Portfolio Overview

September Highlights

IEL	+19.60%
TNE	+15.92%
REA	+4.55%

September Lowlights

IRE	-21.04%
BRG	-10.49%
NXT	-9.62%

September Portfolio Update

By Rudi Filapek-Vandyck and the Vested Team,

Volatility has hit global equity markets and after eleven consecutive months of accumulating gains, investors have been reminded -amidst a spike in day-to-day volatility- that investing in equities is not a one-way proposition.

There are plenty of reasons as to why investors prefer to be selling: high valuations; pockets of exuberance (in particular in the US); a less comfortable Federal Reserve which is about to start withdrawing liquidity; political games in Washington with potentially negative consequences; political games in China, including military posturing vis-a-vis Taiwan; the Evergrande demise which is poised to reduce China's growth and demand for commodities; ongoing supply-bottlenecks that continue to push up short-term inflation, leading to more and more doubts about inflation's transitory nature; peaking global growth and peaking corporate profits with forecasts for both now in decline; and bond yields that put in the occasional rapid sprint, further upsetting already nervous and jittery investors in the share market.

Most of all, investors are selling because share prices are falling. No matter the fact that pull backs of -5% to -10% are quite common in markets -they tend to happen every year, usually more than once- it always is a scary and uncomfortable experience with many stocks falling a lot more than what a broad, general index does.

One should never underestimate the potential for general share market weakness to ultimately result in a good old-fashioned rout when part of investors capitulates, while others lose their appetite to decide on anything.

At its core, financial markets are a public forum dominated by humans and by their emotions.

The longer weakness and insecurity dominate daily price action, the more likely the chance we might just witness one or plural nasty-looking sell-everything sessions over the weeks ahead.

Should we build our investment strategy around the possibility of such event happening?

The correct answer is probably no, unless one feels the financial system is about to collapse again a la 2008, or the next economic recession is coming, leading to a severe and prolonged bear market for risk assets.

Thus far, we are reading, and treating, the seasonal September-October jump in volatility as something of a much more benign character.

Global Growth Is Slowing

The more important question, we feel, is whether the so-called 'Value' part of the share market -resources, cyclicals and financials- are now ready to grab market leadership and leave 'Quality', ‘Growth' and 'Defensives' behind.

This scenario would be to many an investor's liking also because of multiple months of underperformance for these stocks.

Plus there is generally a perceived higher rewards potential led by cheaper looking valuations, in particular relative to the likes of ResMed (ASX: RMD), REA Group (ASX: REA), Pro Medicus (ASX: PME), Woolworths (ASX: WOW), Endeavour Group (ASX: EDV), and others that have performed well.

While it is true that rising bond yields usually favour the 'Value' trade, while holding back 'Quality', 'Growth' and 'Defensives' in the short-term, we think a far more relevant observation to make is that global growth is slowing and earnings forecasts are weakening as input costs are rising and profit margins come under pressure.

A more logical thinking, prudent investor would therefore be on the look-out for deteriorating fundamentals and rising risk for weakening profits and companies possibly forced to issue a profit warning. Such companies, we think, are less likely to include ResMed, IDP Education (ASX: IEL), or Pro Medicus and the like.

Instead, we'd worry more about the prospects for, say, Mineral Resources (MIN) -lower quality iron ore- and OZ Minerals (OZL) -copper- while also pointing out that while crude oil prices have been rallying lately, history shows they can just as easily fall out of bed really quickly when market dynamics turn.

Hence, it remains our view that any period of 'Value' stocks regaining favour is unlikely to last long. Oil prices and bond yields will not rise forever, and the economic slow-down will make its presence felt.

Admittedly, the lack of clear market direction in combination with all of the above means shares can end up a lot lower than we think they might, which is why we keep a close monitor on further developments.

The All-Weather Model Portfolio closed September with circa 7.5% in cash.

Following seven months of uninterrupted outperformance, the Portfolio booked a loss in September as market nerves and daily volatility increased.

We remain alert, though not yet alarmed.

All-Weather Portfolio Performance in September

September saw the All-Weather Portfolio continuing its relative outperformance as corporate results proved strong enough to keep overall momentum positive.

At least, such was the trend until markets globally started focusing on inflation, bond yields and Fed tapering.

What followed next was a quick reversal in market trends and a notable spike in day-to-day volatility.

The broad market-wide softening saw the All-Weather Portfolio shrink by -2.76% over September, compared to an ASX200 Accumulation index decline of -1.83%.

A few changes were made throughout the month.

Firstly, exposure to Iress (ASX: IRE) was halved to reduce risk from a potential negative outcome of due diligence by a non-committal suitor.

This proved quite prescient as the news turned out negative and Iress shares subsequently tanked in (logical) response.

Also, all shares in Orora (ASX: ORA) were sold with the intention of re-investing the proceeds in companies with a better risk-reward profile.

The portfolio added a 2.5% holding in Pro Medicus (ASX: PME), one of our favourite high-quality growth stocks on the local bourse.

In terms of top-performing holdings, IDP Education took the cake by delivering a return of +19.60% for the month of September.

Another fantastic performer for the month was TechnologyOne (ASX:TNE) which rallied +15.92%, followed by REA Group, which gained +4.55% in September.

TechnologyOne is one of the most consistent performers on the ASX post-GFC.

In September management announced the company's acquisition of Scientia Resource Management, the UK's leading higher education software provider.

The acquisition, the first ever outside of Australia for the company, will support TechnologyOne's ambition in the UK, as well as in the Higher Education services market.

All-Weather Stock of the Month

All-Weather stock for the month is IDP Education which, irrespective of the overall change in market momentum, rallied +19.60% in September.

IDP Education is a global leader for the International English Language Testing System, or IELTS, which is an international standardised test of English language proficiency for non-native English language speakers.

The key reason as to why this company is held in the Portfolio is because of the belief the global pandemic is widening the gap between high quality, strong market operators and their (oft smaller) competitors.

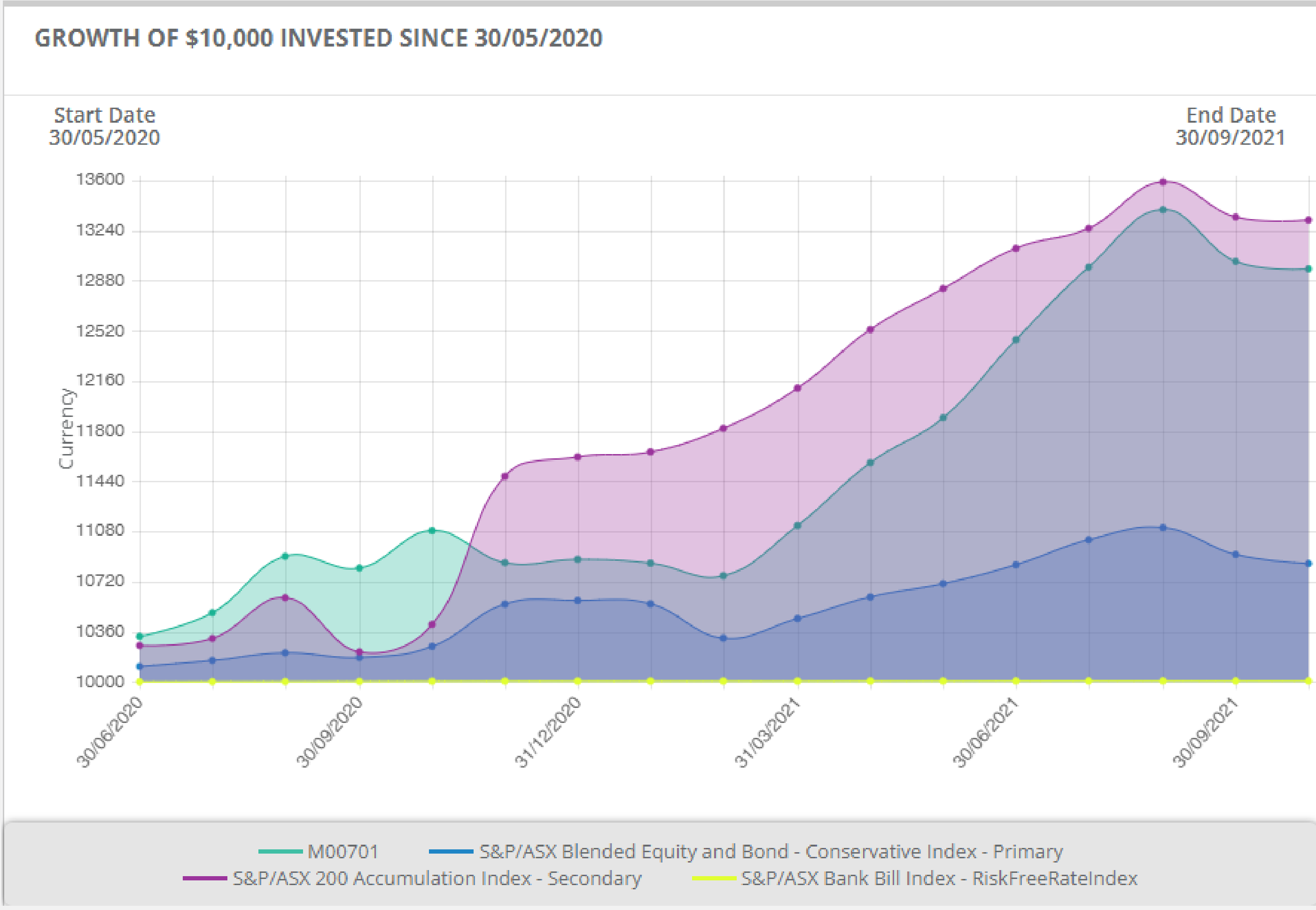
We strongly believe IDP Education is a prime example of our thesis.

In July, IDP Education announced the acquisition of the British Council's IELTs business in India.

Whereas most investors are focused on airlines, airports and leisure companies to position for the so-called 're-opening' trade, we see IDP Education as a major beneficiary from re-opening international borders, as well as from industry trends longer-term.

All Weather Portfolio Performance Since Transitioning to WealthO2

Period Ending 30/09/2021								
Name	**Code**	**Type**	**1 mth**	**3 mths**	**6 mths**	**1 year**	**3 years**	**5 years**
All Weather Portfolio	M00701	Capital	-2.92%	4.17%	16.53%	18.70%	-	-
All Weather Portfolio	M00701	Income	0.15%	0.33%	0.45%	1.39%	-	-
All Weather Portfolio	M00701	TR	-2.76%	4.50%	16.98%	20.09%	-	-
S&P/ASX Blended Equity and Bond - Conservative Index - Primary	CONSERVINDX	TR	-1.73%	0.68%	4.40%	7.28%	-	-
S&P/ASX 200 Accumulation Index - Secondary	XJO	TR	-1.83%	1.70%	9.98%	29.63%	-	-
S&P/ASX Bank Bill Index - RiskFreeRateIndex	SPBDABBT	TR	0.00%	0.00%	0.02%	0.04%	-	-



PLEASE SEE THE NEXT PAGE FOR THE PRAEMIUM PLATFORM'S PAST PEFORMANCE

All Weather Portfolio Performance Since on the Praemium Platform***

All-Weather Portfolio Performance on Praemium Platform (calendar years)			
Calendar Year	All-Weather Model Portfolio (%)	ASX200 Accumulation Index (AXJOA) (%)	Relative Performance (%)
2015	7.77	2.56	5.21
2016	4.52	11.8	-7.28
2017	14.43	11.8	2.63
2018	1.34	-2.84	4.18
2019	22.08	23.4	-1.32
30/06/2020	-1.73	-10.42	8.69

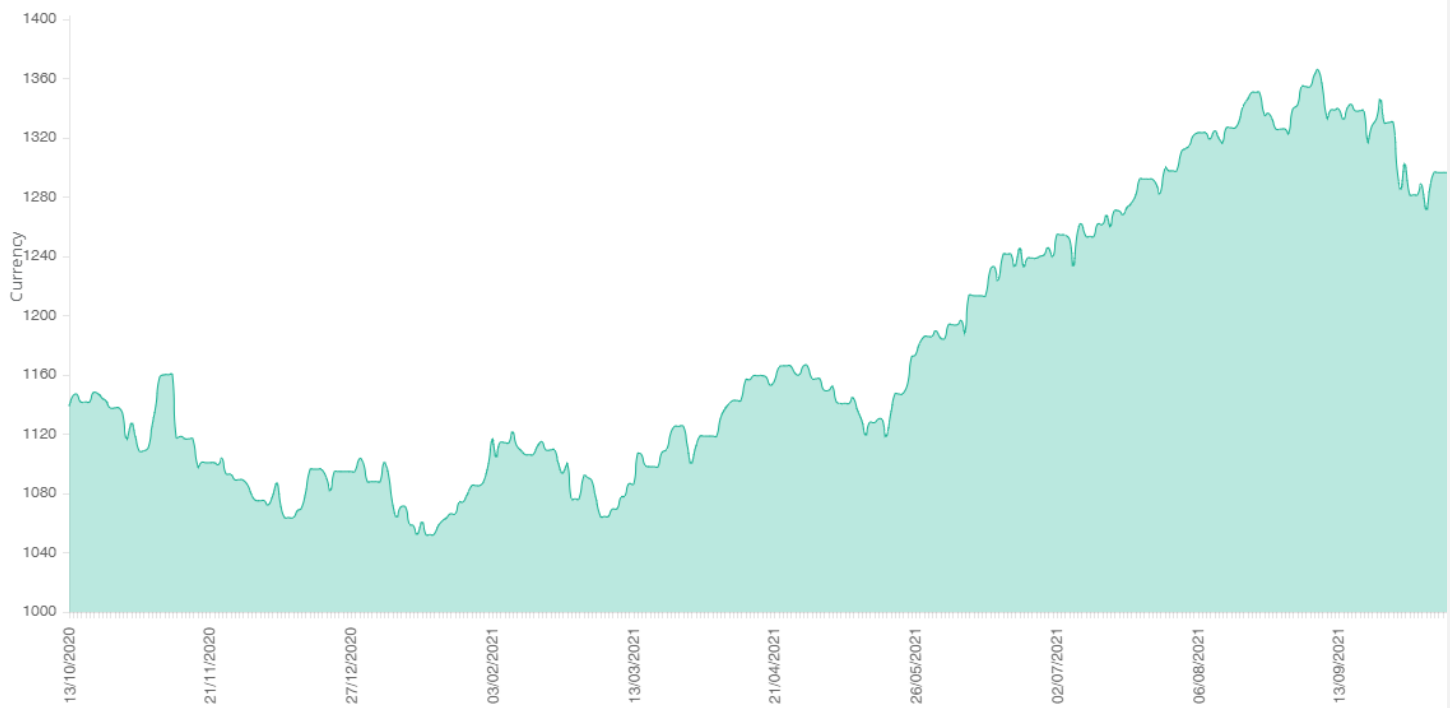
All-Weather Portfolio Performance on Praemium Platform (financial years July-June)			
Calendar Year	All-Weather Model Portfolio (%)	ASX200 Accumulation Index (AXJOA) (%)	Relative Performance (%)
FY16	14.4	0.56	13.84
FY17	3.16	14.09	-10.93
FY18	17.28	13.01	4.27
FY19	7.38	11.55	-4.17
FY20	5.64	-7.68	13.32

Average annual performance for the 5.5 years (Jan 2015 - June 2020)		
All-Weather Model Portfolio (%)	ASX200 Accumulation Index (AXJOA) (%)	Relative Performance (%)
8.51	5.99	2.52

*ASX 200 Accumulate Index
**Returns unaudited and exclusive of fees and brokerage
***There is an overlapping time period between the Praemium platform and the Wealth O2 Platform. If you require more specific information on past platform performance, please send an email to your advisor.

52 WEEKS RANGE

FIRST PRICE AT 13/10/2020
LAST PRICE AT 11/10/2021



Customer Notice