

Proactive MFM Balanced - 31 December 2023



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

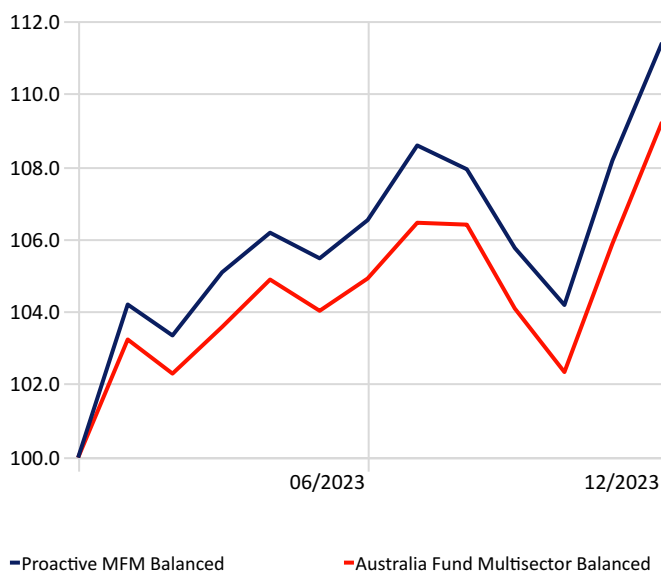
This portfolio has been operating since April 2016 and has a Long-Term Investment Objective of inflation plus 3.0% p.a.

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.

Cumulative Total Investment Return

Time Period: 1/01/2023 to 31/12/2023



International equities, as measured by the MSCI world index in Australian dollar terms, returned 1.83% while Australian equities as measured by the ASX200 returned 7.26%. Given the relative portfolio weightings to Australian and International equity holdings, these market conditions produced a positive portfolio return for December.

Markets had a strong month in December, capping off a far better year than had been expected. Good performances in asset markets were driven by inflation falling faster than expectations, bond market yields peaking, and the view that interest rate rises are over.

Prices of government debt around the world followed the US higher, with yields declining. In line with global trends, Australian 10-year bond yields were lower, falling from 4.40% to close December at 3.96%. There is a view that Australian cash rates are still too low relative to underlying inflation and to US rates, which implies that there is a possible further rate increase in early 2024, although forward markets suggest otherwise. After trading below USD 0.63 in October, the AUD surged off its lows to close the year over USD 0.68.

Gold rose over the month to USD 2,080, iron ore prices increased from USD 133 per tonne (/T) to USD 142/T and remained elevated, but crude oil has drifted aimlessly to end the year around US 71 per barrel.

Return versus multisector benchmark

	1 Month	6 Month	1 Year	3 Years	5 Years	Since Common Inception
Proactive MFM Balanced	3.00	4.58	11.42	2.63	4.12	3.78
Australia Fund Multisector Balanced	3.16	4.11	9.19	4.06	5.51	5.03

Trailing Returns

	Return	Std Dev	Sharpe Ratio
1 Month	3.00	0.15	0.84
6 Months	4.58	0.25	0.07
1 Year	11.43	4.50	1.91
3 Years	2.63	5.40	0.22
5 Years	4.12	6.07	0.57

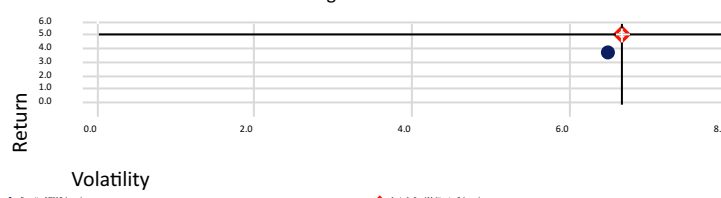
The reported returns for the portfolio, since inception, are net of the underlying funds' investment costs as well as the Proactive management fee.

Source: Morningstar Direct

Return vs Volatility of Return

Time Period: 1/05/2016 to 31/12/2023

Calculation Benchmark: MMP2.5 Strategic Benchmark



The target allocations to asset classes were not changed in December.
Key contributors and detractors for the month were as follows:

CONTRIBUTORS	
Pendal Focus Australian Share (APIR: RFA0059AU)	Australian equity markets exhibited positive performance in the month, driven by the 'Santa rally,' optimism surrounding anticipated interest rate cuts in 2024, and the ongoing resilience of the domestic economy.
iShares Wholesale International Equity Index (APIR: BLK6390AU)	The 'Santa rally' propelled worldwide equity markets upward in December, fueled by anticipated swifter interest rate reductions in the coming year and sustained economic strength. This sets the stage for a favourable backdrop for share markets in 2024.

Market update

Outlook for 2024

As described in last month's report, we remain cautiously optimistic that inflation will surprise on the downside, and that a soft landing for the global economy is the most probable outcome. 2024 is likely to see positive returns helped by falling rates in the latter half of the year, with the risk of a shallow recession.

We expect the Reserve Bank of Australia (RBA) cash rate to fall around a percent or so by the end of 2024, and the AUD to rise closer to USD 0.70. Commodity prices will probably be a mixed bag, with green transition metals like lithium, copper and nickel recovering from sold off levels, and oil remaining volatile. Gold is likely to remain firm while the USD weakens. The property sector, particularly residential, may face some profit-taking.

The Australian economy is supported by strong immigration, rebounding tourism and substantial construction spending. These themes will endure and are helping the domestic economy deal with higher rates. The labour market remains strong, and households still have excess savings. This points to another solid year for the economy unless there are unexpected developments offshore or the RBA is too aggressive.

While the prevailing narrative that rates have peaked has resulted in some markets surging, our view is that buying opportunities remain available, particularly for companies at the quality end of the spectrum and in the small cap sector. We are optimistic about prospects for asset markets in 2024.

Leading Contributors				Trailing Contributors			
Time Period: 1/12/2023 to 31/12/2023				Time Period: 1/12/2023 to 31/12/2023			
	Weight	Return	Contribution		Weight	Return	Contribution
iShares Wholesale Australian Eq Idx S	13.50	7.20	0.97	Hyperion Global Growth Companies B	12.52	1.20	0.15
AB Concentrated Australian Equities Fund	18.55	4.87	0.90	First Sentier Global Listed Infrs Fd	8.83	2.74	0.24
Pendal Focus Australian Share	13.24	6.67	0.88	iShares Wholesale International Eq Idx S	15.45	1.85	0.29

Asset Allocation Summary					Equity Regional Exposure	
	% Actual	% Long Term	% Min.	% Max.	Portfolio Date: 31/12/2023	
Cash and equivalents	7.70%	20.00%	10.00%	30.00%		%
Fixed Interest	45.97%	30.00%	0.00%	30.00%		
Property & Infrastructure	3.68%	10.00%	0.00%	25.00%		
Australian Equities	21.81%	25.00%	0.00%	60.00%		
International Equities	16.17%	15.00%	0.00%	45.00%		
Alternative Equities	4.70%	0.00%	0.00%	15.00%		
					Total	100.0

This document does not constitute personal advice. Investors should consider obtaining professional advice as to whether this investment suits their objectives, financial situation or needs. Returns are not guaranteed. Proactive Portfolios Pty Ltd ACN 141 064 717. Corporate Authorised Rep of AdviceNet Pty Ltd AFSL 308200. Contact us at enquiries@proactiveportfolios.com.au or 1300 785 420. The TMD is available on the relevant Individual Directed Portfolios Service (IDPS or Platform) website, being: [WealthPortal](#), [RetireSelect](#), [BT Panorama](#).