RESONANT

Dealing with Uncertainty

Asset Allocation in the year of living dangerously

Financial Markets in Unchartered Territory

What can we learn from history?

Integrating flexibility but not too much

Calculated risk: towards better outcomes

Structure matters

Financial Markets in Unchartered Territory

COVID disruptions have far reaching economic consequences adding to existing developed market challenges

Sticky Inflation

CPI way above CB targets

Labour market issues

Conflict driving commodity supply issues

Growth Problems?

Environment: lowering our fossil fuel usage

Demographics: ageing populations

Productivity: doing more with less

Politics: nationalism and anti-immigration

Debt Refinancing

US: years of fiscal stimulus drives up government debt/GDP

Australia: household debt build after years of low rates

Liquidity

Inflation targets necessitate tightening of financial conditions

Financial Markets in Unchartered Territory

2020 & 2021

- Unprecedented monetary stimulus
- Zero rates – lower for longer
- Disinflation
- Low volatility

2022 & 2023

- Interest rate tightening
- Higher for Longer
- Sticky inflation
- High volatility

What can we learn from history?

Structural breaks make history difficult to use

- Speculation
- Growth
- The virtual world
- Anxiety

Defined the pandemic

- Stability
- Value
- The physical world
- Conflict

Define the post pandemic

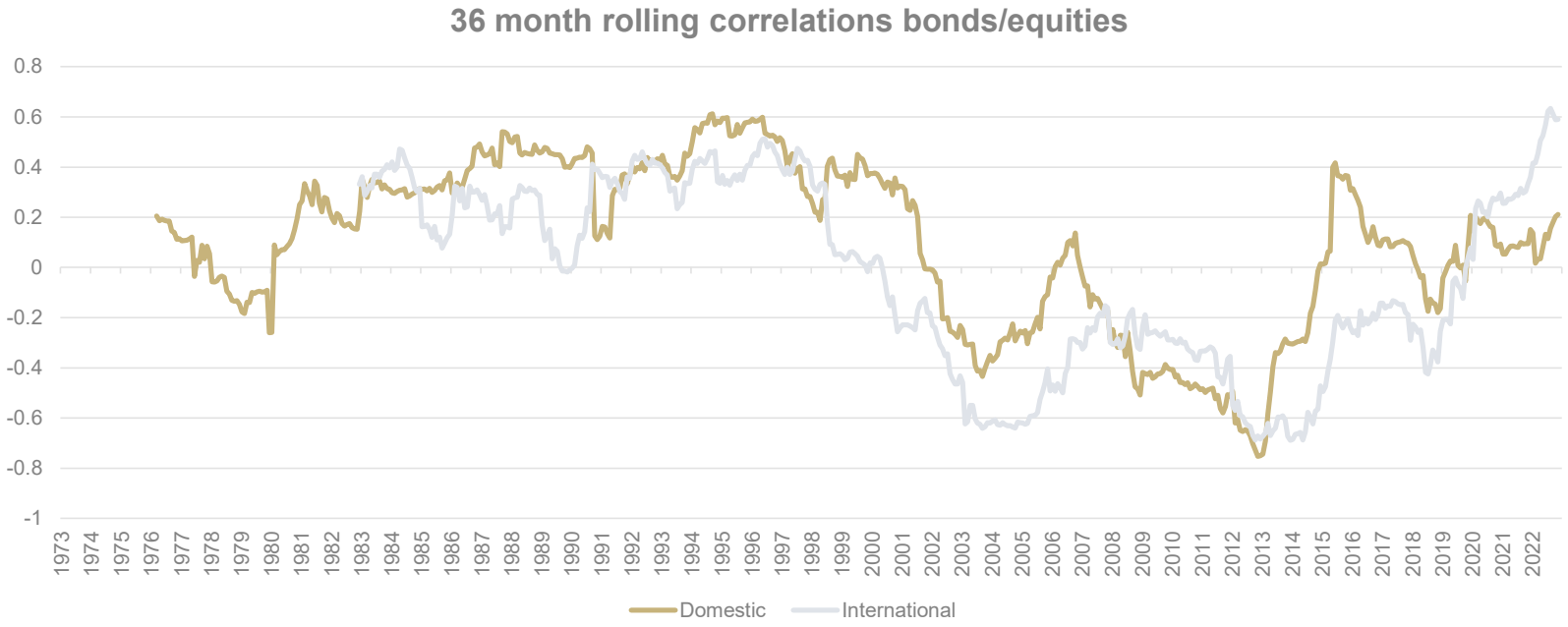
If there is one chart that typifies the shift in markets it is ARK (tech innovation yellow) vs Energy (Purple): structural break in November 2021 (source: Refinitiv)

What can we learn from history?

Some relationships have changed:

Bonds and equities – correlations unstable, particularly in International bonds/equities – WHY?

International bonds and equities are currently risk amplifying not risk dampening



What can we learn from history?

So what?

Unstable relationships mean using price histories to infer relationships is fraught with risk.

For instance, using international fixed interest as a hedge would have paid dividends between 2000 and 2020, but currently is the most risk amplifying positioning on a 36 month basis since our data sample began in 1980.

There are clear **qualitative** reasons for this:

1. US inflation target a rigid 2% not a range 2-3%. That leaves less room for nuance.
2. Yield curve inversions – if a recession is already priced in, a growth shock won't as easily transmit into bond outperformance.
3. QE/YCC – central bank interventions, the cornerstone of most CB policy 2010 to 2020, meant bond ripped as stimulus drove up prices if growth disappointed. Australia is one market where unconventional stimulus was barely used.

- **Correlations are not just a quantitative statistic, but have a fundamental rationale that must be reconciled!**

Integrating flexibility but not too much

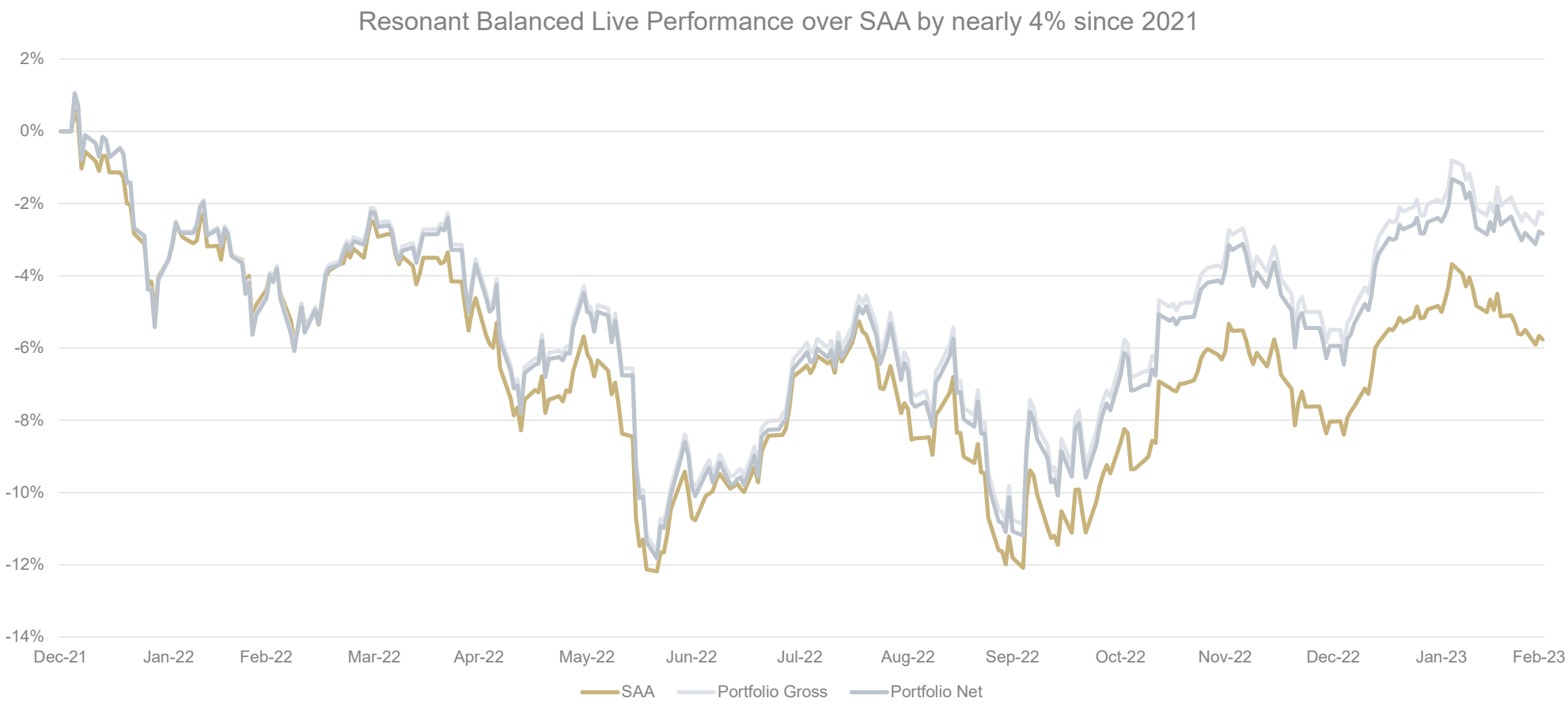
On the other hand, pure qualitative reasoning can be just as flawed

Recency bias: Assuming yesterday's regime to perpetuate feels inadequate, for many reasons:

- The US inflation data has never been more volatile: goods inflation is crashing down as supply chain issues normalise
- US labour markets remain dysfunctional but participation rates may rebound with necessity (savings burn) or immigration
- We could see a resolution to war (e.g. brokered by China) which loosen up commodity supply
- Central banks are jittery and sudden soft retail sales or employment could see them easily reverse course
- The world remains fragile with high indebtedness

➢ **Resonant's investment process integrates qualitative flexibility with quantitative rigour to manage risk <u>and</u> return through the market cycle**

Strong outperformance in volatile markets



Live Track Record of Performing in Different Conditions (60/40 Portfolio vs SAA)

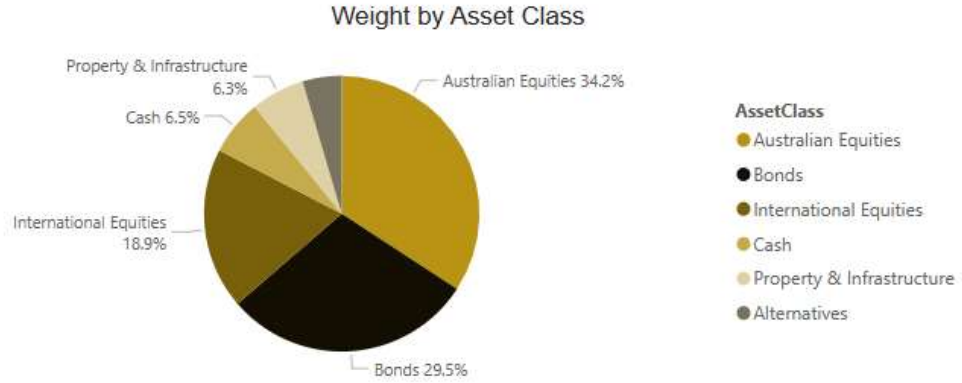
Resonant Balanced

March 2023

Objective: To outperform the Bloomberg AusBond Bank Bill Index by a minimum of 2.2% p.a. over an investment timeframe of 4 years.

Total Returns Net of Fees

Name	Portfolio	Portfolio Net	Benchmark
1 Year	2.4%	1.9%	-1.4%
3 Years (PA)	4.0%	3.5%	3.5%
5 Years (PA)	5.2%	4.7%	4.8%
CYTD	3.4%	3.3%	2.5%
FYTD	8.1%	7.8%	5.5%
Inception (PA)	6.5%	6.0%	5.5%
Risk	7.8%	7.8%	7.3%



AssetClass	ticker	name	Weight
Bonds	VGB	VANGUARD AUS GOVT BD ETF	16.0%
International Equities	VVLU	VANGUARD GLB VAL EQT ACT ETF	9.2%
Bonds	ILB	ISHARES GOVERNMENT INFLATI E	6.8%
Cash	ISEC	ISHARES ENHANCED CASH ETF	5.3%
Property & Infrastructure	IFRA	VANECK FTSE GL INFRASTRUCTUR	4.7%
Alternatives	PER0758AU	JPM INV-GL CAP MAC OP-A AUD	4.6%
Australian Equities	BHP	BHP GROUP LTD	4.4%
Bonds	FLOT	VANECK VECTORS AUS FLOAT RAT	4.1%
Australian Equities	STW	SPDR S&P/ASX 200 FUND	4.0%
International Equities	QHAL	VAN VECT MSCI WRLD EX AU HGD	3.4%

Structure Matters

The managed account structure facilitates this highly active process.

- No SoA's, no RoA's required.
- Portfolio managers can adjust their positions without having to wait for permission.
- Platforms facilitate small trades with no fixed brokerage and institutional grade execution.
- ETF's available make tactical adjustments a low cost and liquid **reality**

- Institutional grade solutions can now be implemented in a managed account structure.
- Resonant's investment process is an total portfolio process now accessible via a tailored mandate.
- All of which leads to better client investment outcomes.

Disclaimers

General Information Purposes Only

This information is of a general nature only and may not be relevant to your particular circumstances. Resonant has not taken into account your particular goals and objectives, anticipated resources, current situation or attitudes in preparing this document. The circumstances of each investor are different and you should seek advice from a financial planner who can consider if the strategies and products are right for you. You should also obtain and read the PDS of any products you are considering investing in.

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Financial Services Guide:

https://www.resonantam.com.au/wp-content/uploads/resonant-financial-services-guide.pdf

Notes on the returns presented

The returns presented reflect the performance of Resonant's managed model portfolios only, they do not reflect individual investor returns. The managed model returns are shown net of any underlying investment product fees, detailed in the Performance Calculation slide.

The returns do not include any adviser fees or platform fees. Also the returns do not include the benefit of franking credits and are shown before tax.

Please note the actual returns of individual investors will differ due to adviser fees, platform fees, franking credits, market timing and realised trading costs. Client specific circumstances such as the investor's tax rate and any client directed holdings or exclusions will also influence individual returns.

These returns are calculated from data provided by third parties in accordance with GIPS compliant methodology . The returns are unaudited.

* See assumptions on previous slide

Integrating flexibility but not too much

Resonant looks to manage this uncertainty by integrating quantitative and qualitative approaches as much as possible throughout the portfolio

- **Long Term asset allocation**: Our capital markets assumptions are updated quarterly, have a baseline quantitative process and a rigorous qualitative approach.
- Our baseline quantitative process estimates risk premium of asset classes, sub classes, countries and styles.
- Our IC discusses various scenarios for markets and the impact on long term returns.
- Our latest updates continue to reflect our forward views on the likely behaviour of international fixed income should an adverse equity market event arise.

AssetClass	Excess above Cash	Nominal	Franked Nominal
Australian equities	3.7%	7.96%	8.96%
International equities hedged	3.3%	7.48%	7.48%
Australian property	2.8%	7.02%	7.02%
International equities unhedged	2.3%	6.48%	6.48%
Alternatives	2.0%	6.22%	6.22%
Australian fixed interest	1.0%	5.22%	5.22%
Cash	0.0%	4.22%	4.22%
International fixed interest	-0.6%	3.64%	3.64%
International infrastructure	-1.2%	3.00%	3.00%

2016 2018 2020 2022

Integrating flexibility but not too much

Resonant looks to manage this uncertainty by integrating quantitative and qualitative approaches as much as possible throughout the portfolio.

- Resonant has a baseline quantitative portfolio construction that runs continuously. It incorporates the latest correlation estimates, trend indicators and earnings adjustments.
- Portfolio managers however have discretion to adjust up or down weights based on qualitative events such as:

1. Macro data and central bank announcements.
2. Sentiment: opportunistically buying (selling) unwarranted sell downs (rallies).
3. Asset specific events such as earnings announcements, upgrades.
4. Changes to interest rates.

- **Resonant strikes a sweet spot between the rigour of quantitative and the flexibility of fundamental analysis.**