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INFLATION PRESSURES HIT

The past quarter has been a very poor one for investors, with markets biased downwards, but with several cross currents which were difficult to navigate.

Most major asset classes exhibited losses during the quarter. There were two major reasons for this. Firstly, global inflation data showed inflation was rising much higher than expectations, causing world financial markets to fear interest rates would have to rise higher and more swiftly than had been anticipated. Secondly, the Russian invasion of Ukraine has significantly increased geopolitical instability, with fears that this invasion may lead to further global tensions, and instability across broader regions. Furthermore, Russia and Ukraine had important roles in the supply of energy and food to the rest of the world, compounding inflationary concerns.

In March, inflation in the USA hit a 40 year high of 8.4%. The spike has pushed the Federal Reserve to raise interest rates for the first time in more than three years, with the market fearing multiple interest rate rises in the short term.

Whilst debate still rages as to the degree of shorter term (transitory) inflation pressures from covid related supply chain disruption globally, and swiftly rising energy costs arising from the Russian invasion of Ukraine, it appears that a degree of longer-term inflationary pressures are becoming embedded in the global financial system.

The USA 10 Year Bond Yield, the markets forecast of rates in the United States in 10 years' time, rose from 1.5% to 2.4% over the March quarter. Post the end of the quarter, the Bond Yield had further increased to circa 2.8% by the middle of April.

The sudden adjustment to expectations has affected all asset classes. The share market reacts negatively as it fears that the higher costs to the consumer through an increase in home loan mortgage payments, and other financing costs causes a reduction in disposable income and a dampening of consumer demand causing an adverse effect on company revenues and profits, driving share prices lower.

Similarly, the performance of Fixed Interest Funds has experienced a difficult stretch, as the price of Government Bonds has fallen significantly.

Globally fixed income funds realised a return of -4.7% on average during the first quarter of 2022, marking it their worst-performing quarter in more than 30 years.

In Australia, March 2022 officially became the worst month in history for the Aussie bond market as judged by the benchmark fixed rate AusBond Composite Bond Index, which realised a return of -3.75%, the worst monthly return recorded by the index in 33 years of data.

So, after a torrid quarter, where to from here? As we have stated before, inflation and interest rates will continue to be a concern for investors this year, and economists and investment managers have been taken off guard by the pace at which inflation is rising. Interest rate markets have adjusted swiftly, now pricing in rate rises well over the top end of expectations only 3 months ago.



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There is some good news. Firstly, interest rate expectations may have moved too much, in that the actual rise in rates may not be as much as the market is now pricing in. With the Federal Reserve now on the front foot, projecting a cash rate of around 1.75% by the end of the current calendar year, bond markets should calm down, assisted by the prospect of a softening in global growth, and a recent peak in global inflation momentum.

Secondly, broadly speaking, cash rates are likely to still remain low in historical terms, and in the USA and Australia, economic growth remains healthy, unemployment is low, and corporates, in general, are in a healthy financial position.

Global share markets have copped the brunt of the repricing resulting from a reset of interest rate expectations, and companies defined by long term growth characteristics have seen their share prices fall harder in the short term. However, despite greater volatility, history has shown that these types of companies provide superior returns for investors with medium to long term time horizons.

With continued uncertainty in the short term, the Paradigm Investment Committee looked to lower its weighting to growth managers in the International share portfolio over the quarter, by adding to its exposure to the AB (Alliance Bernstein) Global Equities Fund, which is now the largest holding in the International portfolio, and for your interest, we have outlined some highlights of the Fund in this report.

In addition to the reweighting of the international portfolio, exposure to alternative assets such as Gold and Infrastructure has benefited investors in the past quarter.

As always, if you have any specific queries, please contact your Paradigm advisor.



Manager Highlight – AB Global Equities Fund

The Paradigm Investment Committee (IC) introduced AB Global Equities Fund (AB Global) into the International portfolio at the end of April 2021, replacing the Magellan Global Fund. The introduction of the AB Global portfolio offered diversification to the fund and lowered risk characteristics.

Co-Heads: Klaus Ingemann, CFA and David Dalgas, CFA

Klaus and David have over 20 years of working together in this team. Along with Rasmus Lee Hansen (+17 years in the team) make up the Investment Board. The team is supported by five analysts to manage approx. \$1bl of funds under management for Australian clients and over \$20bl globally.

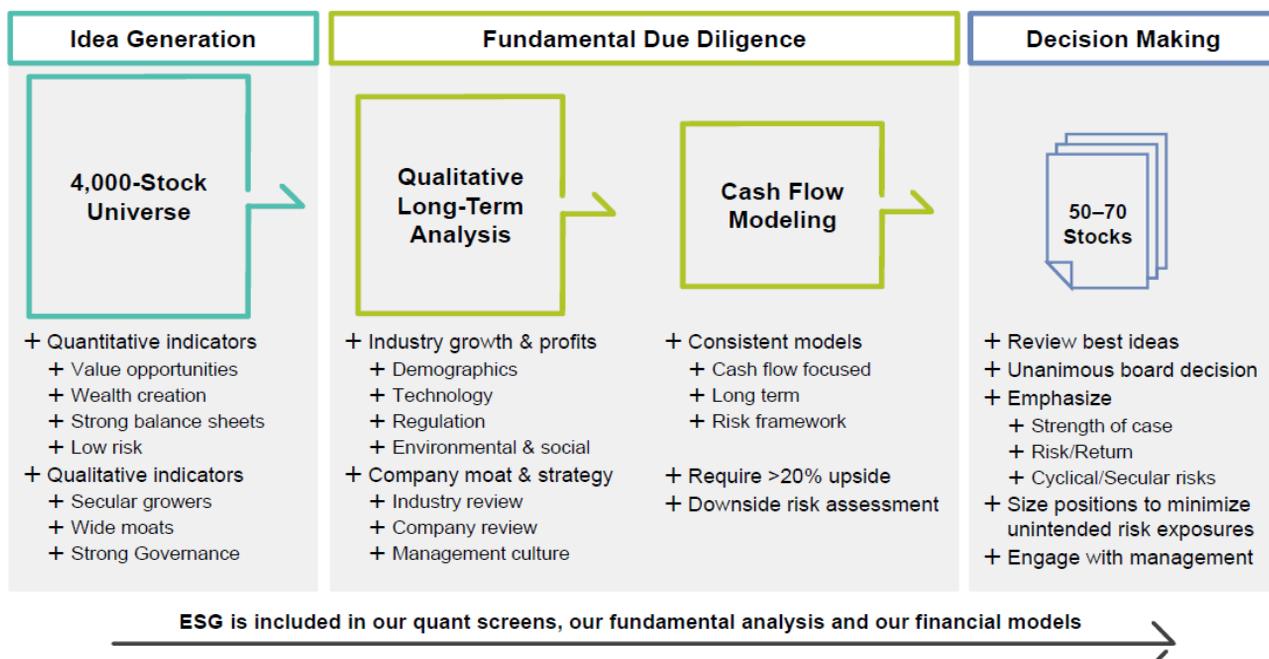
Fund philosophy:

The team employ a **core** approach to manage their strategy. AB Global philosophy is based on two core beliefs:

- Owning companies that generate strong and sustainable returns on invested capital and buying them when they are attractively valued results in strong returns over time.
- Minimising unintended factor-risk exposures through portfolio construction leaves stock selection as the driver of returns, producing consistent results over time.

Fund Process:

The team use a bottom-up approach and follow the below process:



Fund Characteristics:

Portfolio holdings range between 50 and 70, active share ~90%, single stock limits: min 0.50%, max 6%, Microsoft is the largest holding (5.7%), Alphabet (4.3%) and Anthem (4.0%).

International Portfolio Weight:

During the March quarter, the IC members agreed to increase the model weight for AB Global to 38%. This was funded by a 5% decrease from T.Rowe Global Growth.



Portfolio Features

Portfolio Objective:
The expected return for a Conservative portfolio is CPI +1% p.a over a rolling 3-year period. In setting the above performance objective, there is a likelihood of the portfolio having a negative return in 1 year in 18.

Top 5 holdings:	Wgt (%)
Diversified Fixed Interest:	61.0
Franklin Aus Abs. Bond	12.3
Vanguard Aus. Govt. Bond	6.0
NABPE Hybrid	5.3
MQGPE Hybrid	3.2
Australian Unity Ltd Pref.	2.9

International:	7.0
Alliance Bernstein Global	2.6
T.Rowe Global (Hedged)	1.6
WCM Global Growth	1.2
Artisan Global Discovery	0.7
Baillie Gifford Glb Growth	0.5

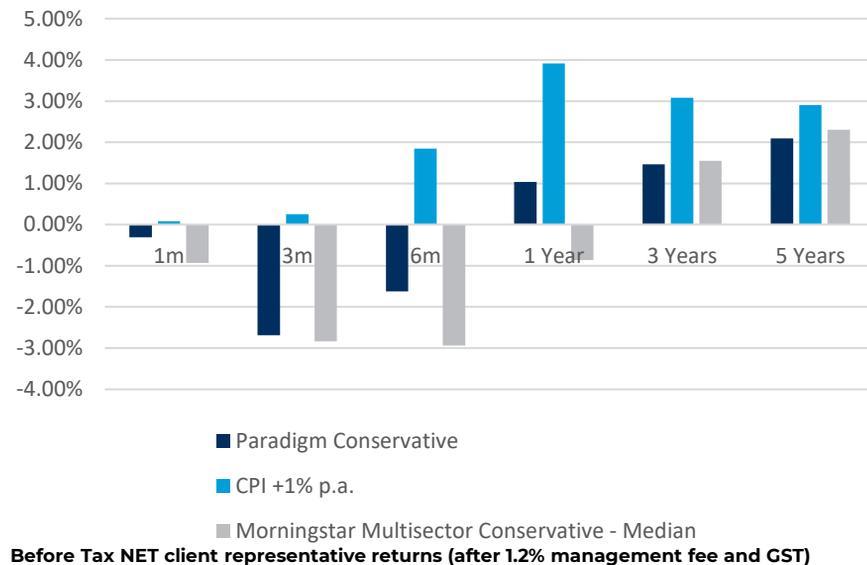
Australian Share:	5.0
Goodman Group	1.3
Stockland	0.5
GPT Group	0.5
Dexus	0.5
Growthpoint Properties	0.3

Property:	4.0
Commonwealth Bank	0.3
Macquarie Group	0.2
Incitec Pivot	0.2
Telstra	0.2
CSL	0.2

Alternative Assets:	3.0
Ruffer Total Return Int.	0.9
UBS Clarion Infrastructure	0.9
ETFs Gold	0.8
Acorn Capital	0.3

Strategic Weight:	
Growth	20
Defensive	80

Portfolio Performance

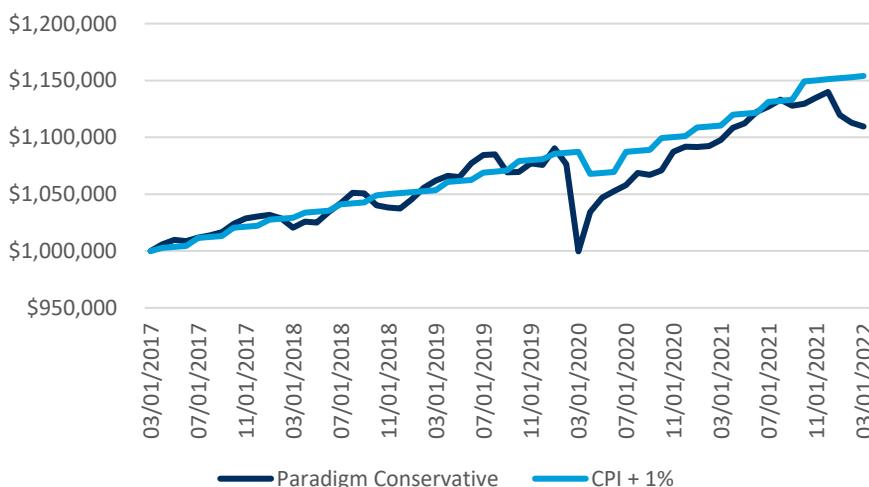


Before Tax NET client representative returns (after 1.2% management fee and GST)

Asset Contribution



Five Year growth of \$1m





Portfolio Features

Portfolio Objective:

The expected return for a Moderately Conservative portfolio is CPI +3% p.a. over a rolling 3-year period. In setting the above performance objective, there is a likelihood of the portfolio having a negative return in 1 year in 10.

Top 5 holdings: Wgt (%)

Diversified Fixed Interest: 40.0

Franklin Aus Abs. Bond	8.0
Vanguard Aus. Govt. Bond	3.9
NABPE Hybrid	3.5
MQGPE Hybrid	2.1
Australian Unity Ltd Pref.	1.9

International: 19.0

Alliance Bernstein Global	7.1
T.Rowe Global (Hedged)	4.4
WCM Global Growth	3.2
Artisan Global Discovery	2.0
Baillie Gifford Glb Growth	1.4

Australian Share: 17.0

Commonwealth Bank	1.4
Macquarie Group	1.0
Incitec Pivot	1.0
Telstra	1.0
CSL	0.9

Property: 9.0

Goodman Group	2.3
Stockland	0.9
GPT Group	0.9
Dexus	0.9
Growthpoint Properties	0.5

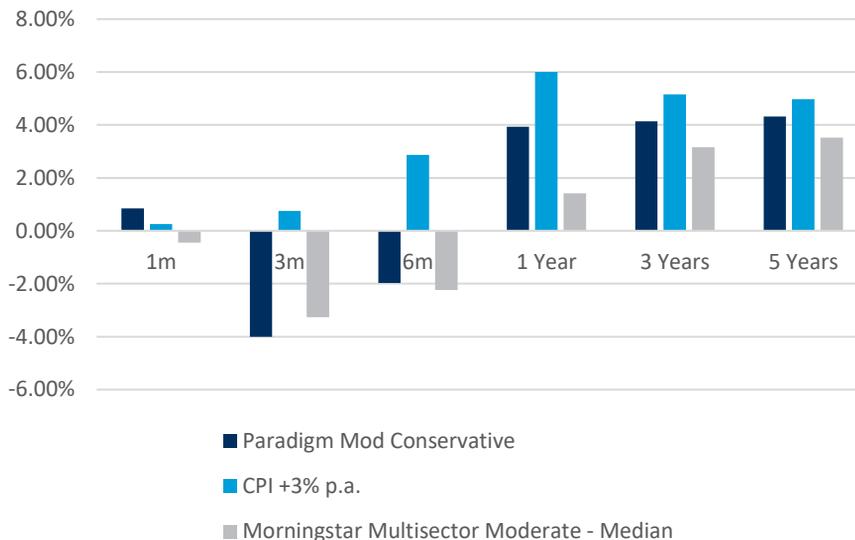
Alternative Assets: 5.0

Ruffer Total Return Int.	1.5
UBS Clarion Infrastructure	1.4
ETFS Gold	1.3
Acorn Capital	0.6

Strategic Weight:

Growth	50
Defensive	50

Portfolio Performance

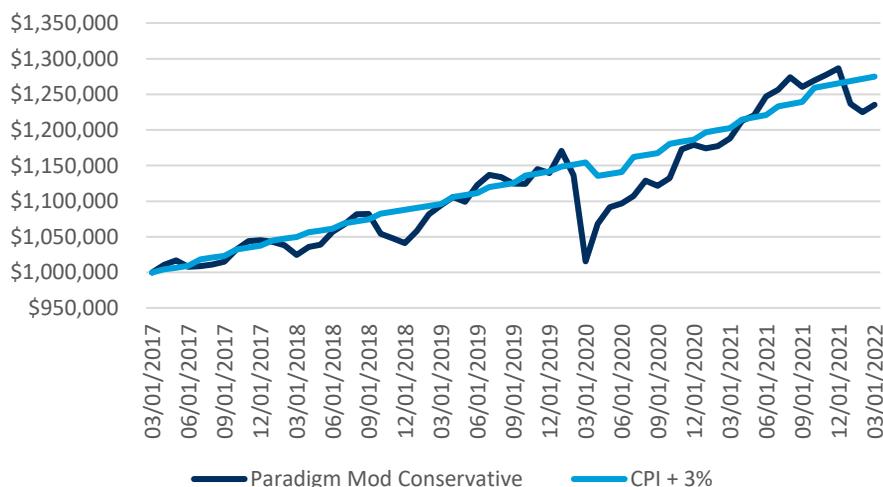


Before Tax NET client representative returns (after 1.2% management fee and GST)

Asset Contribution



Five Year growth of \$1m





Portfolio Features

Portfolio Objective:

The expected return for a Balanced portfolio over a rolling 5-year period is CPI +4% p.a. In setting the above performance objective, there is a likelihood of the portfolio having a negative return in 1 year in 8.

Top 5 holdings: Wgt (%)

International:	Wgt (%)
Alliance Bernstein Global	9.7
T.Rowe Global (Hedged)	6.0
WCM Global Growth	4.3
Artisan Global Discovery	2.7
Baillie Gifford Glb Growth	1.9

Australian Share: 26.0

Commonwealth Bank	2.1
Macquarie Group	1.6
Incitec Pivot	1.5
Telstra	1.5
CSL	1.4

Diversified Fixed Interest: 21.0

Franklin Aus Abs. Bond	4.4
Vanguard Aus. Govt. Bond	2.2
NABPE Hybrid	1.9
MQGPE Hybrid	1.2
Australian Unity Ltd Pref.	1.1

Property: 12.0

Goodman Group	3.1
Stockland	1.2
GPT Group	1.2
Dexus	1.1
Growthpoint Properties	0.6

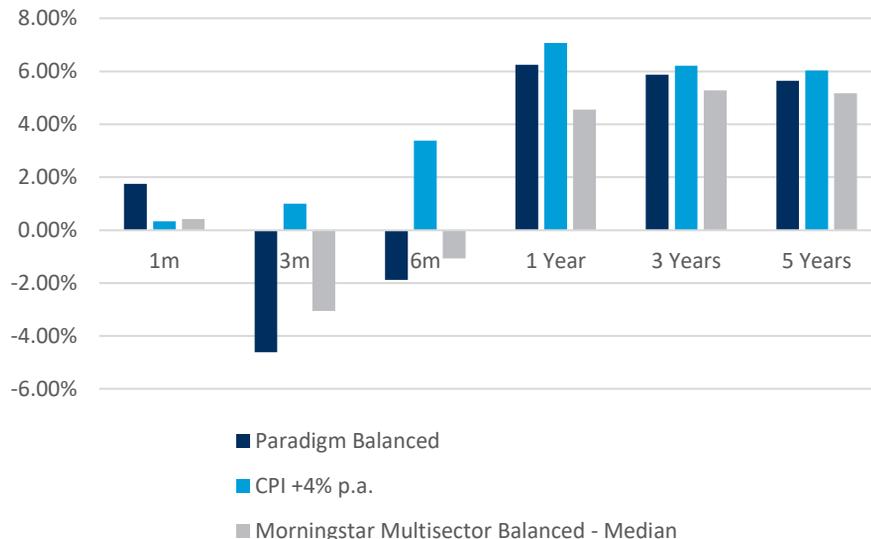
Alternative Assets: 8.0

Ruffer Total Return Int.	2.4
UBS Clarion Infrastructure	2.3
ETFS Gold	2.1
Acorn Capital	0.9

Strategic Weight:

Growth	70
Defensive	30

Portfolio Performance

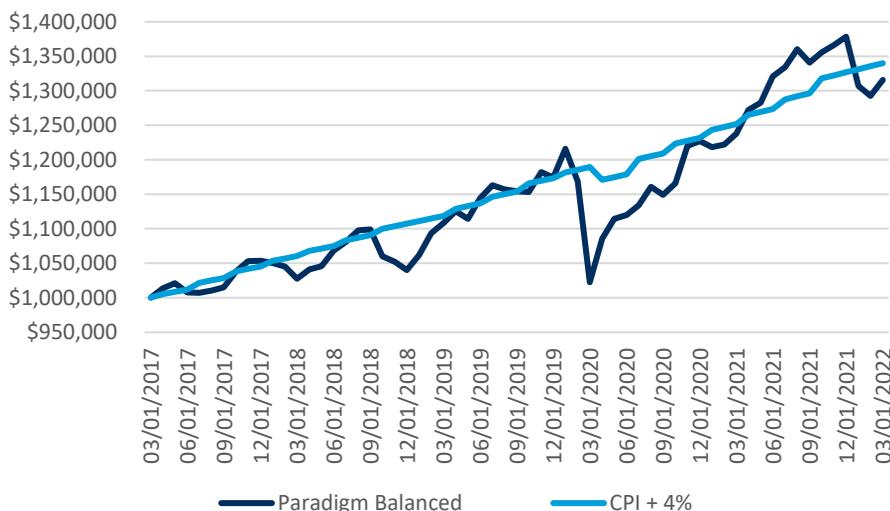


Before Tax NET client representative returns (after 1.2% management fee and GST)

Asset Contribution



Five Year growth of \$1m



Portfolio Model: Growth.....

Portfolio Features

Portfolio Objective:

The expected return for a Growth portfolio over a rolling 7-year period is CPI +4.5% p.a. In setting the above performance objective, there is a likelihood of the portfolio having a negative return in 1 year in 7.

Top 5 holdings: Wgt (%)

International:	Wgt (%)
Alliance Bernstein Global	13.5
T.Rowe Global (Hedged)	8.3
WCM Global Growth	6.0
Artisan Global Discovery	3.7
Baillie Gifford Glb Growth	2.7

Australian Share: 29.0

Commonwealth Bank	2.4
Macquarie Group	1.8
Incitec Pivot	1.7
Telstra	1.7
CSL	1.5

Property: 13.0

Goodman Group	3.3
Stockland	1.3
GPT Group	1.2
Dexus	1.2
Growthpoint Properties	0.7

Diversified Fixed Interest: 12.0

Franklin Aus Abs. Bond	2.4
Vanguard Aus. Govt. Bond	1.2
NABPE Hybrid	1.0
MQPE Hybrid	0.6
Australian Unity Ltd Pref.	0.6

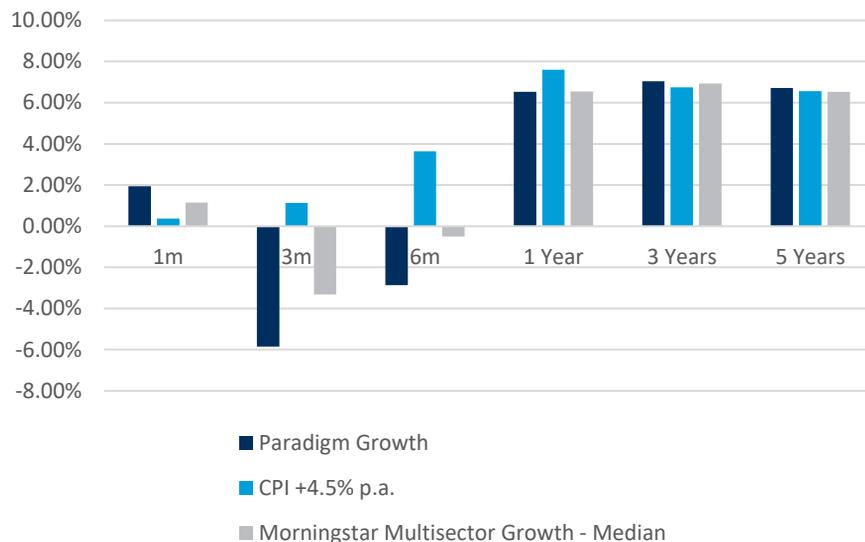
Alternative Assets: 8.0

Ruffer Total Return Int.	2.4
UBS Clarion Infrastructure	2.3
ETFS Gold	2.1
Acorn Capital	0.9

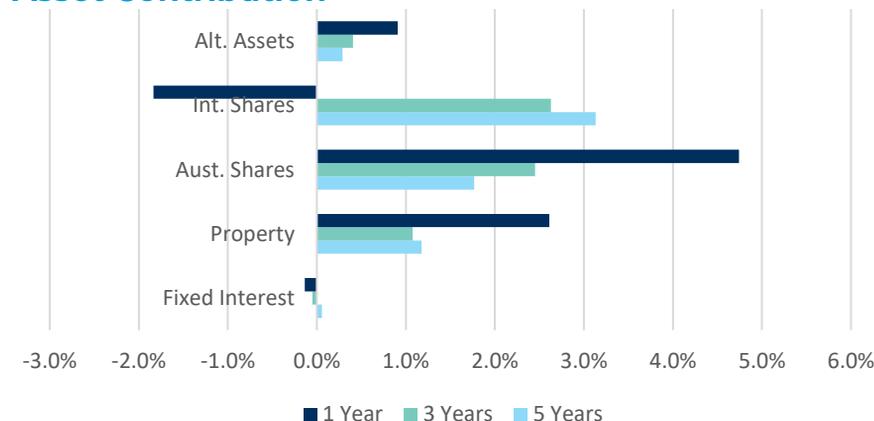
Strategic Weight:

Growth	85
Defensive	15

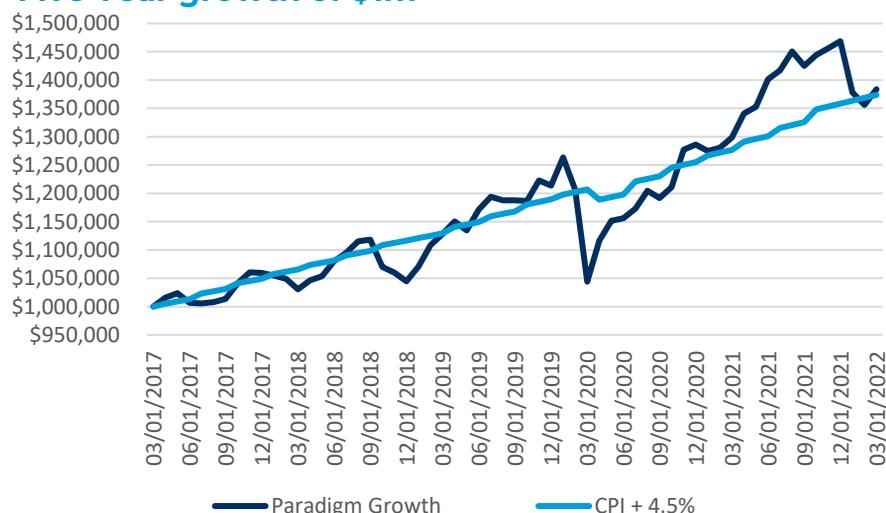
Portfolio Performance



Asset Contribution



Five Year growth of \$1m



Portfolio Model: High Growth.....

Portfolio Features

Portfolio Objective:

The expected return for a High Growth portfolio over a rolling 10-year period is CPI +5% p.a. In setting the above performance objective, there is a likelihood of the portfolio having a negative return in 1 year in 5.

Top 5 holdings: Wgt (%)

International:	40.0
Alliance Bernstein Global	15.0
T.Rowe Global (Hedged)	9.2
WCM Global Growth	6.7
Artisan Global Discovery	4.1
Baillie Gifford Glb Growth	3.0

Australian Share: 36.0

Commonwealth Bank	3.0
Macquarie Group	2.2
Incitec Pivot	2.1
Telstra	2.1
CSL	1.9

Property: 12.0

Goodman Group	3.0
Stockland	1.2
GPT Group	1.2
Dexus	1.1
Growthpoint Properties	0.6

Alternative Assets: 7.0

Ruffer Total Return Int.	2.1
UBS Clarion Infrastructure	2.0
ETFS Gold	1.8
Acorn Capital	0.8

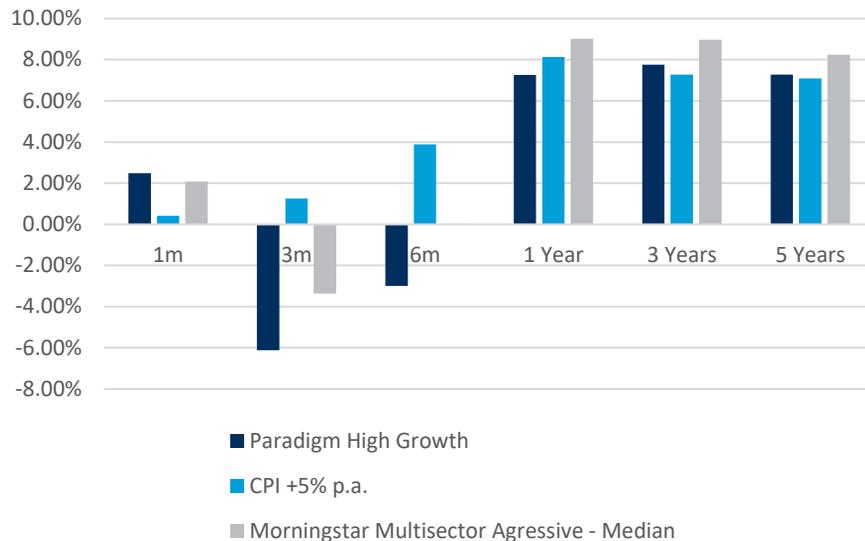
Diversified Fixed Interest: 3.0

Franklin Aus Abs. Bond	0.6
Vanguard Aus. Govt. Bond	0.3
NABPE Hybrid	0.3
MQGPE Hybrid	0.2
Australian Unity Ltd Pref.	0.1

Strategic Weight:

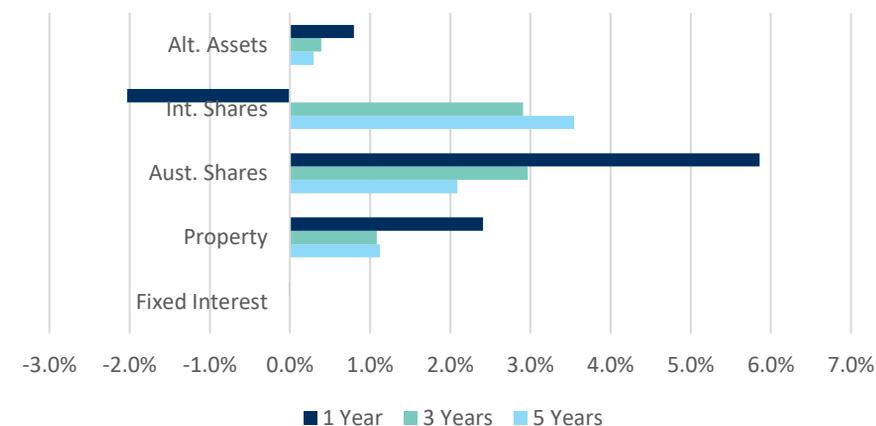
Growth	98
Defensive	2

Portfolio Performance



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Asset Contribution



Five Year growth of \$1m

