DRUMMOND
CAPITAL PARTNERS

Portfolio Update

22 JULY 2025

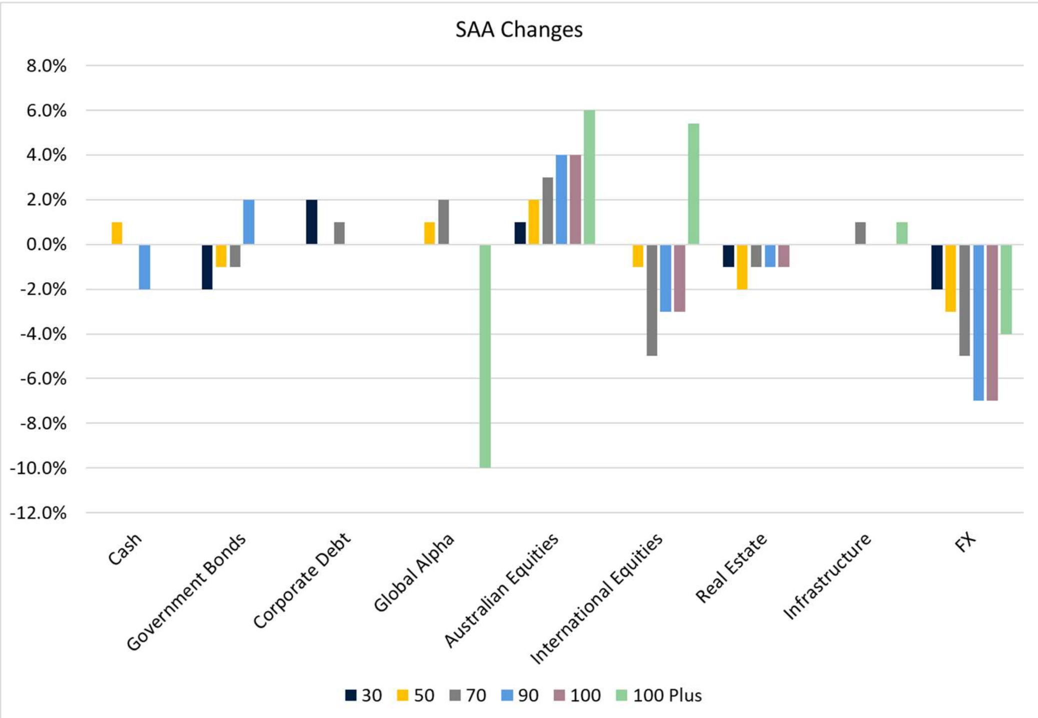
PORTFOLIO CHANGE AND RATIONALE

Our Investment Committee (IC) has approved the 2025 Strategic Asset Allocation review. Four long term scenarios were considered this year including the introduction of Extreme Deglobalisation given the potential impact of the Trump Administration's trade policies.

One of the most significant outcomes of this review was the currency (FX) exposure across the portfolios. The USD appears to have entered a multi-year decline versus major currencies following the trade war (as discussed in our recent quarterly webinar). Given the starting point of a relatively overvalued USD, consideration of long-term capital flows and a specific mandate from the US administration to weaken the currency, we factor in a weaker currency and vis-à-vis a stronger AUD into our forecasts. This results in a much lower neutral setting for FX exposure across all portfolios.

The other major change is an increase in Australian equities versus global equities. This reflects an expected reduction in US dominance in global capital markets in an increasingly protectionist world and a widening of the range of potential economic outcomes from these policies. Given the increasing exposure in the SAA to domestic equities, the large existing allocation to large caps, and the current valuation of the Australian market, we are adding a small allocation to Australian small caps (Eley Griffiths Group Small Companies Fund) to diversify the domestic equity exposure.

The changes to our neutral SAA for each portfolio are presented in the chart below.



While we establish the SAA changes, we are also taking the opportunity to moderately increase the growth exposures in the portfolios (though they remain a little underweight). The immediate risk of a dramatic slowdown in the global economy due to tariff announcements has faded after the US again demonstrated resilience to shocks. While the drag from tariffs is expected to take many quarters to be fully felt, it seems that with some offset from fiscal stimulus (the One Big Beautiful Bill), the most likely outcome is a period of slow growth, rather than a contraction in the economy and corporate earnings.

Eley Griffiths Group Small Companies Fund

The Eley Griffiths Group Small Companies Fund provides exposure to a portfolio of 35-55 Australian listed small companies that primarily reside outside the S&P/ASX 100 Index. Founded in 2003, the firm remains 100% staff-owned and independent, which we believe supports strong alignment with investors and fosters a boutique culture. The investment team of seven are highly experienced and have considerable co-tenure, with many of the portfolio managers having worked together for over 10 years, which underpins our confidence in the team and repeatability of the investment process.

Managed in a style-agnostic manner, the portfolio is not constrained by investment style and has the flexibility to invest across both industrial and resource-exposed companies, a key point of differentiation from many peers. The small-cap strategy has an impressive track record dating back to 2003, returning 10.4% p.a. since inception, outperforming the benchmark by 4.4% p.a.

ASSET CLASS POSITIONING

The table below shows the tactical positioning compared to the new SAA upon completion of these changes. Growth assets are a little underweight, driven by Australian equities, with property now neutral and infrastructure only a little above neutral. We retain our large overweight to corporate debt and are still underweight government bonds.

	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight
Australian Equities	○	●	○	○	○
Global Equities	○	○	●	○	○
Property	○	○	●	○	○
Infrastructure	○	○	○	●	○
Global Alpha	○	○	●	○	○
Government Bonds	○	●	○	○	○
Corporate Debt	○	○	○	○	●
Cash	○	○	●	○	○
Total Growth vs Defensive	○	●	○	○	○

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