Drummond Dynamic Portfolio

Quarterly Investment Review – Q2 2025

We believe we are in an era of increased volatility and uncertainty regarding future asset class returns. The Drummond Dynamic Portfolio (DDP) has been created to provide exposure to a diversified set of global investments, with the aim of protecting capital in bad periods and growing wealth in good periods. This is our core, dynamically managed multi-asset investment portfolio.

Market Overview

Risk assets posted a strong return for the June quarter as tariff fears eased

Risk assets had a positive June quarter, despite significant volatility early in April after President Trump announced his worse than expected tariff proposal. Equity markets were able to recover once it became clear that Trump's bark was worse than his bite with overall tariffs higher than previously, but significantly better than a worst-case outcome. Positive technology earnings also supported the market's recovery and helped global equities rise 8.9% for the quarter with the Nasdaq rising 17.2% after the weak Q1 finish. Australian equities rose 7.3% led by a strong rally in CBA and the local technology sector. Emerging markets were a standout, rising 10.7%, on a weaker USD and better prospects for China.

Fixed income markets were positive as growth slowdown concerns lingered and inflationary tariff fears eased, with Australian government bonds rising 3.3% and US Government bonds rising 0.7%. Corporate bonds were also strong, with investment grade bonds outperforming due to more interest rate sensitivity. Commodity prices overall fell -1.0% over the quarter with oil down -4.4% and gold up 6.1%. The AUD rose 4.0% over the quarter reflecting ongoing poor sentiment towards the US dollar.

Portfolio Performance & Review

The portfolio delivered positive returns in the second quarter led by strong equity markets

Over the second quarter, the Dynamic Portfolio returned 2.7%*. This was slightly below the FE AMI Mixed-Asset Flexible peer index that returned 2.9% over the period. As is shown in the below, the portfolio continues to perform well when compared to the institutional peer group over the longer term.

DRUMMOND DYNAMIC PORTFOLIO PERFORMANCE HISTORY	3 month	6 month	1 year	3 year p.a.	5 year p.a.	Inception p.a.
Dynamic Portfolio*	2.7	2.2	6.9	6.9	6.4	5.5
Peers**	2.9	3.4	7.0	6.8	5.5	4.6
Outperformance	-0.2	-1.2	-0.1	0.1	0.9	0.9

PERFORMANCE*	FY20%	FY21%	FY22%	FY23%	FY24%	FY25%
Dynamic Portfolio*	-2.1	16.6	-4.4	4.9	9.0	6.9
Peers**	-4.1	13.0	-4.9	6.5	6.9	7.0
Outperformance	2.0	3.6	0.5	-1.5	2.0	-0.1

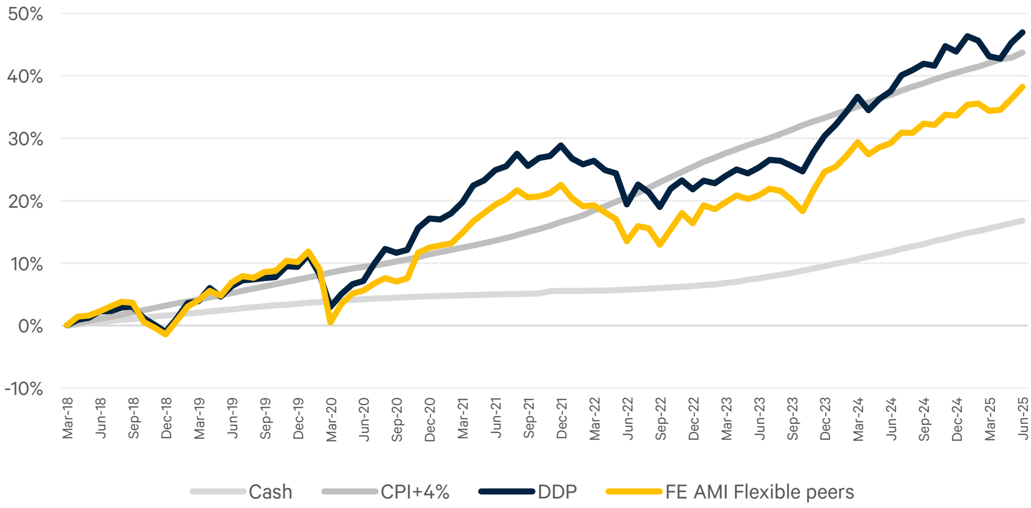
Source: Drummond Capital Partners, BT Panorama, Refinitiv; **FE AMI Mixed Asset – Flexible Sector

The performance of the portfolio was positive in the June quarter, due largely to the allocations to Australian and global equity markets. Portfolio tilts towards emerging markets also contributed given the strong returns in the quarter as sentiment to the region improved. At the manager level, most delivered reasonable returns, though those domestic managers who have bet against the Australian banks, or global managers that are more quality focused, have lagged. The portfolios have been positioned with a high amount of FX hedging exposure which has helped as the AUD continues to rally on USD weakness. We continue to maintain an overall core, relatively style neutral tilt in the portfolios, having reduced value exposure within global equities during the quarter.

During the quarter, activity consisted of a decrease in global equity exposure early in April as Liberation Day tariffs proved worse than expected. Proceeds were placed into global alpha and bonds whilst we continued to actively increase the level of FX hedging in the portfolio

These changes brought growth exposure to 47% vs. 50% at the beginning of the quarter. The portfolio continues to be well diversified by asset class and manager.

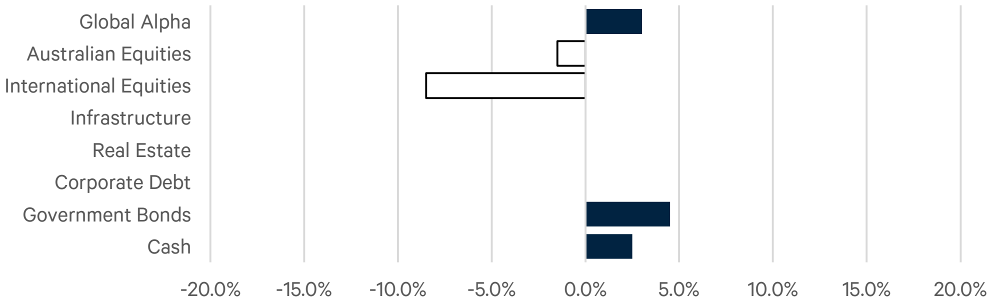
DRUMMOND DYNAMIC PORTFOLIO RETURN vs. PEERS**



Source: Drummond Capital Partners, Refinitiv, BT Panorama; ** FE AMI Mixed Asset – Flexible Sector

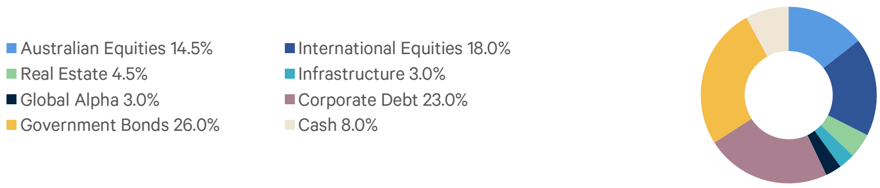
Allocations to global bonds, global alpha cash increased, and equities were reduced in the quarter

PORTFOLIO ASSET ALLOCATION CHANGES – Q2 2025



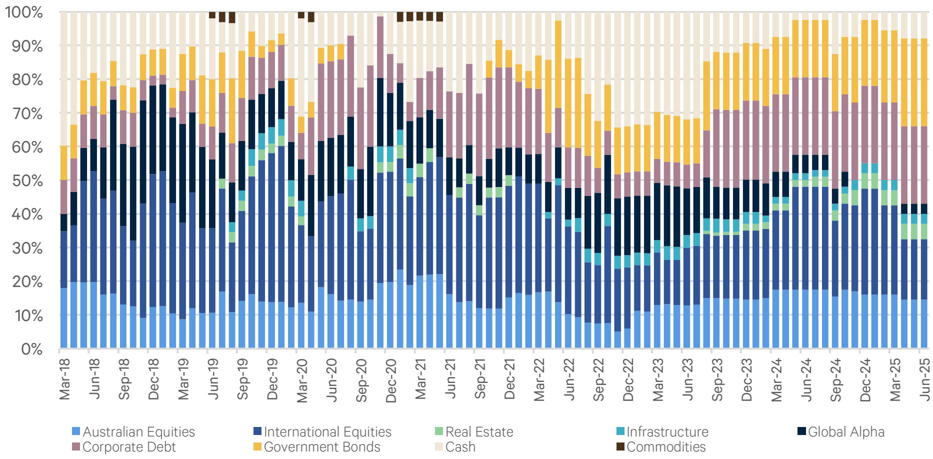
The portfolio is overweight credit, while underweight equities and government bonds

PORTFOLIO ASSET ALLOCATION – Q2 2025



Government bonds and corporate debt are the biggest asset class exposures

PORTFOLIO ASSET ALLOCATION HISTORY

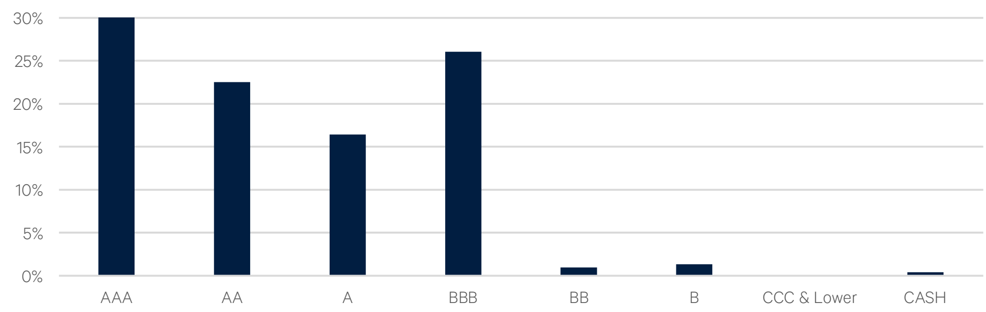


Corporate Debt

The yields available in Australian investment grade corporate debt remain attractive

Global corporate debt markets were stronger over the June quarter with high yield outperforming investment grade in-line with receding recession risks. BBB spreads narrowed by 12 basis points over the quarter despite high equity market volatility. We continue to view floating rate Australian investment-grade credit as attractive and as such, we maintained our overweight position given the healthy yields on offer for comparatively low risk.

PORTFOLIO LOOK THROUGH CREDIT GRADE EXPOSURE (CORPORATE DEBT & GOVERNMENT BONDS)



Source: Drummond Capital Partners, manager reports

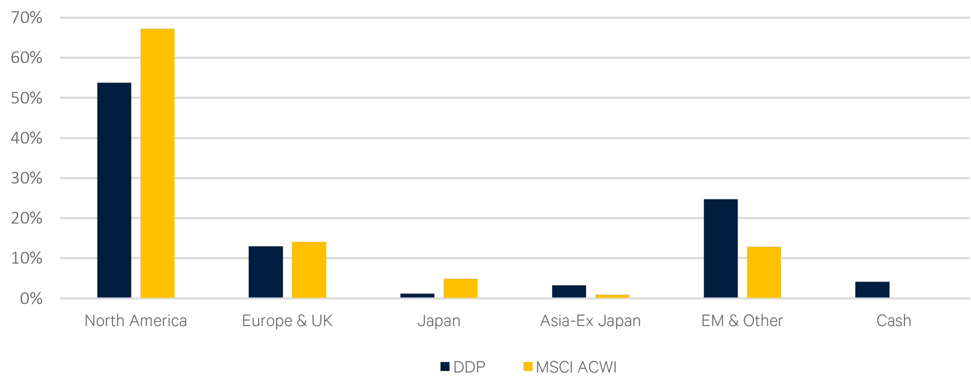
Government Bonds

Government bond markets rose in the second quarter as US growth concerns lingered

Government bonds strengthened over the June quarter as concerns about US economic growth lingered amidst tariff uncertainty. Against this backdrop, Australian government bonds rallied 3.3%, outperforming US bonds (up 0.7%) for the quarter. Overall, we continue to prefer Australian government bonds which have less fiscal risk than global bonds but remain underweight the asset class overall.

International Equities

PORTFOLIO LOOK THROUGH COUNTRY EXPOSURE vs. BENCHMARK



Source: Drummond Capital Partners, manager reports

Rebounding technology shares led global markets higher in the June quarter

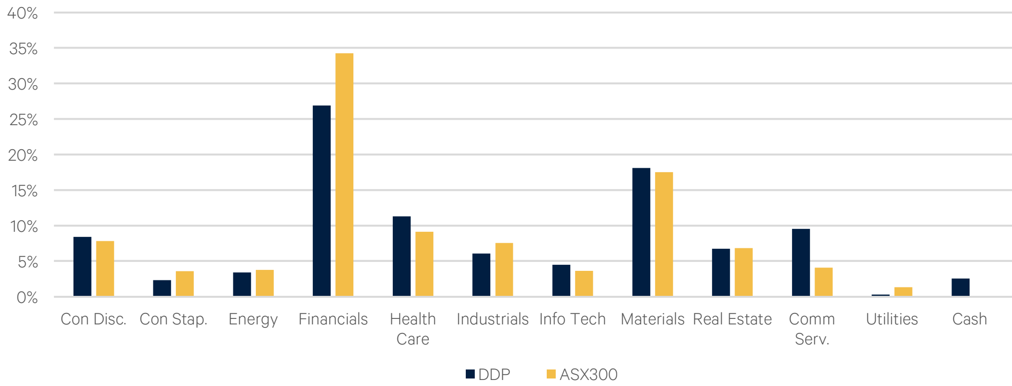
International equities (MSCI ACWI) rose strongly in the second quarter, rising 8.9%, led by the mega-cap technology firms that lagged in the first quarter. This saw the Nasdaq rise 17.2% as bellwethers such as Microsoft and Nvidia benefitted from increasing positivity around generative AI whilst delivering better than expected earnings for Q1. This also saw growth as a style significantly outperform value while small caps were also strong. Cyclical sectors globally were also positive as the worst fears over tariff related economic slowdown faded. Health care was a significant drag as potential policy changes surrounding drug pricing led the sector to fall -3.1% while consumer staples also lagged. This was a large driver of the underperformance of global quality managers in the quarter.

Following a strong first quarter driven by fiscal stimulus via defence spending, Europe continued to rally, rising 4.5%. Emerging market equities were strong, rising 10.7%. Investors continue to look to emerging markets as a key beneficiary of increasing debt issues in the US that will pressure the USD. In addition, signs of a turnaround in China's economic prospects amidst cheap valuations have also boosted sentiment to the region.

Australian equities rose in the second quarter, albeit lagging global equities

Australian Equities

AUSTRALIAN EQUITIES SECTOR EXPOSURE vs. BENCHMARK



Source: Drummond Capital Partners, ASX

Australian equities delivered a positive return for investors in the June quarter, with the S&P/ASX 200 rising 7.3%. Domestic technology firms' shares were a standout, rising 25.1% for the quarter, supported by rising sentiment to the sector globally. Resources were a laggard, falling -3.7% in the quarter as oil and iron ore prices were weak whilst utilities also lagged. Getting the most attention was the unstoppable rally in Commonwealth Bank shares. CBA rallied a staggering 22% for the quarter, against ANZ that was flat, WBC up 9% and NAB up 15%. Being over or underweight CBA has been one of the big calls that has separated the performance of domestic fund managers over the year with the decision not getting any easier as the shares now trade on 2x their average historic valuation but continue to garner plenty of inflows due to passive index buying.

Listed real assets were mixed over the second quarter

Real Assets (Infrastructure & Real Estate)

Australian REITs had a strong rebound in the June quarter, rising 10.5% as technology optimism boosted shares in the index heavyweight, Goodman Group. Global REITs (to which our portfolios are exposed) lagged, rising 1.6%. Infrastructure also underperformed with defensive assets unfavoured as broad markets rallied, falling 1.9% over the quarter. Real assets should continue to provide some ballast to portfolios with equities relatively expensive and the potential for further interest rate cuts amidst lingering growth concerns.

Global Alpha

Exposure to the asset class had been minimal given our preference for domestic investment-grade floating-rate credit, though we added some exposure early in the quarter given concerns about the growth outlook in a rising tariff economy.

Outlook

Our base case for the rest of the year is more uncertainty

Despite the market pricing out all of its tariff related weakness as Trump emboldened the TACO (Trump always chickens out) trade, we begin the first month of the third quarter with proposed tariff rates almost exactly where they were on Liberation Day, as Trump walked back his prior walk backs. With valuations where they are and indexes at all-time highs, equity markets must either expect Trump to reverse course yet again before August or think that the US economy is so strong that the implied tax increase from higher tariffs won't cause it any real damage. Either way, the equity market is pricing in no risk of something bad happening, and the investment outlook remains very uncertain.

We think the most likely scenario is some tariff regime which is worse than the market is currently pricing, but not as bad as the worst-case scenario as "trade deals" are announced. This should still see tariffs drag on US and global economic growth in the second half of the year, though probably not to an extent sufficient to cause a recession. We think the Fed and other central banks keep cutting rates, but the Fed will hold back a little due to uncertainty around tariff related inflation. Soggy growth and concerns about policy and inflation aren't a recipe for equity markets shooting the lights out.

The second elephant in the room remains the US budget deficit, which looks likely to remain around current extremely unhealthy levels for the foreseeable future, with the recently legislated "One Big Beautiful Bill" only adding to the problem by extending Trump's term one tax cuts with only partly offsetting spending cuts. Any challenge to long term fiscal credibility will see long term interest rates begin to rise again, threatening the valuation of high multiple tech companies in particular.

In line with the above, the portfolios are currently underweight growth exposure and we will continue to manage the portfolios in response to the evolving outlook for the year ahead. If it appears likely that the US economy can weather tariffs and policy uncertainty with not much of a wobble, then with valuations where they are there probably isn't a great need to rush back into the more expensive sectors of equity markets. Otherwise, if Trump doesn't chicken out this time and we get meaningful tariff pain, the portfolios are well positioned to protect capital.

Regards,

The Drummond Capital Partners team

*Inception date is 31/3/2018. Source: BT Panorama. The returns shown are net of fund manager fees and do not incorporate any other fees including Advisory Fees, Admin Fees or Portfolio Manager Fees. They are calculated from the model portfolio within BT Panorama and as such may vary over time and vary by individual client. Performance data greater than 1 year is annualised.

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