Sunbird Portfolios™
QUALITY LISTED PORTFOLIOS

Australian Equity Model Portfolio Performance

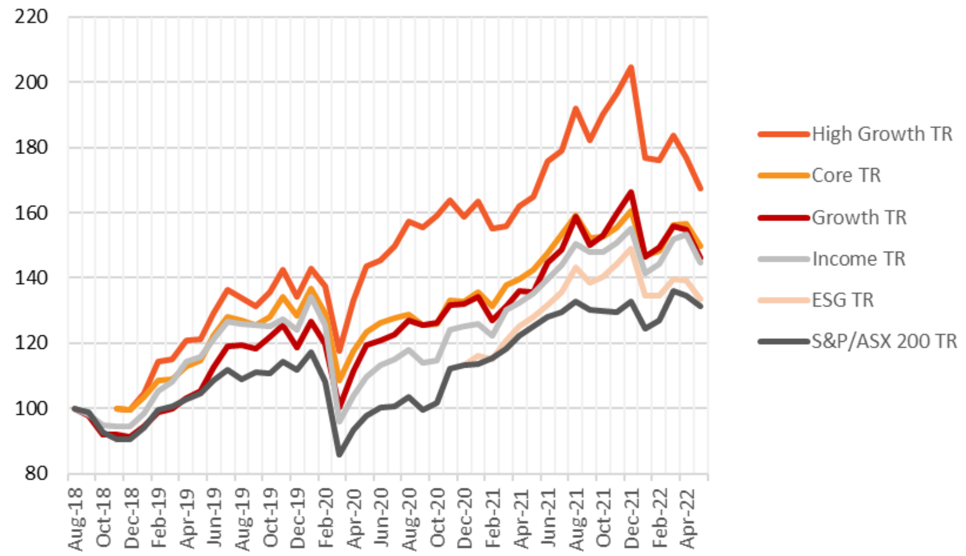
Rolling returns to 31 May 2022

Sunbird Portfolios	1M (%)	3M (%)	6M (%)	1Y (%)	2Y (% p.a.)	3Y (% p.a.)	Since Inception (% p.a.)	Yield	FY22F (%)
High Growth TR	-5.3	-4.9	-14.8	1.6	8.0	11.3	15.8	Cash yield	1.7
S&P/ASX 200 TR	-2.6	3.2	1.4	4.8	15.9	7.8	11.1	Franking	48
Excess Return	**-2.7**	**-8.1**	**-16.2**	**-3.2**	**-7.9**	**3.5**	**4.7**	Gross yield	2.2
Growth TR	-5.5	-2.2	-8.5	7.7	10.6	11.5	10.6	Cash yield	2.6
S&P/ASX 200 TR	-2.6	3.2	1.4	4.8	15.9	7.8	7.5	Franking	58
Excess Return	**-2.9**	**-5.4**	**-9.9**	**2.9**	**-5.3**	**3.7**	**3.1**	Gross Yield	3.2
Core TR	-4.4	1.0	-3.8	5.0	10.2	9.3	12.2	Cash yield	3.9
S&P/ASX 200 TR	-2.6	3.2	1.4	4.8	15.9	7.8	11.1	Franking	67
Excess Return	**-1.8**	**-2.2**	**-5.2**	**0.2**	**-5.7**	**1.5**	**1.1**	Gross Yield	5.3
Income TR	-5.6	0.3	-4.1	7.0	14.9	7.7	10.3	Cash yield	4.3
S&P/ASX 200 Indus. TR	-3.7	2.2	-4.1	1.5	13.8	6.1	5.5	Franking	75
Excess Return	**-1.9**	**-1.9**	**0.0**	**5.5**	**1.1**	**1.6**	**4.8**	Gross Yield	5.7
ESG TR	-4.5	-0.9	-8.5	3.7			11.8	Cash yield	3.0
S&P/ASX 200 TR	-2.6	3.2	1.4	4.8			10.9	Franking	61
Excess Return	**-1.9**	**-4.1**	**-9.9**	**-1.1**	n/a	n/a	**0.9**	Gross Yield	3.9

TR = Total Return (before fees and franking credits). Growth and Income inception 31/08/18, Core and High Growth inception 30/11/18, ESG inception 31/12/20. Sunbird performance figures are reconciled with HUB24 performance figures each month and will also be audited. Past performance is not a reliable indicator of future performance.

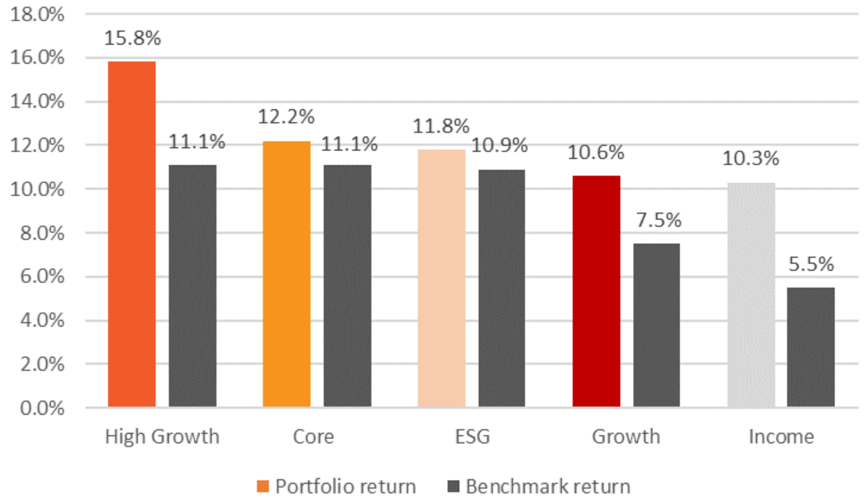
Portfolio performance, since inception

Each portfolio is outperforming and demonstrating good defensive qualities



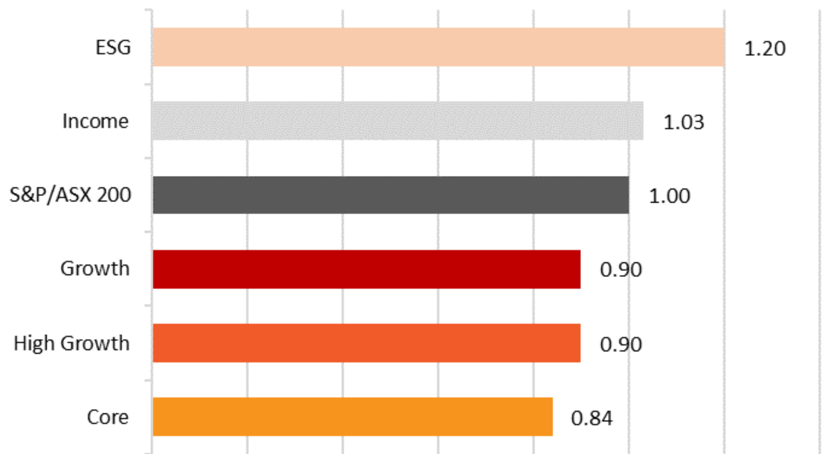
Portfolio performance, since inception

Returns range from 10.3-15.8% p.a. | Excess returns range from +0.9-4.8% p.a.



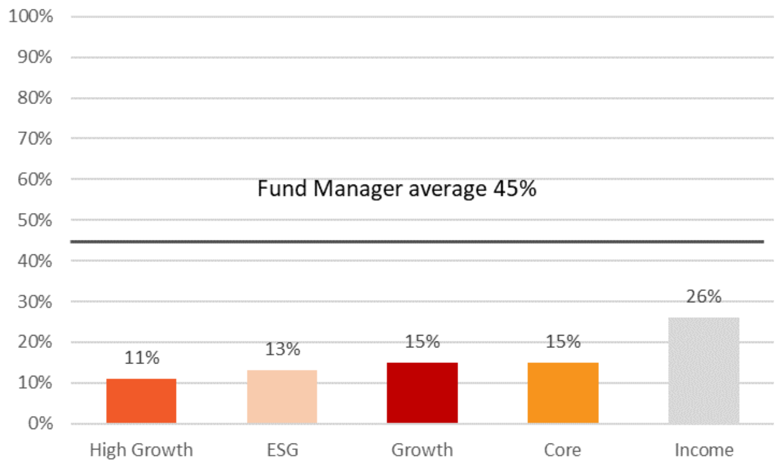
Portfolio risk, since inception

Portfolio betas are in-line with or lower than the market (except the ESG portfolio, which is relatively new)



Portfolio turnover, since inception

Portfolio turnover is low



Portfolio commentary

The Australian market started to dive in May, as the yield curve continued to rise. Disappointingly, the portfolios underperformed in May, mainly because sector heavyweights – Banks and Resources – continue to prop-up the index and we are generally underweight these sectors.

However, by June these two sectors are retreating, and the portfolios are picking up significant alpha – as you would expect from a *Quality and Value* approach. We expect **Consumer Staples** and **Healthcare** to be two key sectors that outperform in bearish conditions, and we hold heavy exposure to both these sectors.

The Growth portfolios obviously have a greater tilt to growth stocks and hence have been harshly affected over the past six months. But over twelve months they are still doing reasonably well versus the index and other growth managers. They both have racked up strong returns over the past few years and can afford a short-term retreat. We would expect our quality growth stocks to find a base more quickly than many other growth stocks due to our focus on company fundamentals like recurring earnings, cashflow, dividends and strong balance sheets.

Moving forward, we would expect the Core and Income portfolios to outperform in volatile conditions. The ESG portfolio does have a slight bias to growth and hence has been lagging the Core and Income portfolios over the past year.

Over longer time periods, portfolio performance remains strong, and we would expect relative performance to improve over the short to medium term, as the rally in Banks and Resources fade, and quality Industrials shine through.

Overall, we are comfortable with portfolio positioning for what is likely to be a challenging couple of years (involving a recovery from the COVID pandemic, an energy transition but also higher inflation and interest rates). We believe our *Quality and Value* process will hold us in good stead as we proceed throughout the year.

Market commentary

High inflation continues to remain the key global issue, with Russian sanctions and China's lockdowns likely to exacerbate and extend inflation and supply chain problems into FY23. Central Banks are increasing cash rates rapidly and the yield curve is moving higher. Interest rates are now considerably higher than at the start of 2022, which is a positive for cash and fixed interest investors, but a negative for property and equity assets, which have been falling.

The first leg of the downturn in equity and property markets has related to higher bond yields, which increase discount rates and lower market valuations. We expect a second leg down, relating to issues around company earnings and leases. Companies are facing rising costs and higher interest rates, which will place pressure on company margins.

The new Labor government has had a baptism of fire, with the RBA lifting interest rates by an unexpected 50bps in June and a looming energy crisis on the East Coast of Australia. Cost of living pressures are coming to the fore and there is not much governments can do after blowing out their budget deficits and debt, during the COVID pandemic.

Households are facing higher living expenses and higher mortgage repayments. With debt levels continuing to rise, during the COVID pandemic (encouraged by ultra-low fixed rates) there is likely to be some major problems ahead as households revert to considerably higher variable mortgage rates over the next 1-2 years.

Sanctions on Russian commodity supply and lockdowns in China have worsened the supply chain problems that have driven inflation. Central Banks can only respond with higher interest rates to reduce demand. The key questions are: **how high will interest rates go and what level of inflation will Central Banks accept?**

If the Fed keeps to its 2% inflation target, we could be looking at an ugly period of high interest rates to slay inflation, similar to the Paul Volcker led Fed in 1979. We find this hard to believe in the modern age, where governments do whatever they can to promote growth and jobs. We think it is likely that the Fed expands its inflation target to 2-3%, similar to the RBA.

In Australia, inflation is lower at 5.1% but it is likely to rise at the next June quarter result, due in July 2022. The RBA may well be forced to increase the cash rate to 2.0% or higher (as the market expects). This is going to have a major impact on household mortgage repayments and the housing market. However, we think the RBA is likely to 'blink' at some stage, as the housing and equity markets continue to retreat.

We went bearish in late April 2022 on concerns that rising interest rates and rising costs would be too much for companies and households to handle. There is an increased chance of recession ahead. We are recommending a defensive approach, which includes exposure to quality growth assets, some gold exposure and a re-evaluation of cash and fixed interest (minimum BBB credit rating) as an opportunity.

For further information on macro and individual stocks see our email notes and company research on the portal.

Core Portfolio

Description

A diversified portfolio of around 20 quality stocks, selected from the S&P/ASX 200, with a focus on a balance of income and capital growth.

Portfolio Objective

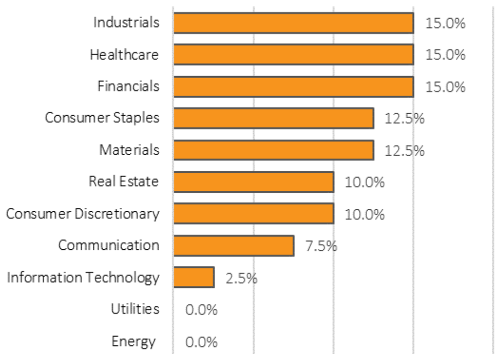
To add 2-4% p.a. in value over the S&P/ASX 200, with a similar or lower risk profile to the benchmark.

Investment Philosophy

- Quality and Value
- High Conviction
- Highly Defensive

Universe	S&P/ASX 200
Benchmark	S&P/ASX 200 TR
Risk Limits	
Maximum stock weight	10.0%
Minimum stock weight	2.5%
Maximum cash weight	10.0%
Maximum gold equity weight	10.0%
Portfolio Data	
Inception date	30/11/2018
Total Return	12.2% p.a.
Excess return	1.1% p.a.
Dividend yield	3.9% cash 5.3% gross
Portfolio volatility	15.4% p.a.
Portfolio beta	0.84
Sharpe ratio	0.63
Portfolio turnover	15.0% p.a.
ASX 100 exposure	95.0%
Defensive exposure	67.5%
Gold equity exposure	0.0%

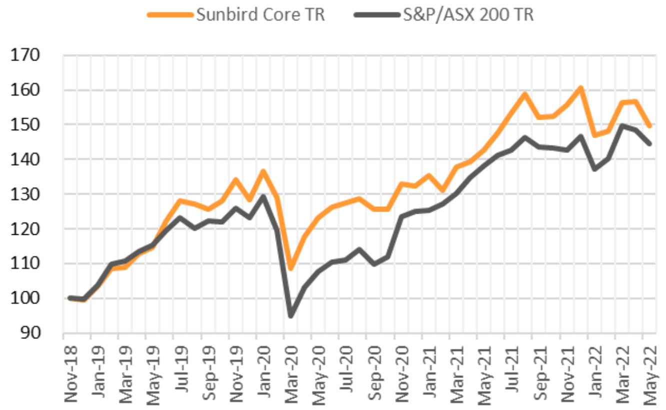
Sector Exposure



Portfolio Performance

Performance to 31/05/22	1M (%)	3M (%)	1Y (%)	2Y (% p.a.)	3Y (% p.a.)	Incept. (% p.a.)
Core TR (%)	-4.4	1.0	5.0	10.2	9.3	12.2
S&P/ASX 200 TR (%)	-2.6	3.2	4.8	15.9	7.8	11.1
Excess Return (%)	**-1.8**	**-2.2**	**0.2**	**-5.7**	**1.5**	**1.1**

TR = Total Return. Gross returns (before franking). Core inception date 30/11/18. Past performance is not a reliable indicator of future performance.

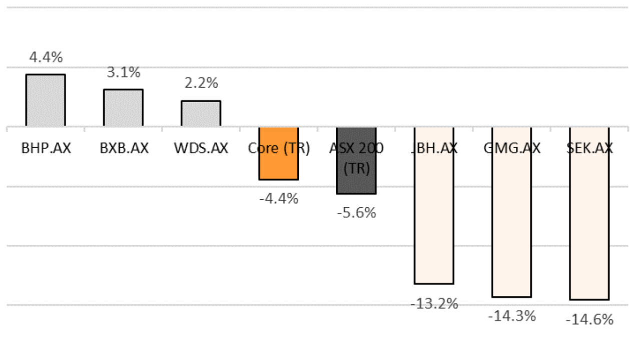


Portfolio Commentary

The Core portfolio lagged in May as many of our quality stocks were down, while Banks and Resources continued to 'prop-up' the market. Being a quality manager, we are underweight Banks & Resources and overweight quality Industrials.

However, by June, Banks and Resources started to retreat and we expect to pick-up relative performance from here. Consumer Staples and Healthcare have been lagging and are two key sectors that we expect to outperform in more bearish conditions.

Key contributors and detractors – May 2022



BHP and its recently demerged WDS (Woodside Energy) continued to outperform in May. We plan to divest WDS over the next six months. BXB did manage to outperform but most of our stocks were down in May.

On the negative side, Growth and Property stocks continue to derate on the higher yield curve. Consumer Discretionary and Staple stocks have also retreated but we expect Staples to recover. Overall, we remain comfortable with portfolio positioning and no changes are planned (apart from the removal of Appen (APX) by Christmas, due to its removal from the S&P/ASX 200).

Income Portfolio

Description

A diversified portfolio of around 15 quality industrial stocks, selected from the S&P/ASX 200, with a focus on income first and capital growth second.

Portfolio Objective

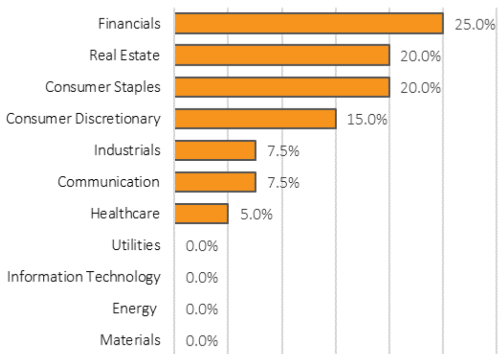
To provide an attractive income and to add 2-4% p.a. in value over the S&P/ASX 200 Industrials Index, with a similar or lower risk profile to the benchmark.

Investment Philosophy

- Quality and Value
- High Conviction
- Highly Defensive

Universe	S&P/ASX 200
Benchmark	S&P/ASX 200 Industrials TR
Risk Limits	
Maximum stock weight	10.0%
Minimum stock weight	2.5%
Maximum cash weight	10.0%
Portfolio Data	
Inception date	31/08/2018
Total Return	10.3% p.a.
Excess return	4.8% p.a.
Dividend yield	4.3% cash 5.7% gross
Portfolio volatility	18.2% p.a.
Portfolio beta	1.03
Sharpe ratio	0.42
Portfolio turnover	26.0% p.a.
ASX 100 exposure	90.0%
Defensive exposure	65.0%
Gold equity exposure	0.0%

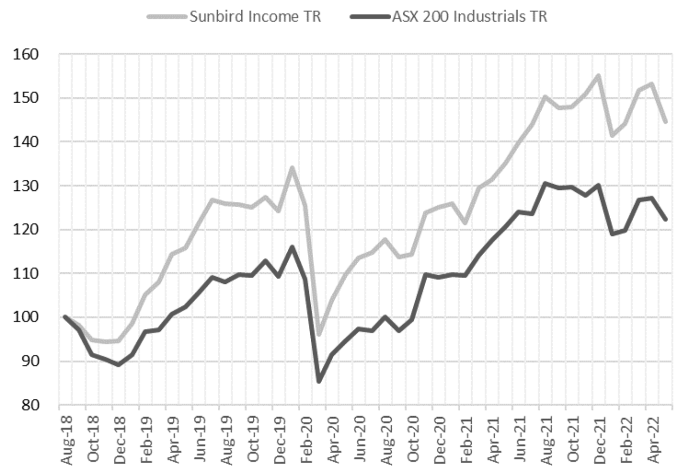
Sector Exposure



Portfolio Performance

Performance to 31/05/22	1M (%)	3M (%)	1Y (%)	2Y (% p.a.)	3Y (% p.a.)	Incept. (% p.a.)
Income TR (%)	-5.6	0.3	7.0	14.9	7.7	10.3
S&P/ASX 200 Industrials TR (%)	-3.7	2.2	1.5	13.8	6.1	5.5
Excess Return (%)	**-1.9**	**-1.9**	**5.5**	**1.1**	**1.6**	**4.8**

TR = Total Return. Gross returns (before franking). Income inception date 31/08/18. Past performance is not a reliable indicator of future performance.

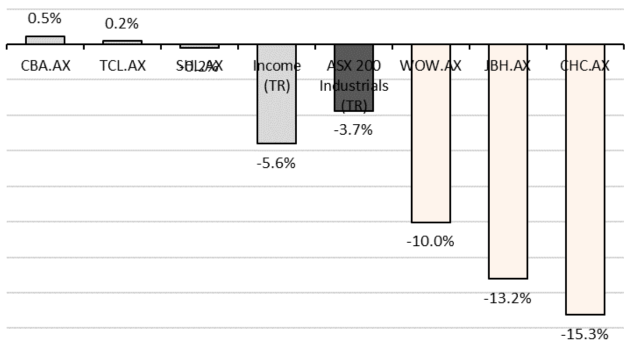


Portfolio Commentary

The Income portfolio lagged the market in May as Property and Consumer stocks underperformed on concerns over higher interest rates. However, these sectors provide a solid income, and we are prepared to take a long-term view.

Overall, portfolio performance remains ahead of benchmark over longer timeframes and the portfolio is exceeding its objective.

Key contributors and detractors – May 2022



There wasn't much on the positive side in May, with most stocks down. Banks and Infrastructure continued to hold-up well (but both fell in June).

On the negative side, Property and Consumer stocks got hit hard on concerns over rising interest rates. Our stocks all have strong balance sheets and robust business models, and we expect them to recover over the medium to long term. We expect the forecast income to remain in place and for capital value to recover over time. No changed are planned.

ESG Portfolio

Description

The ESG portfolio aims to offer a balance of income and growth from investing in quality companies that are also responsible investments. Each company must pass a number of Environmental, Social and Governance (ESG) filters.

Portfolio Objective

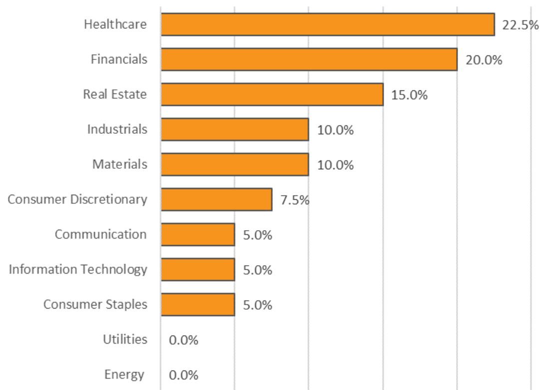
To add 2-4% p.a. in value over the S&P/ASX 200, with a similar or lower risk profile to the benchmark.

Investment Philosophy

- Quality and Value
- ESG filters

Universe	S&P/ASX 200
Benchmark	S&P/ASX 200 TR
Risk Limits	
Maximum stock weight	10.0%
Minimum stock weight	2.5%
Maximum cash weight	10.0%
Portfolio Data	
Inception date	31/12/2020
Total Return	11.8% p.a.
Excess return	0.9% p.a.
Dividend yield	3.0% cash 3.9% gross
Portfolio volatility	14.0% p.a.
Portfolio beta	1.20
Sharpe ratio	0.98
Portfolio turnover	12.5% p.a.
ASX 100 exposure	85.0%
Defensive exposure	65.0%
Gold equity exposure	0.0%

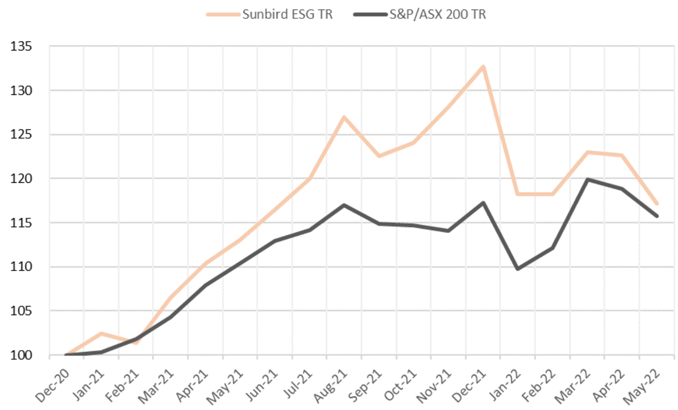
Sector Exposure



Portfolio Performance

Performance to 31/05/22	1M (%)	3M (%)	1Y (%)	2Y (% p.a.)	3Y (% p.a.)	Incept. (% p.a.)
ESG TR (%)	-4.5	-0.9	3.7			11.8
S&P/ASX 200 TR (%)	-2.6	3.2	4.8			10.9
Excess Return (%)	**-1.9**	**-4.1**	**-1.1**	n/a	n/a	**0.9**

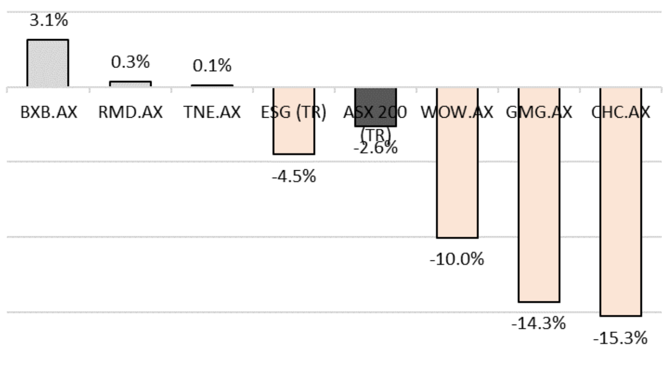
TR = Total Return. Gross returns (before franking). ESG inception date 31/12/20. Past performance is not a reliable indicator of future performance.



Portfolio Commentary

The ESG portfolio has a greater growth bias than the Core portfolio, hence it has been lagging over the past year. We are not overly concerned and expect our quality ESG stocks to outperform over the long term. Indeed, longer term performance remains ahead of benchmark.

Key contributors and detractors – May 2022



The portfolio was dragged down by weakness in Property and Consumer stocks on concerns over higher interest rates. Our stocks all have strong balance sheets and robust business models, and we expect them to recover over the medium to long term.

On the positive side, key defensive BXB is holding up and we note Healthcare stocks (22.5% weight) are showing signs of bottoming and could outperform from here.

All portfolio stocks continue to maintain a minimum 'B-' ESG rating under Refinitiv's ESG rating system and they also pass Sunbird's 'common sense' ESG filters. See our ESG presentation for more information.

High Growth Portfolio

Description

A diversified portfolio of around 15 quality stocks, selected from the S&P/ASX 200, with a focus on capital growth.

Portfolio Objective

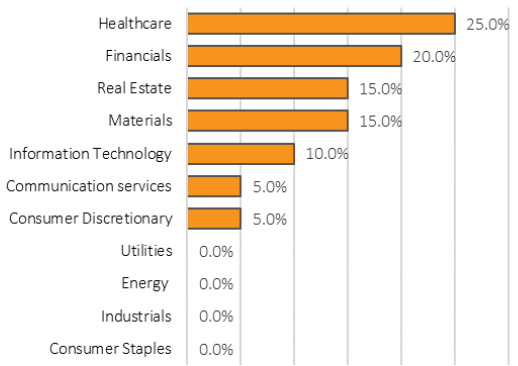
To add >5% p.a. in value over the S&P/ASX 200, with a similar risk profile to the benchmark.

Investment Philosophy

- Quality and Value
- High Conviction
- Highly Defensive

Universe	S&P/ASX 200
Benchmark	S&P/ASX 200 TR
Risk Limits	
Maximum stock weight	10.0%
Minimum stock weight	2.5%
Maximum cash weight	10.0%
Maximum gold equity weight	10.0%
Portfolio Data	
Inception date	30/11/2018
Total Return	15.8% p.a.
Excess return	4.7% p.a.
Dividend yield	1.7% cash 2.2% gross
Portfolio volatility	18.9% p.a.
Portfolio beta	0.90
Sharpe ratio	0.69
Portfolio turnover	11.0% p.a.
ASX 100 exposure	65.0%
Defensive exposure	50.0%
Gold equity exposure	5.0%

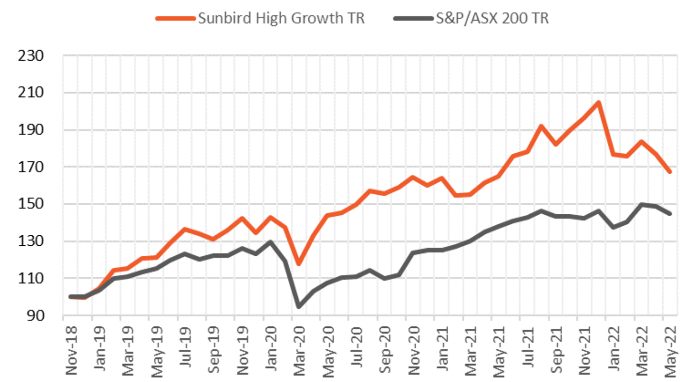
Sector Exposure



Portfolio Performance

Performance to 31/05/22	1M (%)	3M (%)	1Y (%)	2Y (% p.a.)	3Y (% p.a.)	Incept. (% p.a.)
High Growth TR (%)	-5.3	-4.9	1.6	8.0	11.3	15.8
S&P/ASX 200 TR (%)	-2.6	3.2	4.8	15.9	7.8	11.1
Excess Return (%)	**-2.7**	**-8.1**	**-3.2**	**-7.9**	**3.5**	**4.7**

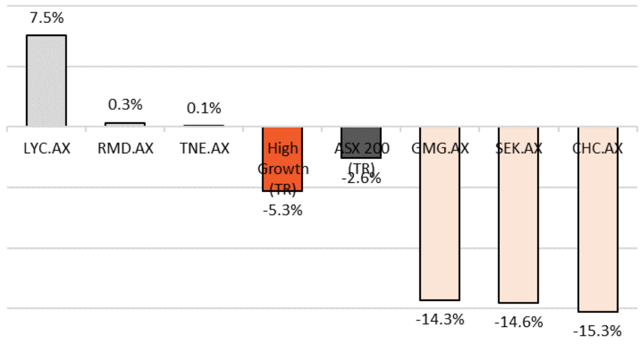
TR = Total Return. Gross returns (before franking). High Growth inception date 30/11/18. Past performance is not a reliable indicator of future performance.



Portfolio Commentary

The High Growth portfolio continues to be impacted by the general derating in growth stocks. We are not overly concerned as the portfolio is tracking well ahead of benchmark, over longer time periods, and we expect our growth stocks to find a base relatively quickly, due to our *Quality and Value* investment process.

Key contributors and detractors – May 2022



Most stocks were down in May, but LYC managed to get buck the trend due to the announcement of plans to build a new Rare Earth separation plant in the US, funded by the US Dept. of Defence.

On the negative side, Technology and Property stocks continued to derate on the higher yield curve. We would expect our quality growth stocks to find a base more quickly than many other growth stocks due to our focus on company fundamentals like recurring earnings, cashflow, dividends and strong balance sheets.

Overall, we remain comfortable with portfolio positioning. We still have 5% sitting in cash and are on the outlook for new quality growth stock to join the portfolio in 2022.

Growth Portfolio

Description

A diversified portfolio of around 20 quality stocks, selected from the S&P/ASX 200, with a focus on capital growth first and income second.

Portfolio Objective

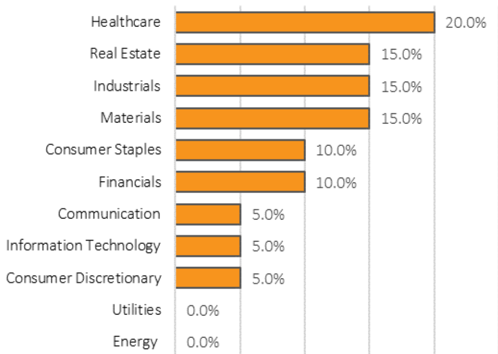
To add 3-5% p.a. in value over the S&P/ASX 200, with a similar risk profile to the benchmark.

Investment Philosophy

- Quality and Value
- High Conviction
- Highly Defensive

Universe	S&P/ASX 200
Benchmark	S&P/ASX 200 TR
Risk Limits	
Maximum stock weight	10.0%
Minimum stock weight	2.5%
Maximum cash weight	10.0%
Maximum gold equity weight	10.0%
Portfolio Data	
Inception date	31/08/2018
Total Return	10.6% p.a.
Excess return	3.1% p.a.
Dividend yield	2.6% cash 3.2% gross
Portfolio volatility	17.5% p.a.
Portfolio beta	0.90
Sharpe ratio	0.45
Portfolio turnover	15.0% p.a.
ASX 100 exposure	80.0%
Defensive exposure	55.0%
Gold equity exposure	5.0%

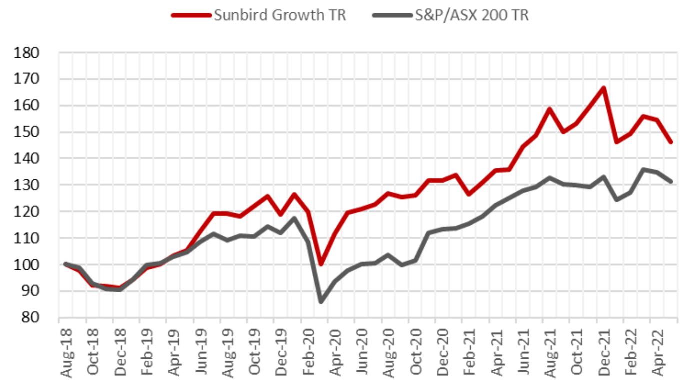
Sector Exposure



Portfolio Performance

Performance to 31/05/22	1M (%)	3M (%)	1Y (%)	2Y (% p.a.)	3Y (% p.a.)	Incept. (% p.a.)
Growth (%)	-5.5	-2.2	7.7	10.6	11.5	10.6
S&P/ASX 200 TR (%)	-2.6	3.2	4.8	15.9	7.8	7.5
Excess Return (%)	**-2.9**	**-5.4**	**2.9**	**-5.3**	**3.7**	**3.1**

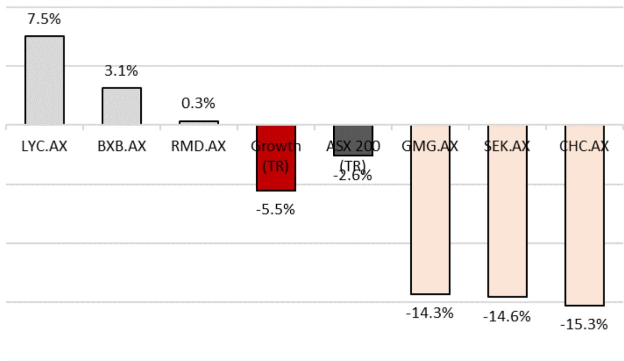
TR = Total Return. Gross returns (before franking). Growth inception date 31/08/18. Past performance is not a reliable indicator of future performance.



Portfolio Commentary

The Growth portfolio has been holding up reasonably well, given the recent derating in growth stocks, due to the higher yield curve. Higher growth stocks have derated more than lower growth or 'value' stocks. Our growth stocks are picked based on our *Quality and Value* process and we expect them to find a base relatively quickly as they all have real earnings, cashflow and even pay dividends. They also have strong balance sheets, with minimal or no debt.

Key contributors and detractors – May 2022



Most stocks were down in May, but LYC managed to get buck the trend due to the announcement of plans to build a new Rare Earth separation plant in the US, funded by the US Dept. of Defence.

On the negative side, Technology and Property stocks continue to derate on the higher yield curve. Our stocks all have strong balance sheets and robust business models, and we expect them to recover over the medium to long term.

Overall, we remain comfortable with portfolio positioning and no changes are planned.

Portfolio Profiles

	High Growth	Growth	Core	Income	ESG
Description	A concentrated portfolio focused on capital growth	A concentrated portfolio focused on capital growth first and income second	A more diversified portfolio focused on a balance of income and capital growth	A concentrated portfolio focused on income first and capital growth second	A Core portfolio, with an ESG overlay. A higher growth profile than the Core.
Inception date	30/11/18	31/08/18	30/11/18	31/08/18	31/12/20
Objective	Benchmark +4-5% p.a.	Benchmark +3-5% p.a.	Benchmark +2-4% p.a.	Benchmark +2-4% p.a.	Benchmark +2-4% p.a.
Risk target	Portfolio Beta ~1.0	Portfolio Beta ~1.0	Portfolio Beta <1.0	Portfolio Beta <1.0	Portfolio Beta ~1.0
Typical no. of stocks	15	20	20	15	15
Universe	S&P/ASX 200	S&P/ASX 200	S&P/ASX 200	S&P/ASX 200	S&P/ASX 200
Benchmark	S&P/ASX 200 Total Return	S&P/ASX 200 Total Return	S&P/ASX 200 Total Return	S&P/ASX 200 Industrials Total Return	S&P/ASX 200 Total Return
ASX 100 exposure	65.0%	80.0%	90.0%	90.0%	85.0%
Defensive exposure	50.0%	55.0%	67.5%	65.0%	65.0%
Maximum stock target weight	10.0%	10.0%	10.0%	10.0%	10.0%
Minimum stock target weight	2.5%	2.5%	2.5%	2.5%	2.5%
Maximum cash limit	10%	10%	10%	10%	10%
Maximum gold equity hedge	10%	10%	10%	0%	0%
Turnover history	11% p.a.	15% p.a.	15% p.a.	26% p.a.	13% p.a.
Stock weight inputs	Sector exposure, Growth vs Income characteristics, Defensive characteristics, Portfolio Yield, Market cap/liquidity, Quality and Risk score, Portfolio manager conviction, Portfolio expected return vs expected risk				
Capital protection measures	Quality and value investment process, Portfolio diversification, Defensive stock exposure, Gold equity exposure, Cash weighting up to 10%				

Investment Philosophy and Process

Sunbird employs a *Quality and Value* investment philosophy and process. Sunbird has a proven track record of adding value and lowering risk by investing in quality companies, that offer value and have positive medium-term momentum. Sunbird avoids quality companies that are expensive and poor-quality companies that are 'cheap'.

About Sunbird Portfolio Services (Sunbird)

Sunbird is a listed portfolio specialist that provides high performing, quality portfolios at a low cost. Sunbird has a small but highly experienced team, with a proven track record of adding value and lowering risk. Sunbird's investment philosophy and process has been developed over the past 15 years (at Sunbird and Lonsec).

Warnings, Disclosures and Disclaimers

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W www.sunbirdportfolios.com.au

E bill.keenan@sunbirdportfolios.com.au

M 0403534426

T 03 8840 7886

A Exchange Tower, Level 1, 530 Little Collins Street, Melbourne, VIC 3000.