Proactive Portfolios
Balanced SMA - 31 December 2023

PROACTIVE PORTFOLIOS

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.

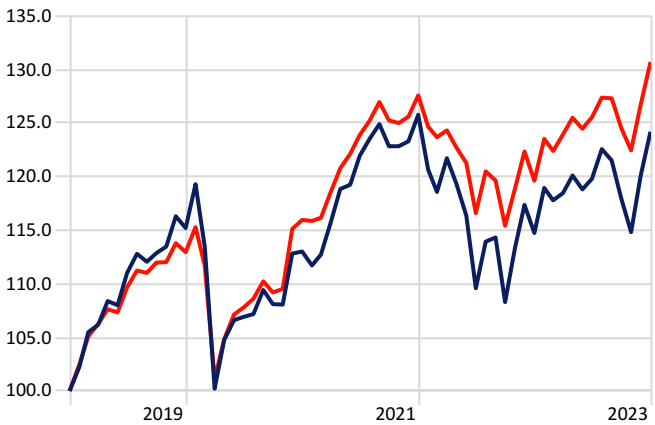
This portfolio has been operating since May 2010 and has added value relative to its Long Term Investment Objective (inflation plus 3.5% p.a.).

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.

Cumulative Total Investment Return

Time Period: 1/01/2019 to 31/12/2023



Proactive Portfolios Balanced — Australia Fund Multisector Balanced

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.

Returns versus multisector benchmark

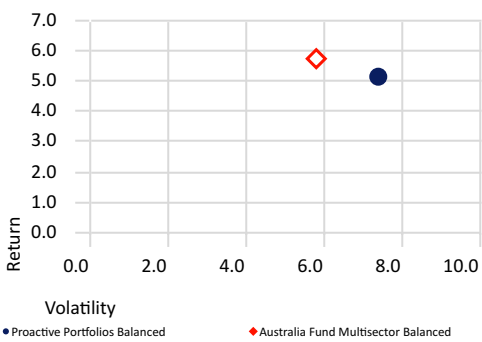
	1 Month	6 Months	1 Year	3 Years	5 Years	Since Common Inception
Proactive Portfolios Balanced	3.43	3.67	8.23	3.19	4.43	5.12
Australia Fund Multisector Balanced	3.16	4.11	9.19	4.06	5.51	5.74

Trailing Returns

	Return	Standard Deviation	Sharpe Ratio
1 Month	3.43	0.27	0.48
6 Months	3.67	0.35	0.03
1 Year	8.24	6.68	0.77
3 Years	3.19	8.71	0.24
5 Years	4.43	9.07	0.45
Inception	5.05	7.22	0.49

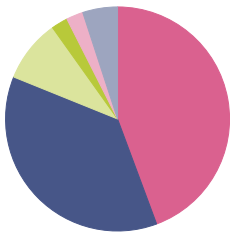
Return vs Volatility of Return

Time Period: 1/06/2010 to 31/12/2023



Equity Regional Exposure

Portfolio Date: 31/12/2023



	%
Australasia	44.3
North America	36.8
Europe dev	9.0
United Kingdom	2.4
Japan	2.4
Other	5.0
Total	**100.0**

Source: Morningstar Direct

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

CONTRIBUTORS	
Vanguard MSCI Index International Shares (Hedged) ETF (VGAD.ASX)	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.
CSL Limited (CSL.ASX)	CSL rose +9.31% during December. Despite this rally we think there is still value in the stock which we expect will grow earnings at a compound annual growth rate of +14% for the next 3 years driven by margin recovery across the business. We think CSL should also benefit from peaking interest rates, we remain bullish on the outlook and anticipate a continued re-rating from here.
DETRACTORS	
Light & Wonder (LNW.ASX)	Following a strong few month of performance, LNW took a breather in December. We continue to remain attracted to the long-term opportunity on offer by LNW supported by its highly capable management team, refreshed balance sheet, robust consumer and content led portfolio with enviable margins.
Newmont Corp (NEM.ASX)	NEM, a globally diversified gold miner, recently dual-listed after acquiring Newcrest Mining. With robust gold and copper production growth, strategic divestitures of non-core assets, and a leading quarterly dividend yield, NEM is an attractive holding for the portfolio.

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.

Asset Allocation Summary

	% Actual	% Long Term	% Min.	% Max.
Cash and Fixed Interest	37.15%	35.00%	20.00%	100.00%
Property & Infrastructure	3.50%	10.00%	0.00%	25.00%
Australian Equities	31.35%	35.00%	0.00%	55.00%
International Equities	28.00%	20.00%	0.00%	45.00%
Alternative Equities	0.00%	0.00%	0.00%	15.00%

Leading Contributors

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

	Weights	Return	Contribution
Vanguard MSCI Intl (Hdg) ETF	10.02	3.94	0.63
CSL Ltd	3.22	9.31	0.47
Vanguard MSCI Intl ETF	14.81	1.83	0.44

Trailing Contributors

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

	Weights	Return	Contribution
Light & Wonder Inc Chess Depository Interest	0.65	-7.41	-0.08
IPH Ltd	0.61	-6.15	-0.06
Newmont Corp Chess Depository Interest	0.46	-2.03	-0.04

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Source: Morningstar Direct