

# Drummond Dynamic Portfolio

Quarterly Investment Review – Q4 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

Global equity markets gained 3.7% for the quarter, consistent with Q3, although performance drivers differed. Technology, having led gains for much of 2025, delivered more subdued returns with the Nasdaq climbing 2.7% after a strong year up 25.4%. Investor sentiment toward technology turned cautious, stemming from lofty valuations and rising debt levels to fund the sector's cost of capital requirements. Emerging markets and Europe rose 4.8% and 4.2% respectively, driven by a rotation out of the U.S amid valuation divergence.

Australian equities declined 1.0%, with technology the largest detractor on valuation concerns. Resources performed strongly, supported by record prices for commodities amid global supply constraints. With rising expectations of U.S rate cuts and geopolitical tensions elevating, investors turned to precious metals as a safe haven alternative. Oil however, fell 9.4% on oversupply forecasts, amplified by increased OPEC+ output.

Australian government bonds fell 1.6% as shifts in monetary policy expectations weighed on prices, while U.S Treasuries edged up 0.8%, from continued policy easing. High-yield and corporate credit rose 1.2% and 0.3% respectively, with spreads remaining tight, supported by strong fundamentals. The Australian dollar rose 1.4%, underpinned by the RBA's hawkish tone and sustained strength in commodity prices.

## Portfolio Performance & Review

Over the fourth quarter, the Dynamic Portfolio returned 0.9%\*. This was behind the FE AMI Mixed-Asset Flexible peer index that returned 1.1% 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*	0.9	3.6	5.7	7.4	5.2	5.6
Peers**	1.1	3.4	7.0	7.1	4.9	4.7
Outperformance	-0.2	0.2	-1.3	0.3	0.3	0.9

PERFORMANCE*	FY20%	FY21%	FY22%	FY23%	FY24%	FY25%	FY26%***
Dynamic Portfolio*	-2.1	16.6	-4.4	4.9	9.0	6.9	3.6
Peers**	-4.1	13.0	-4.9	6.5	6.9	7.0	3.4
Outperformance	2.0	3.6	0.5	-1.5	2.0	-0.1	0.2

Source: Drummond Capital Partners, BT Panorama, Refinitiv; \*\*FE AMI Mixed Asset – Flexible Sector. \*\*\*FY to date.

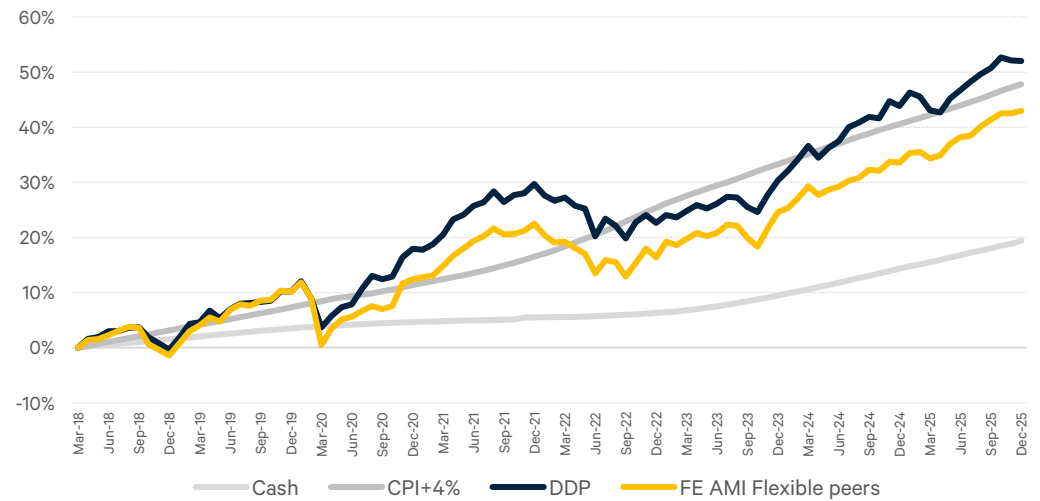
Asset allocation proved key amid mixed asset class performance against ongoing market volatility. Global equities were the largest contributor, with our overweight position offsetting Australian equities underperformance, where we remain underweight. Global managers, aside from the small cap manager, outperformed their respective benchmarks amid shifting sector performance, with resources and healthcare outperforming technology on a relative basis. Australian equities were negative with markets pricing in potential rate hikes in 2026. Australian managers mostly followed suit however, Solaris outperformed its benchmark and the Eley Griffiths small cap exposure was a positive contributor.

Growth assets remain slightly above neutral. Portfolio activity focused on modestly increasing growth exposure and enhancing diversification. We switched the remaining balance of a global manager with a quality bias style to a passive exposure as we await more conviction in active manager performance. Regionally, a small Japan position was initiated via the iShares MSCI Japan ETF, supported by compelling valuations and structural reforms. We reduced global REITs exposure diversifying into Australian REITs, with overall REIT exposure unchanged.

*Global gains persist as leadership rotates beyond technology*

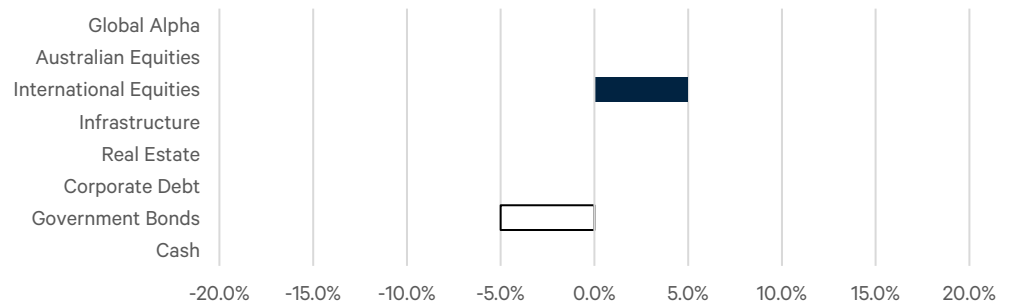
*A positive quarter was supported by diversified portfolio positioning with technology no longer leading markets*

## DRUMMOND DYNAMIC PORTFOLIO RETURN vs. PEERS\*\*



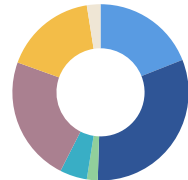
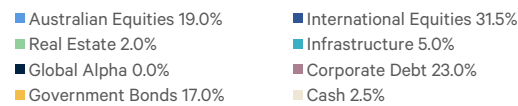
## PORTFOLIO ASSET ALLOCATION CHANGES – Q4 2025

Allocations to equities was increased, while rate sensitive assets were reduced in the quarter



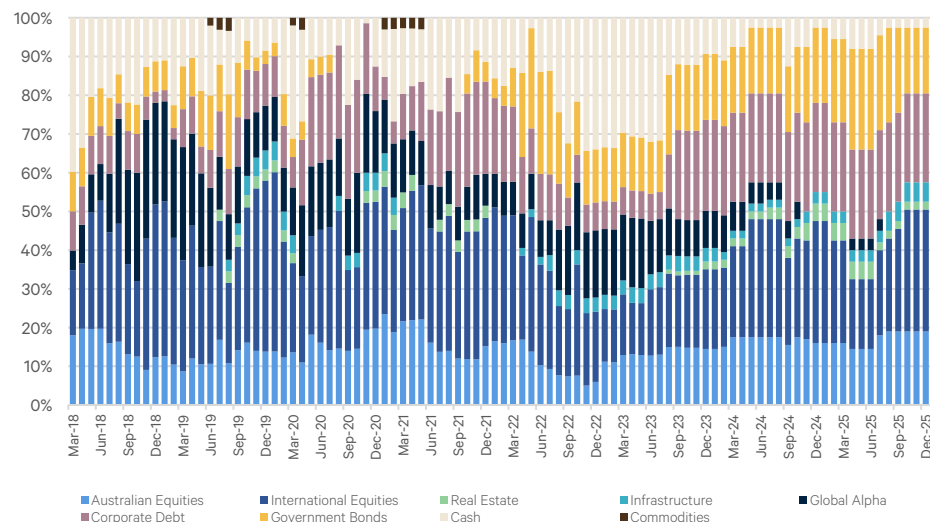
The portfolio is overweight credit and international equities, while underweight Australian equities and government bonds

## PORTFOLIO ASSET ALLOCATION – Q3 2025



## PORTFOLIO ASSET ALLOCATION HISTORY

International and Australian equities are the biggest asset class exposures

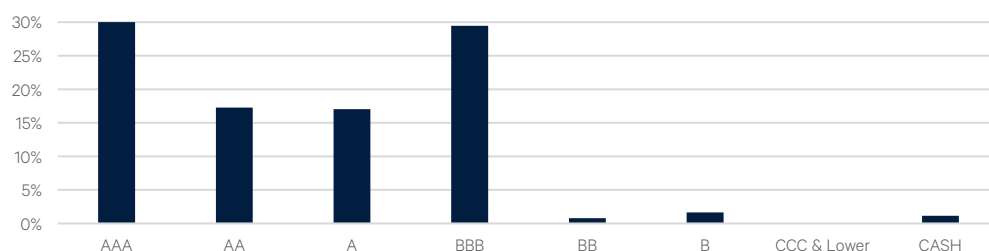


### Corporate Debt

Global corporate debt markets continued to deliver positive performance over the December quarter, with high yield credit advancing 1.2% compared with investment grade credit gains of 0.3%. Demand for yield remains elevated, keeping credit spreads tight, although issuance conditions remain healthy. Our conviction to hold floating-rate Australian investment grade credit, supported by corporate earnings and resilient business models, remains intact, and we continue to maintain an overweight position to the asset class.

### Government Bonds

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

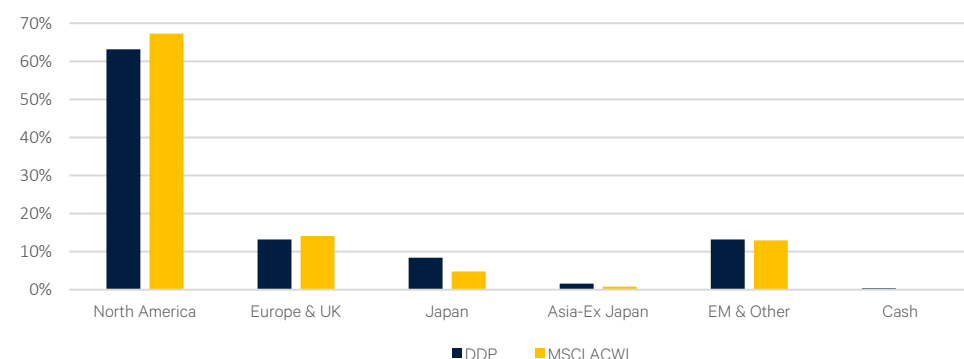


Source: Drummond Capital Partners, manager reports

Government bonds delivered mixed performance. Australian bonds declined 1.6%, reflecting market reactions to a hawkish Reserve Bank following the October CPI release, which indicated inflation upside risks. In contrast, U.S. bonds gained 0.8%, as the Federal Reserve navigated the balance between inflation risks and a softening labour market, delivering two rate cuts in Q4. We continue to preference Australian over global government bonds due to relatively lower fiscal risk, while remaining underweight the asset class overall as heavy fiscal supply and sticky inflation continue to anchor a higher for longer rate regime.

### International Equities

PORTFOLIO LOOK THROUGH COUNTRY EXPOSURE vs. BENCHMARK



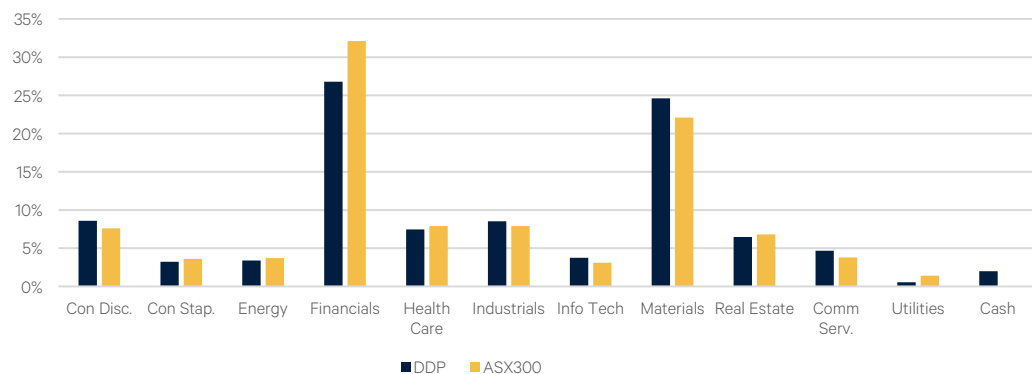
Source: Drummond Capital Partners, manager reports

Global equity markets (MSCI ACWI) posted gains of 3.7% over the December quarter, consistent with the previous period, although the drivers of performance differed. Technology and AI, which had driven much of the year's performance, delivered more subdued returns with the Nasdaq Composite climbing 2.7% for the quarter after a strong year up 25.4%. Investor sentiment toward the technology sector turned cautious in Q4, driven by concerns over lofty valuations, the risk of an AI bubble, and rising debt levels to fund the sector's cost of capital requirements. Both emerging markets and Europe continued to show strength, rising 4.8% and 4.2% respectively. Performance in both regions was supported by investors diversifying out of the U.S. amid valuation divergence, alongside growing confidence that emerging markets have largely weathered the impact of tariffs and trade tensions under the Trump administration. Investors also began questioning the durability of the Federal Reserve's policy easing trajectory, while European markets signalled relative stability amid rising expectations that the European Central Bank has likely concluded its interest rate cuts.

## Australian Equities

### AUSTRALIAN EQUITIES SECTOR EXPOSURE vs. BENCHMARK

*Resource strength cushioned Australian equities amid pronounced*



Source: Drummond Capital Partners, ASX

Australian equities underperformed global markets over the quarter, finishing down 1.0%. The largest drag came from the technology sector, which fell 24.3%. The sell-off occurred against a backdrop of elevated sector valuations and was triggered by a disappointing sales guidance from U.S tech giant Broadcom and delays in data centre expansion at Oracle, prompting a contagion effect in the Australian technology sector. In contrast, the local resources sector performed strongly, rising 12.8%, supported by record prices for gold, silver, and copper amid global supply constraints. Precious metals were further bolstered by safe-haven (or speculative) demand and expectations of additional U.S interest rate cuts by the Fed. In contrast, oil declined 9.4% as ample supply weighed on the market, with expectations of oversupply amplified by increased OPEC+ output and ongoing geopolitical pressures including sanctions on Russia, Iran and Venezuela.

## Real Assets (Infrastructure & Real Estate)

*Infrastructure tailwinds and solid real estate fundamentals support current portfolio allocations*

Both Australian and Global REITs faced a challenging December quarter, delivering negative returns of 1.1% and 2.8% respectively. Softer economic data and a mixed global monetary policy outlook weighed on the sector, with dynamics in the global bond market also likely contributing. Though both the Australian and global REIT managers were detractors in the portfolio, real estate fundamentals remain solid, with low or declining supply expected to provide support to property values, underpinning our neutral positioning in the portfolios.

Infrastructure performance was subdued in the December quarter, edging modestly lower by 0.3%, following a strong year of returns. Portfolio outcomes benefited from regional exposure to Western Europe, which was a notable contributor over the quarter, particularly within electric utilities. Real assets are expected to continue providing a stabilising role within portfolios, and our overweight exposure to infrastructure remains supported by several structural tailwinds for electric utilities, including the renewable energy transition and rising electricity demand from industrial activity and AI-related data centre expansion.

## Global Alpha

Exposure to the asset class had been minimal given our preference for domestic investment-grade floating-rate credit.

*Opportunities are broadening. Diversification over concentration helps navigate through bouts of uncertainty*

## Outlook

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In 2025, all major central banks cut policy rates except the Bank of Japan, a scale and breadth of easing more typical of a global slowdown or recession, rather than a year in which growth outperformed expectations. Whilst some developed market central banks are now signalling a pause, the U.S. Federal Reserve remains somewhat of an outlier, having cut rates twice in the December quarter and signalling further easing to come. With Fed Chair Jerome Powell's term ending in May, market attention is increasingly focused on the stance of the incoming chair and their capacity to effectively execute the central bank's mandate.

While global growth appears to have slowed slightly at the end of 2025, the economy remains expansionary. Combined with potential for further Fed easing and fiscal impulses to spur business investment and consumer confidence, our view is the recent softness in U.S. economic activity is likely to be short-lived. During December, consensus valuations continued to highlight a premium for U.S. equities. The S&P 500 trades on a forward price multiple of around 22.5 times, underpinned by stronger consensus earnings growth expectations, with U.S. earnings forecast to grow at more than double the pace of Australia's. Given domestic investors are more likely to face interest rate hikes in 2026 as inflation remains persistent, this will place further strain on their willingness to pay historically high valuations at a time of increasing earnings risk.

Geopolitical risks are likely to remain a source of volatility, the White House policy agenda is chaotic, U.S. midterm outcomes are uncertain, and conflict persists across many regions. Recent developments in these respective domains illustrate how geopolitical dynamics can evolve rapidly and unpredictably. Markets often overreact to such news, and portfolios cannot be meaningfully positioned for specific events ahead of time.

In our view, the global economy is expected to continue to expand this year at around average rates driven by positive secular trends (AI and energy transition) and broadly supportive fiscal and monetary policy. This should support global earnings growth. We are also seeing attractive opportunities outside of U.S. growth stocks, particularly in Japan and small caps. A broadening market, where many styles are performing well is a more sustainable driver of markets than technology dominating everything. These factors underpin our positioning, with an overweight allocation to global equities and modest underweight to Australian equities, allowing the portfolio to capture growth opportunities while ensuring appropriate levels of diversification to navigate bouts of uncertainty.

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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