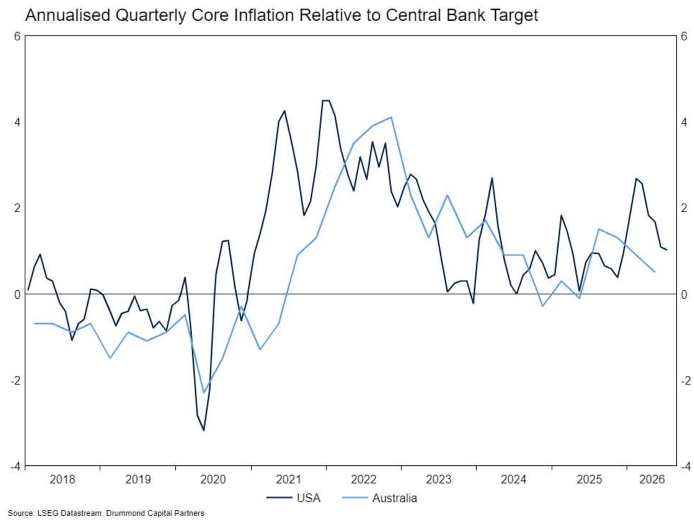
DRUMMOND
CAPITAL PARTNERS

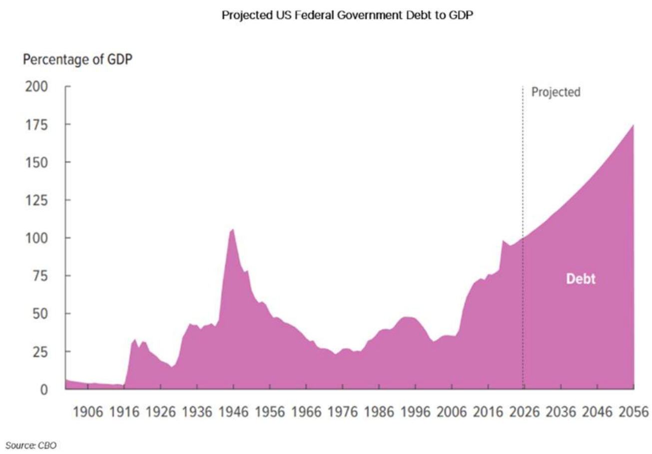
Portfolio Update

4 SEPTEMBER 2026

PORTFOLIO CHANGE AND RATIONALE

Today we are reducing government bond exposure in favour of high-quality credit and cash. Inflation in most major economies remains above target and progress on the last mile has stalled. The new Fed Chair, Kevin Warsh's recent comments have put a September rate hike firmly on the table, however, the Fed's willingness to follow through on fighting inflation over political pressure to cut is yet to be tested. The number of hikes needed to get inflation back to target is also uncertain. Beyond the near term, we don't think current yields sufficiently compensate investors for the deteriorating long-term debt dynamics in the United States and other major developed economies. In Australia, persistent state and federal fiscal excess and no productivity growth are keeping CPI above target creating a challenge for the RBA. With economic growth anaemic and the housing market falling, normally the RBA would be cutting rates, instead we are facing further hikes.





In line with this, we expect some re-pricing of bonds lower (yields higher) to account for increased risks in the asset class. We are not worried about the outlook for economic growth, so the defensiveness bonds offer in an economic slowdown is not particularly helpful right now. Equally, Australian floating rate credit and cash will benefit from the cash rate staying elevated at current levels, with yields floating higher should there be further rate hikes. We would look to add back duration (via government bonds) if growth deteriorated meaningfully or if yields rose sufficiently to make the inflation risk premium in bonds look attractive again.

PORTFOLIO CHANGES

Fund	Change	Index Plus Moderate	Index Plus Balanced	Index Plus Growth	Index Plus High Growth	Index Plus Geared Growth
Cash	▲	20.0%	14.0%	20.0%	8.0%	—
FC CFS Enhanced Cash Fund		20.0%	14.0%	20.0%	8.0%	—
Government Bonds	▼	-20.0%	-14.0%	-20.0%	-8.0%	—
FC CFS Index Australian Bond		-10.0%	-7.0%	-10.0%	-4.0%	—
FC CFS Index Global Bond		-10.0%	-7.0%	-10.0%	-4.0%	—

ASSET CLASS POSITIONING

The table below shows the tactical positioning compared to the SAA upon completion of these changes. Growth assets are neutral with an overweight to global equities offset by underweight to Australian equities. Bonds are now a strong underweight and credit is now a strong overweight. Cash is also now overweight.

Asset Class	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight
Australian Equities		●			
International Equities				●	
Real Estate			●		
Infrastructure				●	
Cash				●	
Government Bonds	●				
Corporate Debt					●
Total Growth vs Defensive			●		

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