%	30.00%
Fixed Interest	39.44%	30.00%	0.00%	30.00%
Property & Infrastructure	7.89%	10.00%	0.00%	25.00%
Australian Equities	14.59%	25.00%	0.00%	60.00%
International Equities	11.26%	15.00%	0.00%	45.00%
Alternative Equity Assets	7.62%	0.00%	0.00%	15.00%

Equity Regional Exposure

Portfolio Date: 31/12/2020

