

Description

Proactive Portfolios Balanced SMA has a moderately high level 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 3.5% p.a. It is suited to investors prepared to accept some risk of negative returns in any given year in return for higher total returns over the longer term. The portfolio is expected to have an average of 65% in growth assets over the longer term.

Commentary

This portfolio has been operating since May 2010 and has added value relative to its Long Term Investment Objective (inflation plus 3.5% 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 listed securities 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.

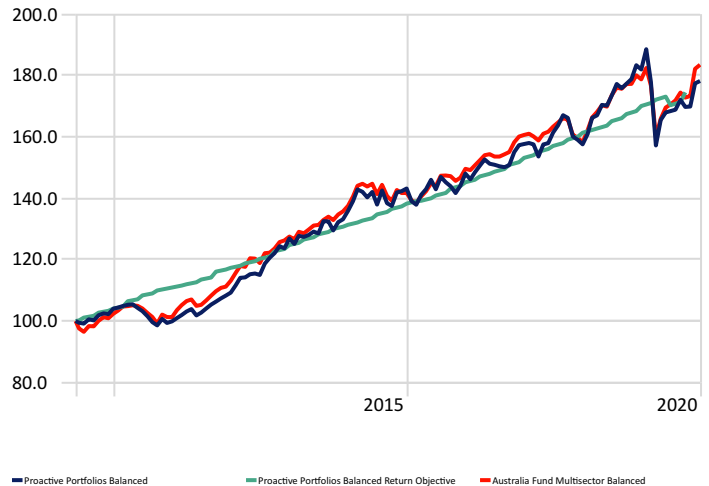
The pandemic closed down large segments of the global economy, confined many of us to our homes for weeks or even months on end, saw the disappearance of immigrants, tourists, and overseas students from Australian shores, and caused unemployment to rocket and economic activity and financial markets to 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.

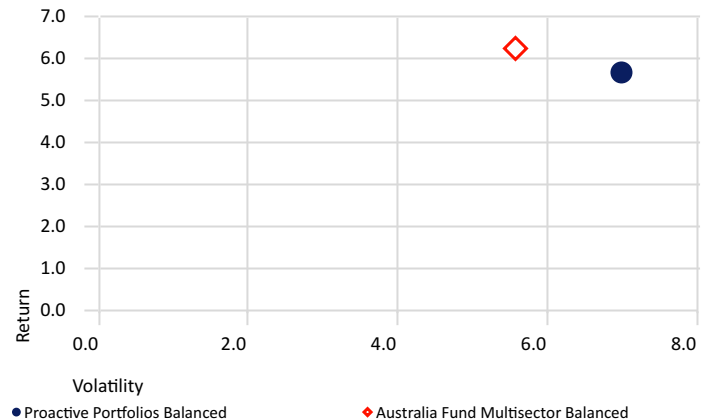
Cumulative Total Investment Return

Time Period: 11/05/2010 to 31/12/2020



Return vs Volatility of Return

Time Period: 1/06/2010 to 31/12/2020



Trailing Returns

	Return	Standard Deviation	Sharpe Ratio
1 Month	0.44	0.24	0.06
1 Year	-2.05	13.38	-0.11
3 Years	4.17	9.31	0.38
5 Years	4.47	8.07	0.43
Inception	5.58	7.03	0.48

Leading Contributors

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

	Weights	Return	Contribution
Vanguard Australian Shares ETF	14.24	1.34	0.35
VanEck Vectors MSCI Wld ex AUS Qul H ETF	6.23	2.96	0.34
Bapcor Ltd	0.99	10.98	0.20
Woodside Petroleum Ltd	1.32	1.65	0.04
Qube Holdings Ltd	0.73	2.80	0.04
Vanguard Australian Property Secs ETF	2.72	0.59	0.03

Trailing Contributors

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

	Weights	Return	Contribution
CSL Ltd	2.27	-4.78	-0.20
MFF Capital Investments Limited	5.13	-1.19	-0.11
Sydney Airport	1.02	-4.47	-0.08
Magellan Financial Group Ltd	0.44	-9.33	-0.08
Sonic Healthcare Ltd	1.05	-2.40	-0.05
Westpac Banking Corp	0.48	-3.78	-0.03

Asset Allocation Summary

	% Actual	% Long Term	% Minimum	% Maximum
Cash and Fixed Interest	45.02%	35.00%	20.00%	100.00%
Property & Infrastructure	7.35%	10.00%	0.00%	25.00%
Australian Equities	29.20%	35.00%	0.00%	55.00%
International Equities	16.34%	20.00%	0.00%	40.00%
Alternatives	2.09%	0.00%	0.00%	15.00%

Equity Regional Exposure

Portfolio Date: 31/12/2020

