Proactive Portfolios
High Growth SMA - 31 May 2022

PROACTIVE PORTFOLIOS

Description

Proactive Portfolios High Growth SMA has a 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 4.5% 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 90% in growth assets over the longer term.

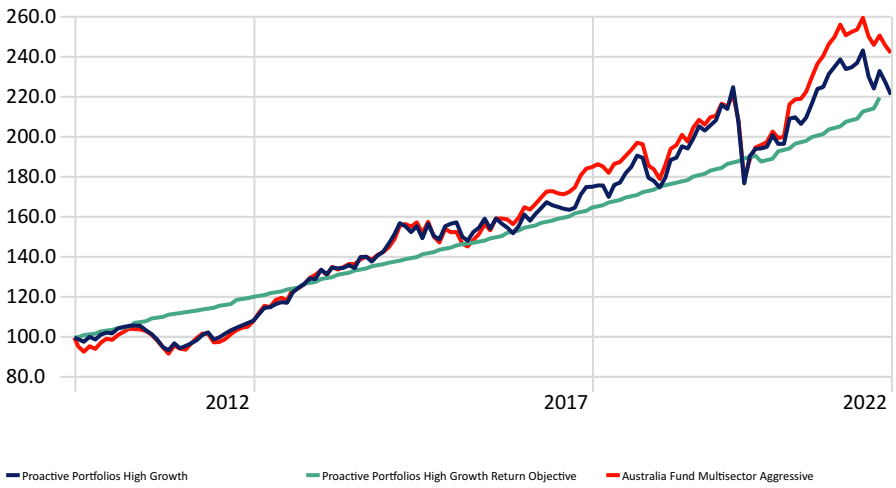
This portfolio has been operating since May 2010 and has added value relative to its Long Term Investment Objective (inflation plus 4.5% p.a.).

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.

Cumulative Total Investment Return

Time Period: 11/05/2010 to 31/05/2022



International equities, as measured by the MSCI world index in Australian dollar terms, returned -0.83% while Australian equities as measured by the ASX200 returned -2.60%. Given the relative portfolio weightings to Australian and International equity holdings, these market conditions produced a negative portfolio return for May.

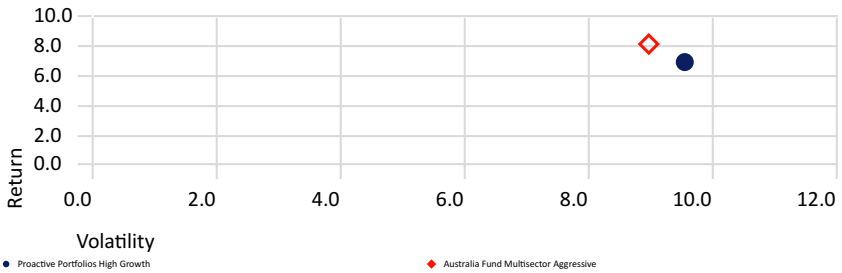
Global share markets ended May slightly stronger following two months of correction. With greater certainty that central banks are committed to confronting inflation, the VIX volatility index fell to 26.2 from 33.4 by month end. So-called "safe haven" assets such as gold were mostly off their highs, but US Treasuries performed strongly in price, and yields on benchmark bonds declined. The Australian dollar was a touch higher over the month.

Trailing Returns

	Return	Standard Deviation	Sharpe Ratio
1 Month	-2.80	0.94	-0.10
1 Year	-1.69	12.20	-0.09
3 Years	4.41	13.94	0.36
5 Years	5.90	11.96	0.47
Inception	6.80	10.22	0.49

Return vs Volatility of Return

Time Period: 1/06/2010 to 31/05/2022

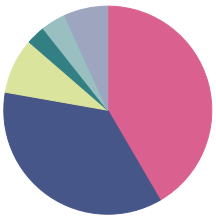


Asset Allocation Summary

	% Actual	% Long Term	% Minimum	% Maximum
Cash and Fixed Interest	2.08%	10.00%	2.00%	100.00%
Property & Infrastructure	12.16%	10.00%	0.00%	25.00%
Australian Equities	46.50%	45.00%	0.00%	70.00%
International Equities	39.26%	35.00%	0.00%	55.00%
Alternatives	0.00%	0.00%	0.00%	20.00%

Equity Regional Exposure

Portfolio Date: 31/05/2022



	%
Australasia	41.6
North America	36.2
Europe dev	8.6
Asia dev	3.0
Asia emrg	3.8
Other	6.8
Total	**100.0**

Source: Morningstar Direct

The target allocations to asset classes were not changed in May.

Key contributors and detractors

CONTRIBUTORS	
Mineral Resources (MIN)	Strong lithium prices and tightening price discounts for low grade iron ore has supported stronger price realisation expectations for the diversified miner. MIN achieved its first lithium sale at its Wodgina lithium train during the month. We see further upside to its significant Perth Basin gas discovery.
Amcor (AMC)	Following on from a strong April, AMC again outperformed a weak market in May. The catalyst was a better than expected 3Q trading update where the group flagged double-digit revenue allowed the company to upgrade its earnings guidance. AMC continues to play a key role in the delivery of earnings growth and dividends for investors in the strategy.
BHP Group (BHP)	The stock gained despite uncertainty around China's ability to support its economy, and hence steel production while maintaining a COVID-zero policy. Additionally, BHP's Western Australia Iron Ore business upgraded its export license to 330mtpa and is targeting a 1% lift in iron ore grade.
DETRACTORS	
Vanguard MSCI Index International Shares (VGAD)	Global share markets ended May stronger however the ETF slightly underperformed. This is in line with expectations given the passive management style.
City Chic Collective (CCX)	CCX is a well-positioned plus-sized fashion retailer, with global growth potential. At the current share price, CCX is valued less than it was before it began its global expansion, a move that doubled the company's revenues. The stock remains marred by a weak consumer environment.

Market update

The pace of global economic growth is slowing. The broad-based tightening in global monetary and financial conditions is acting to slow spending growth, accentuated by the high cost of basic food and energy staples. European geopolitical uncertainty is also weighing heavily on business confidence and investment intentions worldwide.

Central banks have made it clear that they will be raising rates in the most widespread tightening for more than two decades. Monetary policy is responding to inflation reaching multi-decade highs in many countries, fueled by supply chain disruptions during pandemic lockdowns, and soaring energy and food costs since Russia invaded Ukraine in February. Despite some confidence that the worst may be behind us, three issues remain of concern.

1. The risk of the US Federal Reserve (Fed) overtightening. With US inflation running higher than 8% and a policy rate of 1%, the risk looks small at present. However, headline inflation numbers are still heavily affected by post-lockdown supply shocks.
2. Europe faces a larger problem as the central bank is forced into action by high inflation, just as the war in Ukraine and the resultant sanctions aimed at Russia have exposed the continent to further supply shocks. Our view is that Europe is at greater risk of stagflation[1] than the US.
3. In contrast to the US and Australia where economic indicators are holding up well, China has been on an economic slide since its property clampdown 12 months ago. Unemployment is rising and could reach levels not seen in many years.

Inflation in Australia increased to a headline rate of 2.1% in the March quarter and 5.1% over the year. Fuel and new housing costs accounted for around half of the quarterly increase. We expect reported inflation to peak at around 6%, before retreating to 3.5% next year, and cash rates to reach a terminal rate of around 2%. In this scenario, we would expect mortgage rates to rise by 2%, which will drag down residential property by around 10%. The good news is that Australian export income should continue to be buoyed by sustained commodity prices and agricultural exports.

There are solid reasons to expect that Australian corporate earnings will remain relatively robust. Australian earnings are on track for around 20% growth in the current financial year, roughly double the forecast growth in the rest of the world. Resources dominate growth forecasts for FY22 but are conservative for FY23. Consensus forecasts for iron ore for FY23 are around $US90-95 per tonne so if the price stays above the current level of around $130 per tonne, further upgrades are assured.

We remain confident that solid investments/businesses that benefit from inflation and moderate economic growth will continue to do well. Similarly, premium real estate will continue to provide attractive returns.

Leading Contributors

Time Period: 1/05/2022 to 31/05/2022

	Weights	Return	Contribution
Mineral Resources Ltd	1.91	9.07	0.18
Amcor PLC	1.46	9.46	0.14
BHP Group Ltd	3.49	3.24	0.12
Westpac Banking Corp	2.74	2.60	0.07
Magellan Infrastructure Ccy Hdg ETF	6.88	0.61	0.04
RPMGlobal Holdings Ltd	1.74	1.18	0.02

Trailing Contributors

Time Period: 1/05/2022 to 31/05/2022

	Weights	Return	Contribution
Corporate Travel Management Ltd	2.15	-15.54	-0.34
VanEck FTSE Intl Prop Hdg ETF	6.02	-5.03	-0.31
Vanguard Australian Shares ETF	10.16	-2.76	-0.29
Vanguard MSCI Intl ETF	25.70	-0.80	-0.21
Northern Star Resources Ltd	1.91	-8.86	-0.17
Macquarie Group Ltd	2.01	-8.40	-0.17

Source: Morningstar Direct