Drummond Strategic Series

DS90

Quarterly Review – September 2026

MARKET OVERVIEW

Equities rise on earnings strength amidst persistent inflation and rising yields

Global equity markets rose 1.3% over the September quarter, as strong US earnings growth and upgrades drove resilient performance despite volatility across bonds and commodities. Investor sentiment remained cautious given the unresolved Middle East conflict, rising global bond yields and unease over the sustainability of global government spending.

Global bond yields continued surging across tenors amidst sticky inflation, fiscal spending and geopolitical tensions. Major central banks tightened policy, with the Reserve Bank of Australia (RBA), US Federal Reserve (Fed), European Central Bank (ECB) and Bank of Japan (BoJ) all raising interest rates as Fed Chair Kevin Warsh reiterated the Fed's commitment to price stability and meeting the inflation target. US Treasury Secretary Scott Bessent unveiled a long-dated treasury buyback plan aimed at managing long-end yields, which triggered US-dollar debasement trades. Corporate issuance was a key theme, driven by record bond sales from hyperscalers funding AI capex.

Emerging markets fell 0.2%, underperforming the US which returned 2.3% over the quarter, with leading Asian technology and semiconductor momentum names finishing flat. Despite concerns about AI capex issuance and circular financing, US technology mega-caps led indices modestly higher with Nvidia headlining a series of compelling earnings beats. Market breadth narrowed as investors sought refuge from bond and commodity volatility in mega-cap equities, which outperformed small- and mid-cap and equal-weighted indices. The ongoing US-Iran conflict produced acute energy price moves, as crude oil rose 37.7% on energy supply concerns.

Australian equities rose 1.3%, as companies delivered a solid reporting season, albeit with volatility across sectors caused by challenging domestic conditions. Healthcare was the standout sector, delivering 26.9%, with CSL and Cochlear rebounding on better-than-expected outlooks. Rising bond yields and cautious forward guidance weighed on interest-rate-sensitive assets, with A-REITs and consumer discretionary falling 10.7% and 9.9%, respectively.

Australian government bonds fell 1.9%, with investors pricing in a higher cash rate path amidst another RBA rate hike and persistently elevated inflation prints. US Treasuries fell 3.3%, with sentiment souring on monetary, fiscal and geopolitical concerns. Although corporate spreads remained near historical lows, high-yield and investment-grade credit sold off 2.0% and 5.2%, respectively, with the latter hurt more by higher base rates and spreads.

Despite ceding some gains late in September, the Australian dollar appreciated 1.6% against the US dollar, driven by climbing commodity prices, US currency debasement fears and interest rate divergence.

MARKET REVIEW

Asset Class/Index	3 Months	6 Months	1 Year
Global & Regional Equities			
MSCI World All Countries	1.3%	16.8%	18.1%
S&P/ASX 200	1.3%	5.4%	2.7%
MSCI Emerging Markets	-0.2%	23.9%	29.6%
S&P 500	2.3%	17.9%	15.7%
Nasdaq Composite	2.6%	24.8%	19.2%
Euro Stoxx	-1.4%	13.6%	16.7%
Topix	3.8%	18.7%	33.9%
Property and Infrastructure			
Australian Property	-10.7%	2.6%	-14.1%
International Property	-5.0%	5.9%	6.3%
Global Infrastructure	-9.1%	-6.6%	-0.4%
Fixed Income			
Australian Bonds	-1.9%	0.7%	-1.5%
US Bonds	-3.3%	-2.9%	-2.1%
Emerging Market Bonds	-4.7%	-1.0%	-0.0%
High Yield Credit	-2.0%	0.0%	0.9%
Investment Grade Credit	-5.2%	-4.0%	-4.0%
Foreign Exchange			
US $ / Australian $	1.6%	1.9%	5.7%
Australian $ / UK Pound	-1.4%	-1.5%	-6.7%
Commodities			
S&P GSCI Commodity TR	25.1%	10.9%	56.7%
Crude Oil-WTI	37.7%	-5.5%	53.8%

PORTFOLIO PERFORMANCE AND REVIEW

Diversification and asset class positioning guide portfolio through bond and commodity volatility

PORTFOLIO PERFORMANCE & RISK

PERFORMANCE	3m	6m	1yr.	3yr	5yr	S.I.(p.a.)	Vol.(p.a.)	Return/Risk	Max DD
Drummond Strategic 90	-0.7%	9.6%	7.5%	12.1%	7.0%	8.4%	10.1%	0.83	-16.8%
FE AMI Mixed Asset – Aggressive	0.6%	8.5%	5.9%	11.9%	7.1%	8.0%	10.4%	0.77	-18.6%
Difference	*-1.3%*	*1.1%*	*1.6%*	*0.2%*	*-0.1%*	*0.4%*	*-0.3%*	*0.06*	*1.8%*

PERFORMANCE - FINANCIAL YEAR

	FY20*	FY21	FY22	FY23	FY24	FY25	FY26	FY27*
Drummond Strategic 90	-2.2%	25.7%	-5.9%	8.2%	13.3%	9.8%	12.9%	-0.7%
FE AMI Mixed Asset – Aggressive	-6.4%	26.1%	-7.1%	11.5%	12.0%	12.1%	10.0%	0.6%
Difference	*4.2%*	*-0.4%*	*1.2%*	*-3.3%*	*1.3%*	*-2.3%*	*2.9%*	*-1.3%*

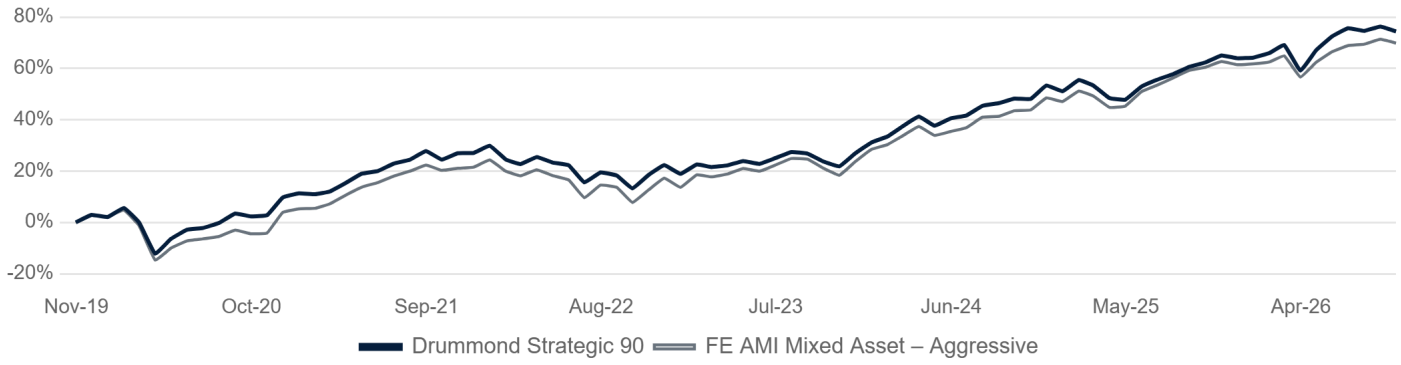
*Source: BT Panorama. Portfolio performance, net of underlying fund fees and gross of model management, administration fees and tax. Returns over 1yr are annualised; actual client performance may differ. Peers are a composite of institutional multi-asset funds, shown for comparison only. Past performance is not a reliable indicator of future performance. Inception date 01/11/2019. *Partial year.*

Over the quarter the DS90 Portfolio inched lower by 0.7%*, lagging the FE AMI Mixed Asset – Aggressive peer index, which was up 0.6%. However, over the longer term, the portfolio outperformed the peer group as seen in the performance chart below.

The combination of inflation, fiscal and geopolitical concerns has acted as the primary performance headwind across portfolios. Given strong earnings revisions and growth across sectors, Australian and international equities exposures broadly rose across passive and active holdings, albeit with international small-cap and equal-weight allocations easing. The strong portfolio overweight to international equities has been additive to performance for the quarter, across both passive and active allocations. Our holding in Japan contributed to returns, having ended the quarter 5.4% higher, driven by a stronger economy and AI exposure within Japanese names.

Both REITs and infrastructure detracted over the quarter, as higher inflation and rising interest rates globally weighed on rate-sensitive real assets. Domestic and global REITs and listed infrastructure all finished the quarter lower. Corporate debt continued to perform strongly, supported by higher cash rates domestically which has translated to higher credit income.

PERFORMANCE SINCE INCEPTION



CONTRIBUTION TO RETURN

3 Months

Asset Name	Contribution
Top 5	
iShares Hedged International Equity Index Fund	+0.20%
iShares Australian Equity Index Fund	+0.16%
Life Cycle Global Share Fund - Class H (Hedged)	+0.16%
Arrowstreet Global Equity Fund	+0.11%
Vinva Global Alpha Extension Fund - Class A	+0.11%
Bottom 5	
ClearBridge Global Infrastructure Income Fund (Hedged) (Clas...	-0.53%
UBS CBRE Property Securities Fund	-0.24%
Quay Global Real Estate Fund	-0.14%
American Century Global Small Cap Fund	-0.13%
Betashares S&P 500 Equal Weight ETF	-0.13%

12 Months

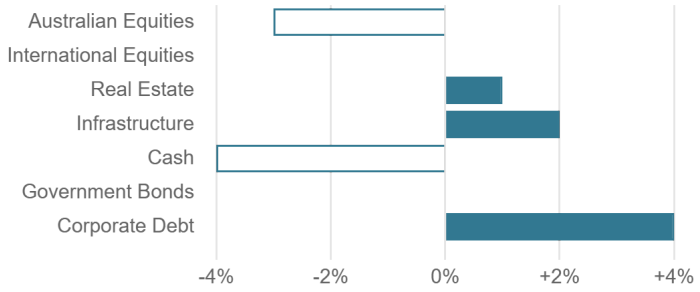
Asset Name	Contribution
Top 5	
iShares Hedged International Equity Index Fund	+2.97%
Arrowstreet Global Equity Fund	+1.43%
Solaris Core Australian Equity Fund (Performance Alignment)	+0.81%
Life Cycle Global Share Fund - Class H (Hedged)	+0.76%
Vanguard FTSE Asia ex Japan Shares Index ETF	+0.76%
Bottom 5	
UBS CBRE Property Securities Fund	-0.50%
Eley Griffiths Group Small Companies Fund	-0.40%
Betashares S&P 500 Equal Weight ETF	-0.14%
Quay Global Real Estate Fund	-0.12%
Macquarie True Index Australian Fixed Interest Fund	-0.02%

PORTFOLIO CHANGES AND POSITIONING

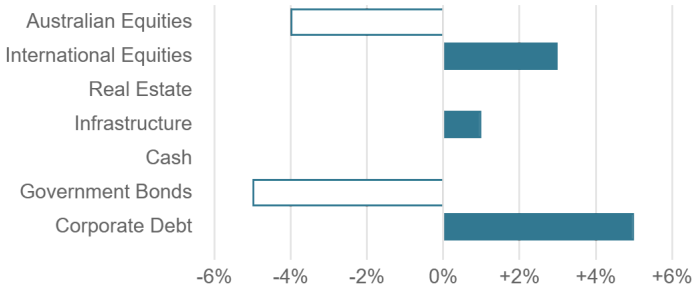
Growth remained neutral for the quarter, trimming cash and Australian equities in favour of corporate debt, real estate and infrastructure

Post our July 2026 SAA update, we retained our neutral growth positioning. In international equities, we added the Vinva Global Alpha Extension Fund and the Betashares S&P 500 Equal Weight ETF, funded by exiting our passive Asian equities allocation and reducing our passive market-cap exposure. Global small caps were consolidated into the Yarra Global Small Companies Fund, replacing the American Century Global Small Cap Fund. In corporate debt, we added the Perpetual Diversified Income Fund and increased the Realm Short Term Income Fund, funded by a complete sale of passive Australian government bonds. We trimmed the Solaris Core Australian Equity Fund to add the Acadian Australian Equity Long Short Fund. We remain overweight international equities and underweight Australian equities. We also remain overweight infrastructure, supported by AI build-out tailwinds, and corporate credit, given solid issuance and fundamentals. We are neutral on cash and REITs, and remain strongly underweight government bonds given persistent inflation, higher expected interest rates and rising government debt.

PORTFOLIO CHANGES OVER THE QUARTER



ASSET ALLOCATION VS. SAA



Portfolios are neutral growth, with overweights to international equities and corporate debt partly offset by underweights to Australian equities and government bonds, whilst retaining an overweight to infrastructure

PORTFOLIO HOLDINGS

Asset Class	Fund	Weight
Australian Equities	iShares Australian Equity Index Fund	12.0%
	Solaris Aust Equity Fund (Perf Aligned)	4.5%
	DNR Aust Equities High Conviction Fund	4.5%
	Acadian Australian Equity Long Short Fund	4.5%
	Eley Griffiths Group Small Companies Fund	3.5%
International Equities	iShares Hedged International Equity Index Fund	12.5%
	iShares International Equity Index Fund	7.0%
	Arrowstreet Global Equity Fund	6.5%
	Betashares S&P 500 Equal Weight ETF	5.5%
	Life Cycle Global Share Fund - Class H (Hedge...	5.5%
	Vinva Global Alpha Extension Fund - Class A	5.0%
	Yarra Global Small Companies Fund	4.0%
	iShares MSCI Japan ETF	2.0%
Real Estate	UBS CBRE Property Securities Fund	3.0%
	Quay Global Real Estate Fund	2.0%
Infrastructure	ClearBridge Global Infra Income Fund (Hedged)	8.0%
Cash	Vanguard Cash Reserve Fund	1.0%
	Cash	1.0%
Corporate Debt	Realm Short Term Income Fund	4.0%
	Janus Henderson Diversified Credit Fund	3.0%
	Perpetual Diversified Income Fund - Class S	1.0%

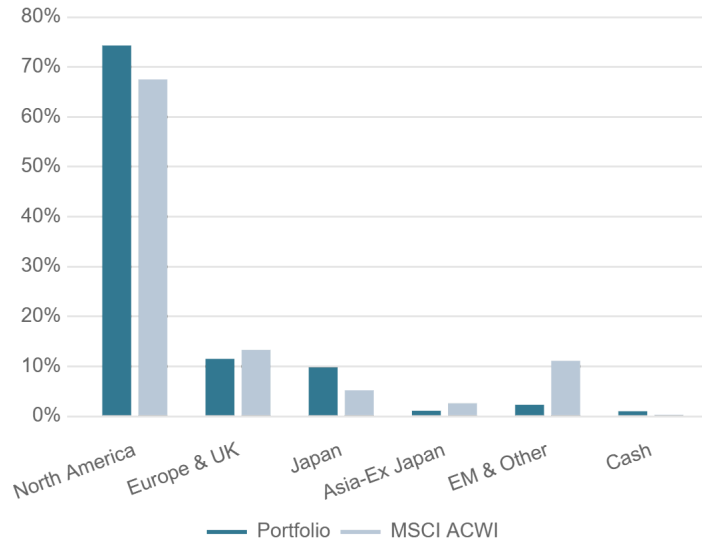
TOP 10 INTERNATIONAL EQUITY EXPOSURE

Security	Weight
Apple Inc.	1.9%
Nvidia Corp	1.8%
Microsoft Corp	1.4%
Amazon.com Inc	1.1%
Alphabet Inc A	1.1%
Broadcom Inc	0.6%
Alphabet Inc C	0.5%
Meta Platforms Inc. Class A	0.4%
Jp Morgan Chase & Co	0.4%
Micron Technology Inc	0.3%

TOP 10 DOMESTIC EQUITY EXPOSURE

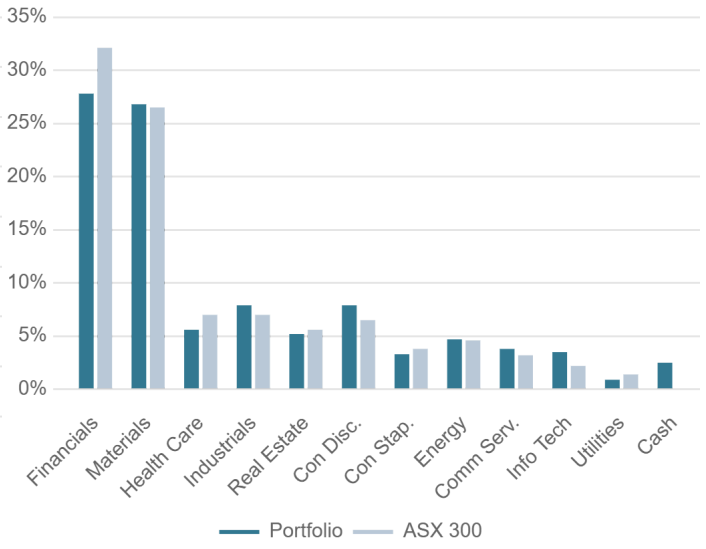
Security	Weight
BHP Group LTD	2.9%
Commonwealth Bank Of Australia	1.9%
National Australia Bank LTD	1.0%
ANZ Group Holdings LTD	1.0%
Westpac Banking Corp	0.9%
Macquarie Group LTD	0.9%
CSL LTD	0.8%
Woodside Energy Group LTD	0.7%
RIO Tinto LTD	0.6%
Wesfarmers LTD	0.6%

INTERNATIONAL EQUITY REGION EXPOSURE VS. BENCHMARK



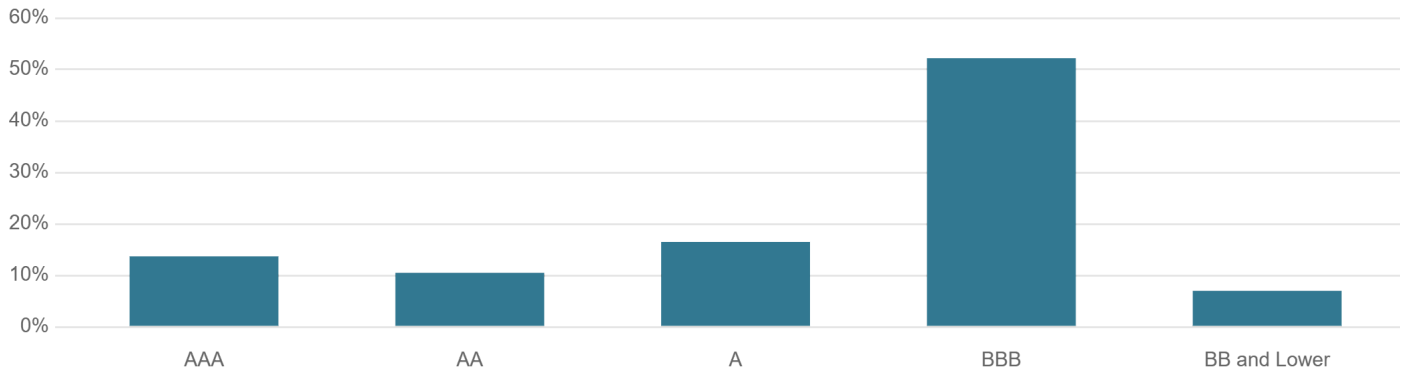
Source: Drummond Capital Partners, Fund Managers

AUSTRALIAN EQUITIES SECTOR EXPOSURE VS. BENCHMARK

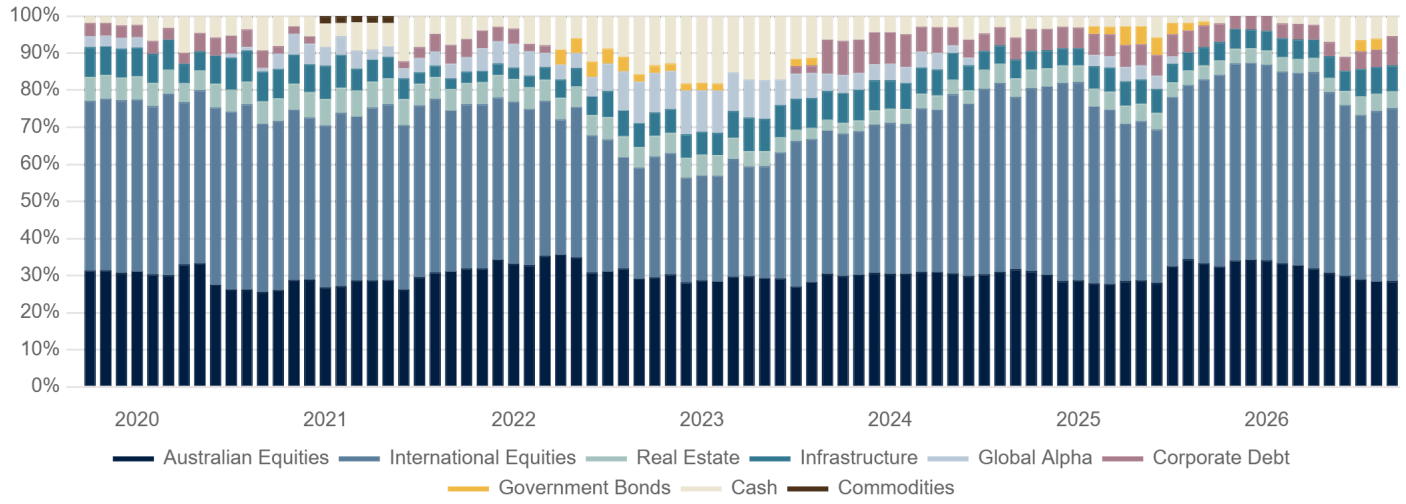


Source: Drummond Capital Partners, Fund Managers

CREDIT GRADE EXPOSURE



HISTORICAL PORTFOLIO ASSET ALLOCATION



OUTLOOK

Resilient growth and broadening earnings meet a synchronised tightening cycle with energy risks lingering

Exceptionally strong corporate earnings growth has seen broad equity market resilience to rising interest rates, higher bond yields and elevated energy prices. The two key questions for the outlook remain whether earnings growth moderates in the year ahead and whether negative headwinds escalate.

Over the year ahead, we believe some moderation in growth is warranted, which is ultimately what central banks are seeking to achieve via interest rate hikes. However, higher rates do not necessarily mean economic calamity as central banks have established credibility in managing the economic cycle. Despite the headwinds from higher rates, healthy consumer spending and the AI investment cycle remain key drivers of economic growth.

Earnings strength is expected to be the primary driver of equity returns as expectations have been revised sharply higher this year, with consensus pointing to further double-digit growth in 2027. Valuations have de-rated significantly despite the market hitting all-time highs because of strong earnings growth. This year also brought evidence of earnings growth broadening beyond technology into cyclical sectors, pointing to broader market leadership. This will likely be tested given interest rate pressure, but if the AI economy continues to grow, technology sector earnings should remain supported. Importantly, we do not expect a repeat of last year's 20-40% growth numbers, as valuations are now more reasonable, albeit numbers half of that should be well supported.

Like most geopolitical shocks, the Middle East conflict's impact on markets has faded outside energy. Middle East oil export pathways have adapted and unless the conflict re-escalates materially crude prices should moderate from current levels following inventory rebuild. That said, some risk premium is likely to persist until the conflict is fully resolved.

Markets are pricing several rate hikes across most major economies, which in our view, should curb inflation. This environment differs markedly from the post-COVID period, given that there is no stimulus backlog with interest rates starting from a higher base. Inflation is also closer to target relative to 2022, and we believe that long term yields are close to peaks, with the caveat that the global fiscal credibility of major countries is somewhat compromised. The bond sell-off has been predominantly focused on expected strong future growth rather than government debt serviceability concerns.

Against this backdrop, we maintain a neutral growth stance, balancing resilient earnings against tightening monetary policy. We typically prefer global over Australian equities, given stronger offshore earnings momentum and the challenging domestic backdrop. We generally remain overweight infrastructure in our portfolios, supported by regulated and contracted revenues offering inflation protection and structural growth in electricity demand from AI and energy security investment. We broadly remain overweight high-quality floating-rate corporate credit benefiting from higher-for-longer cash rates, while maintaining a strong underweight to government bonds given sticky inflation and deteriorating fiscal dynamics.

Regards,

The Drummond Capital Partners team

Disclaimer

Prepared by Drummond Capital Partners (Drummond) ABN 15 622 660 182, AFSL 534213 for licensed or authorised financial advisers, who may provide it to their retail and wholesale clients. It is General Advice only and does not take into account your objectives, financial situation or needs. Before acting, consider its appropriateness to you and the relevant PDS and TMD, and seek financial advice. Drummond is not the product issuer.

Opinions and forecasts are current at the date of this document and may change without notice. Information from third parties, including BT Financial Group, is believed to be reliable but is not guaranteed. BT Panorama is provided "as is" and BT accepts no liability for its use. To the extent permitted by law, Drummond accepts no liability for any loss arising from reliance on this document. Past performance is not a reliable indicator of future performance. All investments carry risk, including loss of capital.

