



WATERSHED

FUNDS MANAGEMENT



October Scorecard

In a very challenging month for investors – the Watershed Portfolios all delivered substantial outperformance against their benchmarks. Of particular note was that our Conservative and Balanced Portfolios achieved a strong positive return despite their benchmarks falling into negative territory – highlighting the benefits of our emphasis on downside protection.

Our Investment Team are currently focused on:

- **Inflationary pressure believing it will precipitate a normalisation of monetary policy**
- **Remaining short duration aware that traditional fixed income will fail to be defensive in a rising yield environment**
- **Maintaining a dynamic approach to asset allocation with a focus on downside protection**

Mandate	1mth	3mth	6mth	1yr	3yr	5yr
WFM Conservative	0.46%	1.11%	4.97%	14.03%	8.04%	7.64%
Russell Conservative	-0.37%	-1.03%	2.06%	8.49%	5.62%	4.75%
Evergreen Premier Conservative Portfolio	0.08%	0.36%	3.01%	9.32%	5.33%	N/A
Elston Conservative Portfolio	-0.65%	0.75%	2.21%	9.13%	4.98%	5.02%
Netwealth Active Conservative	-0.36%	-1.00%	2.11%	8.60%	5.70%	4.84%
CFS First Choice Wholesale Conservative	-0.30%	-0.65%	1.44%	7.39%	4.98%	4.46%
FE UT PG Multi Asset Moderate Index	-0.52%	-0.75%	2.04%	7.44%	4.97%	4.31%
Quilla Conservative Income Portfolio	-0.02%	-0.19%	2.57%	9.43%	4.82%	4.29%
iShares Enhanced Strategic Conservative Portfolio	-2.14%	-2.88%	-0.02%	1.67%	4.27%	N/A
InvestSense Diversified Portfolio 2	-0.67%	-0.10%	1.38%	5.54%	3.99%	N/A
Morningstar Conservative Portfolio	-1.18%	-1.30%	0.45%	2.78%	2.72%	2.29%

Mandate	1mth	3mth	6mth	1yr	3yr	5yr
WFM Balanced	0.50%	1.31%	6.12%	18.00%	9.65%	9.32%
CFS FirstChoice Wholesale Balanced	0.41%	0.22%	4.07%	19.81%	9.45%	8.42%
Elston Balanced Portfolio	-0.64%	2.94%	6.25%	22.75%	9.09%	8.72%
Evergreen Premier Balanced Portfolio	0.89%	1.95%	5.62%	17.90%	9.03%	N/A
Russell Balanced	0.55%	0.25%	4.93%	20.66%	8.87%	7.85%
Netwealth Active 50/50 Balanced	-0.03%	-0.45%	3.49%	14.46%	7.63%	6.62%
iShares Enhanced Strategic Balanced Portfolio	-1.77%	-1.78%	2.26%	11.43%	7.54%	N/A
FE UT PG Multi Asset Balanced Index	-0.05%	-0.02%	3.70%	14.51%	7.40%	6.67%
Lonsec Managed Portfolio Multi-Asset Balanced	0.37%	0.57%	5.49%	14.93%	7.35%	N/A
Quilla Moderate Portfolio	0.44%	0.29%	3.99%	15.01%	7.34%	6.39%
InvestSense Diversified Portfolio 3	-0.74%	0.36%	2.64%	10.19%	5.95%	N/A
Morningstar Balanced Portfolio	-0.75%	0.30%	2.39%	11.81%	5.53%	4.86%

Mandate	1mth	3mth	6mth	1yr	3yr	5yr
WFM Growth	0.54%	1.43%	7.02%	21.24%	11.18%	10.74%
Evergreen Premier Growth Portfolio	1.36%	2.96%	7.49%	22.31%	10.70%	N/A
Elston Growth Portfolio	-0.61%	3.76%	7.82%	28.10%	10.51%	9.90%
CFS FirstChoice Wholesale Growth	0.60%	0.48%	4.78%	23.09%	10.36%	9.29%
Russell Growth	0.77%	0.47%	5.92%	25.61%	10.20%	9.27%
Quilla Assertive Portfolio	0.85%	1.05%	5.76%	22.13%	10.07%	8.46%
iShares Enhanced Strategic Growth Portfolio	-1.49%	-1.03%	3.65%	17.33%	9.45%	N/A
FE UT PG Multi Asset Growth Index	0.27%	0.44%	5.23%	20.11%	9.30%	8.34%
Netwealth Active Growth	0.56%	0.28%	5.03%	20.84%	9.06%	8.06%
Lonsec Managed Portfolio Multi-Asset Growth	0.65%	1.13%	6.65%	18.87%	8.06%	N/A
InvestSense Diversified Portfolio 4	-0.77%	0.88%	4.00%	14.97%	7.84%	N/A
Morningstar Growth Portfolio	-0.34%	1.16%	3.59%	17.69%	7.39%	6.52%

Inflation – not so transitory after all?

During October the narrative of 'transitory inflation' became increasingly challenged. The latest inflation figures from the US (released 10th November), revealed that annual inflation accelerated to 6.2% during the month, above market expectations of 5.8%. Driving the increase was a continued surge in energy prices, as well as increasing costs in housing, food, and motor vehicles (both new and used). Supply chains also continue to be under strain, which is pushing up goods prices globally.

Here in Australia, inflationary pressures are not as strong (currently running at 3%), however this is still at the upper end of the RBA's 2-3% target range, and puts the central bank under similar pressure to bring forward a normalisation of monetary policy. Within its latest Statement of Monetary Policy, the RBA argued that current forecasts do not warrant an increase in the cash rate until 2023 – a position we believe will be difficult to maintain, should these levels of inflation persist into next year.

Our Positioning:

Over recent months, we have been cognisant of the risk that volatility would increase as continued high inflation unsettles markets.

As such, the Income Portfolio remains focused on floating rate hybrids and credit which are net beneficiaries of rising interest rates, and maintains no exposure to developed market duration. Parallel to this, within our growth allocation we continue to maintain our short positions (against ASX200 and NASDAQ), exposure to defensive sectors such as Health Care, and diversification into 'defensive alternatives' via the PIMCO Trends Managed Futures Strategy.

Although we have been 'banging on the drum' for some time that traditional fixed income will fail to be defensive in a rising yield environment, our observation is that most investors have not changed their defensive allocation accordingly. As such, most balanced portfolios experienced a negative return in the month of October, pulled down by losses in fixed income (the Bloomberg AusBond Composite Index fell by 3.56%).

Outlook:

As mentioned in our last market update, we continue to believe that bond yields will increase over the next several months, which would result in further losses in traditional fixed income. Continued high inflation will put further pressure on central banks to bring forward rate hikes, with uncertainty on monetary policy likely to cause bouts of market volatility.

With this in mind, maintaining a dynamic approach to asset allocation, with a focus on downside protection, remains paramount.

Watershed Funds Management



Our October monthly reports can be viewed [here](#).

If you would like to speak to us and how Watershed can help drive your client's investment returns please contact our BDM Shantelle Lay:
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Watershed Funds Management

Watershed Funds Management is a specialist Managed Account (MDA & SMA) Provider and has been a pioneer in the delivery of these portfolio solutions to financial advisers. Watershed leverages the expertise of a highly credentialed investment team to form a global thematic view that determines asset class and sector allocations. Our investment committee structure differs for each SMA and is chaired by an individual with niche expertise and a proven track record for managing portfolios within that asset class. With a research process that is both rigorous and thorough we have been able to deliver strong historical returns across our full suite of Managed Accounts.

An investment in a Watershed Managed Account provides professional and active investment management with full transparency of holdings, transactions and structure. Watershed seeks to form a collaborative relationship with advisers, actively communicating portfolio strategy in the current market environment so that advisers are better equipped to communicate with their clients.
