

Calnan Flack Dynamic Diversified Markets Model

Fund Update 31st March 2022

Model Portfolio Name: Calnan Flack Dynamic Diversified Markets Model

Manager: Calnan Flack

Platform: Praemium

Investment Objective

The Calnan Flack Dynamic Diversified Markets Model provides investors with exposure to a mix of both capital growth and income assets in an environment where the manager can make changes to the asset allocation.

March 2022 Quarter Review

As equities sought for inclusion in the portfolio are those with an individual long-term history of continuous above average high price growth and an acceptable level of price volatility, this selectivity towards high price growth assets leads automatically to a strong bias towards the technology sectors of equities markets. It is argued that this emphasis on capital growth is expected to be a major contributor to outperformance of the broader equities markets over the long term, however may also be more volatile.

Risk-limiting mandates are applied that control the size of individual asset weightings, ensure a level of diversification and provide the option of moving completely into cash when thought necessary. Each included asset is reviewed regularly to ensure that its desired growth and volatility characteristics are maintained.

Asset Allocations

The models use a proprietary Directional Risk Active Management (DRAM) methodology that provides a back-tested framework for the management of positive and negative investment risk.

Based on an objective computer algorithm, the DRAM methodology determines a 'fair value' for each asset in a portfolio at any particular time, and assumes that its impending price movement will be towards that value (effectively a mean reversion process). The further away from fair value the larger is the likely movement in price. The extent and direction of that likely movement allows the risk involved to be statistically quantified.

Within the active portfolios asset weights are assigned according to their quantified price movement risks. Higher internal weightings are assigned to those assets whose prices are determined as more undervalued and near the early phase of recovery.

The Calnan Flack Dynamic Diversified Markets model is constructed of 20 Australian listed Exchange Traded Products (ETPs) that cover both local and global markets. The Australian market is represented by 4 of these. Generally, the active portfolio of the model has contained 75%-80% internationally-based assets, with the 80% limit being intentionally applied. Consistent with the philosophy described earlier the selection process emphasises demonstrated high growth, which leads again to a heavy emphasis on assets that represent global technology markets.

The model is considered to have relatively low long-term capital risk because of the nature of each included asset. In terms of market coverage, it is highly diversified. Each ETP represents a full national or sector market index, such that use of only one asset as the active portfolio would represent passive management of that corresponding index. In terms of scope any tracking error in comparison with a large global market index therefore would arise from the intentional emphasis on the higher growth components of that index.

Because of this selectivity bias, and the fact that its mandate allows for significant time to be spent in alternative investments, including 100% Cash, an appropriate benchmark is unavailable and the Calnan Flack Dynamic Diversified Markets model is benchmark opaque. Movements in the RBA Cash Rate +2% have been chosen simply for the purpose of comparison with a cash-based investment.

Relative Performance

As discussed immediately above it becomes difficult to ascertain what is an appropriate relative performance. The models general aim is to provide a better return for clients than they would obtain from investing passively in a defensive Australian retail fund.

With a major weighting towards international markets throughout the quarter, and particularly the US market, a comparison of the NASDAQ over that time may have some meaning. The NASDAQ (IXIC) ended December 2021 at 15,645.0 and March 2022 at 14,220.5, a fall of 9.1%. NDQ, the Betashares Nasdaq 100 ETF which would include any AUD/USD rate effect, realised a 10.5% fall from \$36.09 to \$32.31 over the quarter.

Major Detractors Over The Period

The Calnan Flack Dynamic Diversified Markets model performed well under the normal market conditions up to the beginning of Q1 2022, even bettering the S&P/ASX 300 Accumulation Index. The model then was adversely affected through that quarter due to the growth-to-value rotation (See Charts #1 & #2 below). Although Australian assets were a minor proportion of the active portfolio, Charts #2 and #3 do place the effect of the model having a technology emphasis in some context.

A +3.1% increase in the AUD/USD exchange rate over the quarter also contributed an adverse effect on prices of the heavily represented US assets on the local market.

Chart #1. Calnan Flack Dynamic Diversified Markets model performance since Inception to 31st December 2021

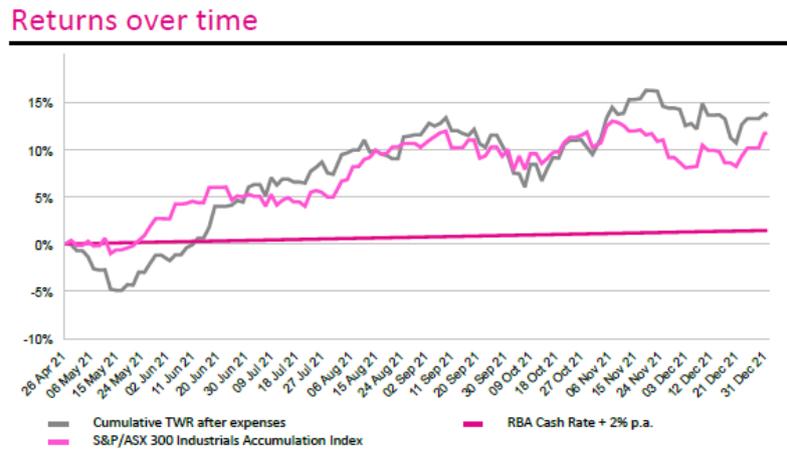


Chart #2. Calnan Flack Dynamic Diversified Markets model performance to 31st March 2022

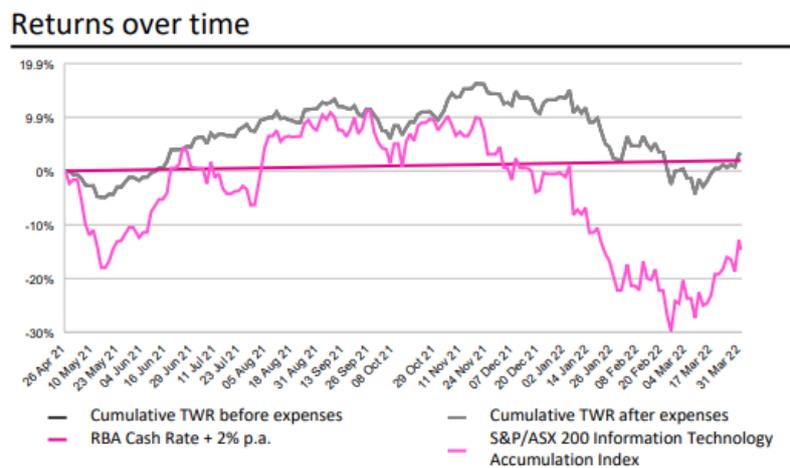
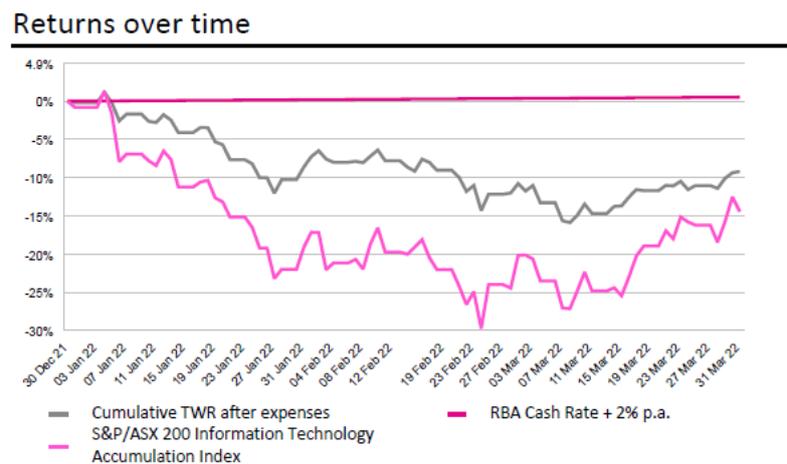


Chart #3. Calnan Flack Dynamic Diversified Markets model through Q1 2022



As illustrated in Chart #3, the value of the Calnan Flack Dynamic Diversified Markets model fell -8.9% in January and -3.7% in February. This then was followed by a gain of $+3.2\%$ in March. Disproportionate negative contributions to the overall loss throughout the quarter were the tech-heavy components ATEC, FANG, NDQ, ROBO and TECH.

The negative overall performance of the model over Q1 2022 is attributed to its technology mix, with a result similar to the NASDAQ Composite Index over the period.

Percentage Returns

	3 mths	6 mths	1 yr	Since Inception p.a.*
Calnan Flack Dynamic Diversified Markets Model	-9.16%	-6.11%	9.07%	11.08%
RBA Cash Rate +2%	0.57%	1.14%	2.27%	2.27%

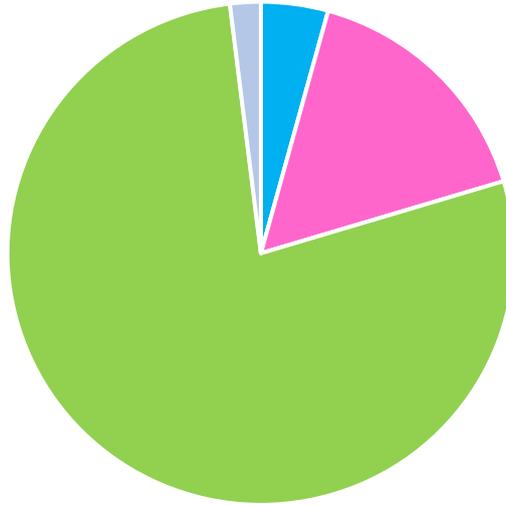
*Inception date 1/10/2020. Prior to this date a similar model was managed under a different mandate, longer-term historical performance with the previous mandate is available upon request. Past performance is not an indicator of future performance. No allowance has been made for taxation and fees are not taken into account. Returns quoted are for the model portfolio.

Returns



Asset Allocation

- International Shares
- Domestic Shares
- Domestic Listed Property
- Cash



Holdings - Dynamic Asset Allocation Fund

Code	Name
GEAR	BETASHARES GEARED AUSTRALIAN EQUITY FUND (HEDGE FUND)
IEU	ISHARES EUROPE ETF
IIND	BETASHARES INDIA QUALITY ETF.
IJR	ISHARES S&P SMALL-CAP ETF
IVV	ISHARES S&P 500 ETF
IXI	ISHARES GLOBAL CONSUMER STAPLES ETF
IXJ	ISHARES GLOBAL HEALTHCARE ETF
MVE	VANECK S&P/ASX MIDCAP ETF
NDQ	BETASHARES NASDAQ 100 ETF
TECH	ETFS MORNINGSTAR GLOBAL TECHNOLOGY ETF

*Holdings and returns as at 31st of March 2022.

Performance of your investment in the fund is not guaranteed, past performance is not a reliable indicator of future performance. Percentage returns quotes have been calculated using the Time Weighted Return (TWR) method for the Model Portfolio. Performance is calculated using the closing prices of the Model Portfolio and will include any distributions, income entitlements but excludes franking credits, taxes and fees. Investor performance may differ from the Model Portfolio performance. This document provides general information only and has not been prepared having regard to your objectives, financial situation or needs. Before making an investment decision, you need to consider whether this information is appropriate to your objectives, financial situation, and needs. No person should act on the basis of any matter contained in this document without obtaining specific professional advice. This is not an offer document and does constitute a recommendation, offer or a solicitation of an offer to buy or sell securities. This material has been prepared as general information only and is only intended to provide a summary of the subject matter covered.

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