

See page 5 for Portfolio Results

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Dear Valued Client,

The US Dollar...

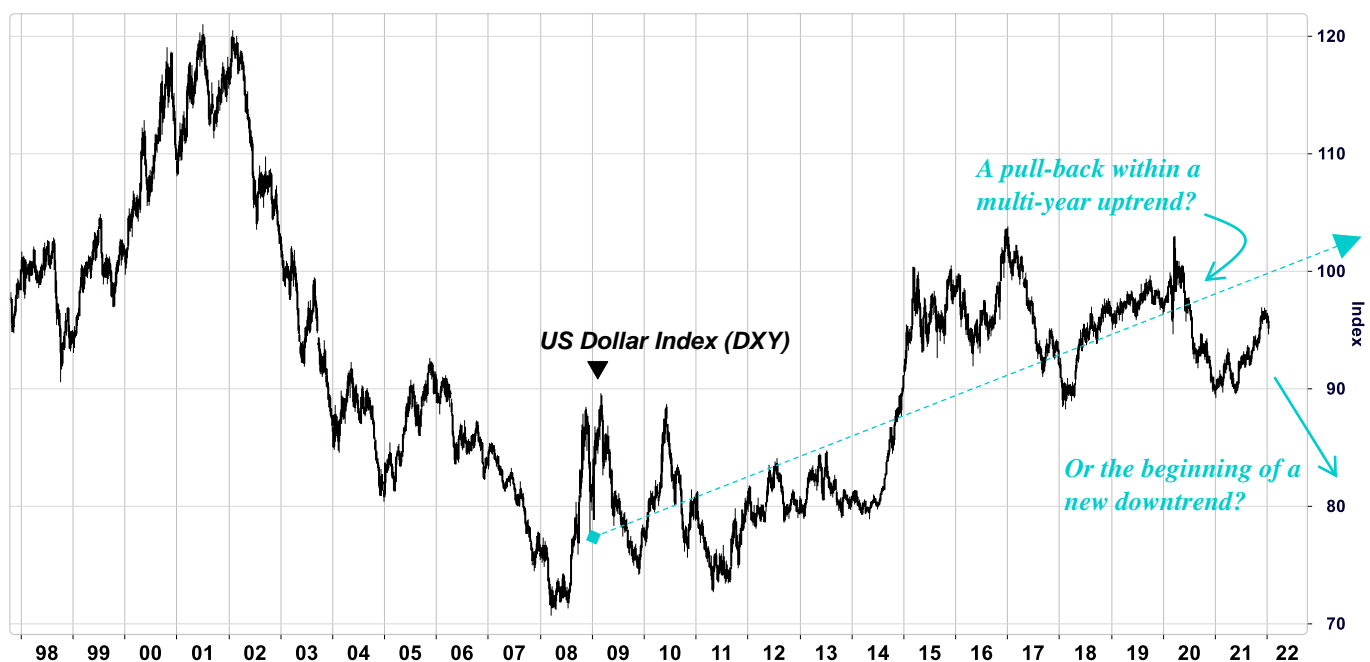
The US Dollar is the most important currency in the world. It is still central to capital markets.

"Speculative capital moves in search of the highest total return. Total Return has 3 elements: the interest rate differential, the FX rate, the capital appreciation in local currency. Expectations about future exchange rates constitute the main motivation in speculative capital flow"
...George Soros, The Alchemy of Finance

Broader trends in the US Dollar foreshadow conditions in commodities, the relative performance of different equity markets around the world, and also have an impact on bonds (inflation).

The question we get from clients, asked in many different ways, is this...

Is the pull-back from the early 2020 high: **a simple pullback within an otherwise intact multi-year uptrend in the US Dollar?** Or is the **beginning of a new multi-year downtrend in the US Dollar?**



"...the interest on money is regulated in the long run by the profit on capital, which in its turn is determined by the productivity and relative abundance of real capital, or, in the terms of modern political economy, by its marginal productivity.

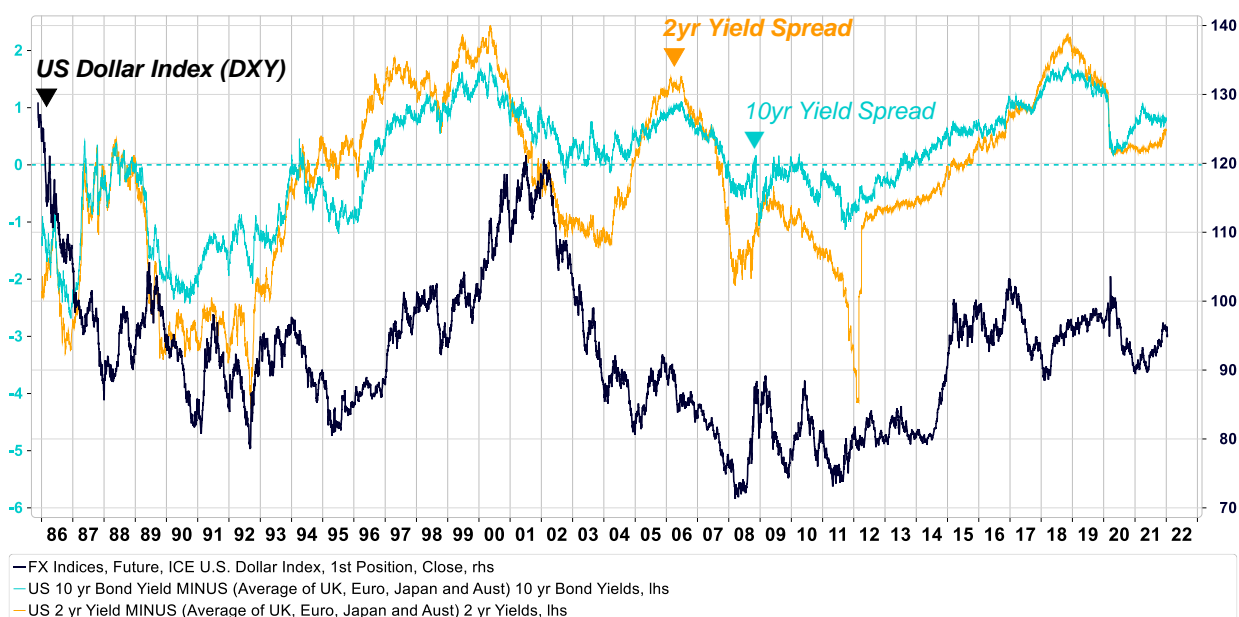
"In good times, when trade is brisk, the rate of profit is high, and, what is of great consequence, is generally expected to remain high; in periods of depression it is low, and expected to remain low. The rate of interest on money follows, no doubt, the same course..."

...Knut Wicksell (1851-1926)

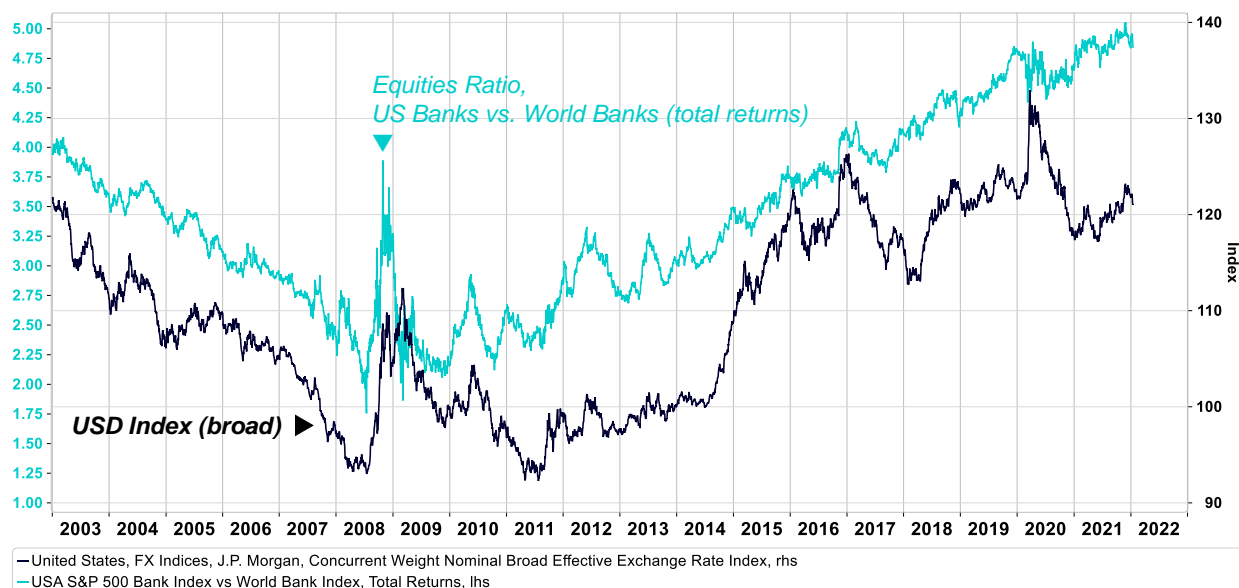
In broad generalised terms, looking at the spread in yields between two currency areas helps to visualise growth & productivity expectations. The region with the higher growth & productivity expectations will tend to have higher yields and will tend to have an appreciating currency.

But, as is always the case with currencies, the above is too much of a generalised rule of thumb, when you start introducing relative inflation and sovereign credit risk factors, the currency influences get more complicated.

Nonetheless, as compared to the rest of the world, spreads still favour the USA both at the 2 & 10 year levels, with arguably a discernible trends towards a strengthening differential in favour of the USA on the 2 year. Such would suggest a still ***favourable multi-year backdrop for the USD...***

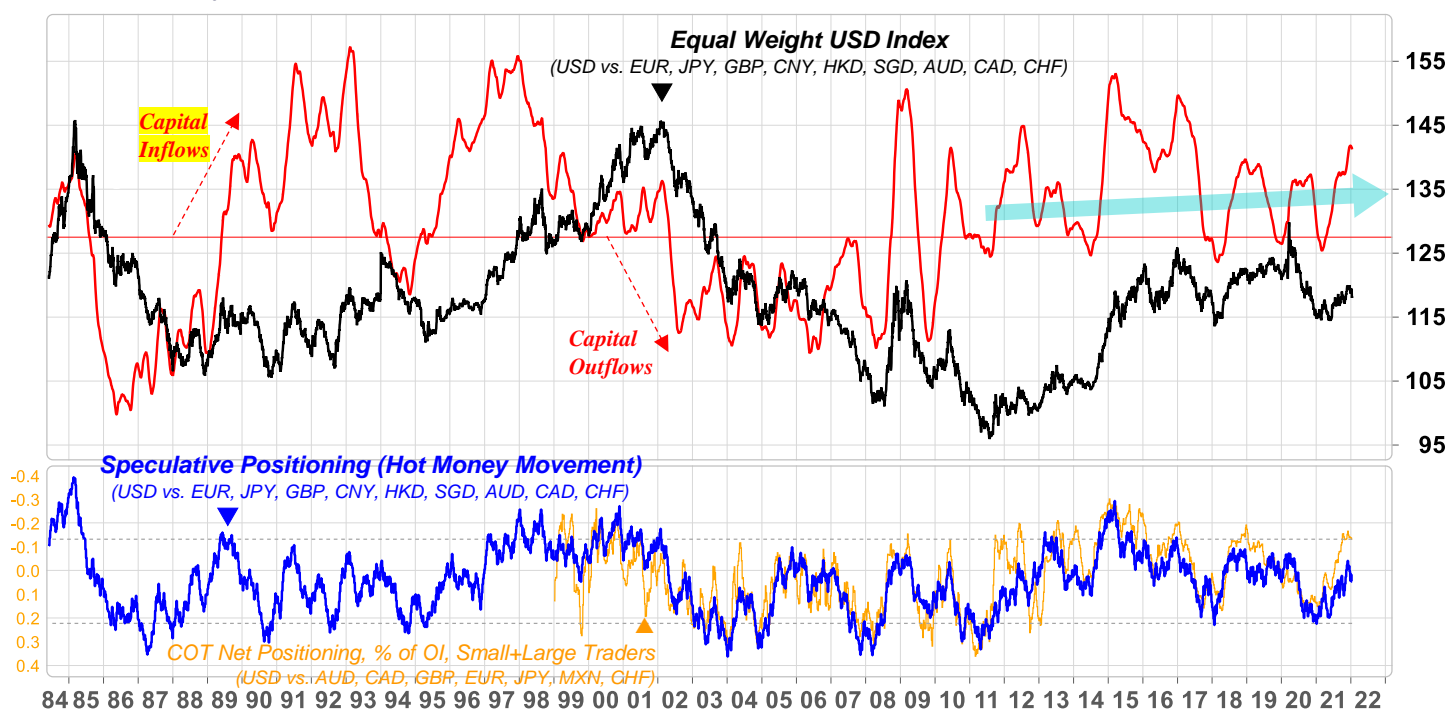


From another perspective, it can be argued that currencies are a 'relative confidence' game. One way to proximately glimpse trends in 'relative confidence' might be to plot the ratio of US banks listed on the stock market vs. the rest of the world's listed bank stocks. This would also suggest the relative confidence trends in the world ***continue to favour the USA on a multi-year basis...***

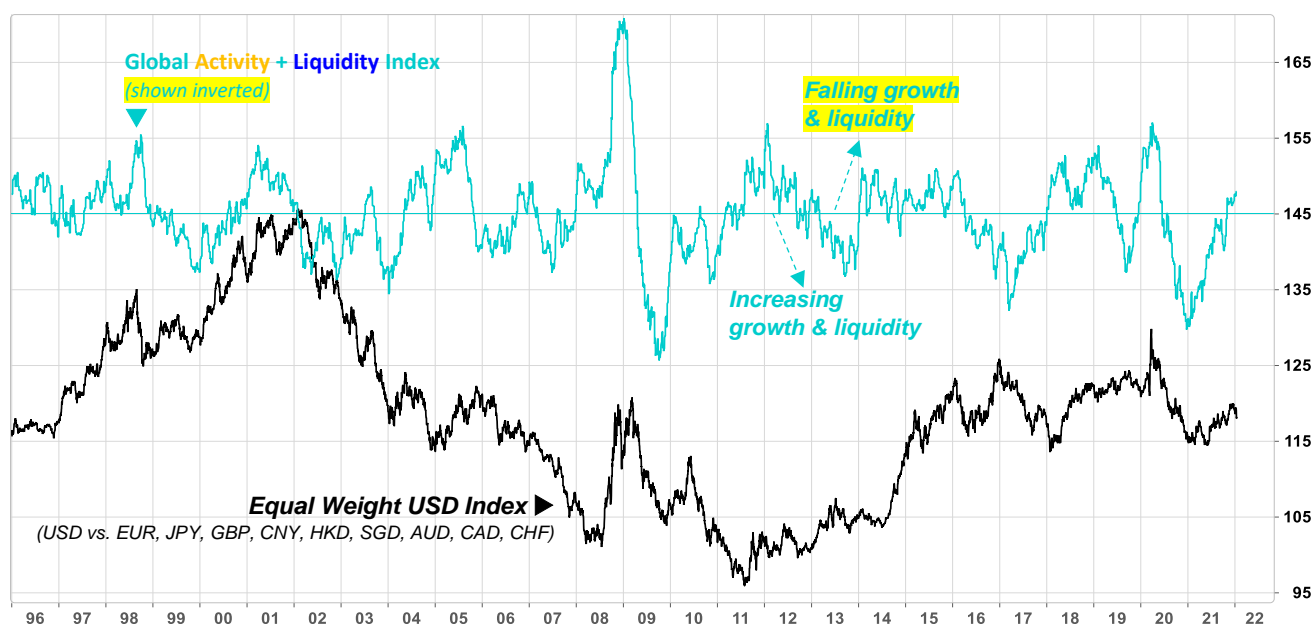


Ultimately, capital moves around the world for a multitude of reasons, weighting a multitude of factors, and trying to anticipate the best assets/regions to be in both from a return-on-capital perspective (relative growth expectations) and a return-of-capital (relative 'safety') perspective. When all the factors above are considered, the accurate quantification and timely reweighting of capital flow inputs becomes very difficult.

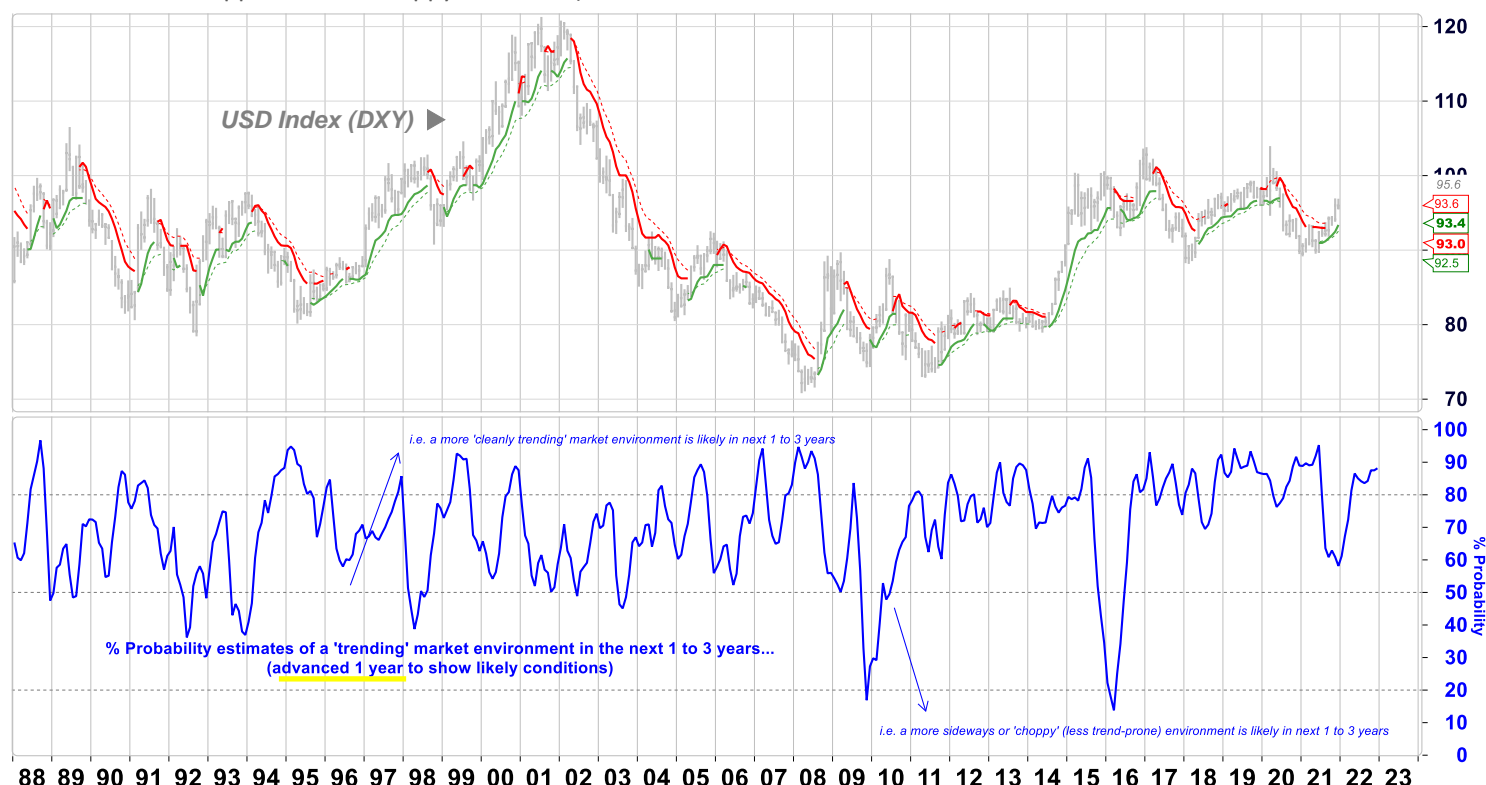
Over the years we've developed methods to triangulate capital flows around the world – so we can simply just 'follow the money' (and assess whether or not conditions are excessively extreme or not due to positioning & pricing assumptions). While not perfect, the following capital flow models for the USD are an example of this triangulation. It suggests (as do many of our other models) that **broad global capital flows are still heading into the USA on a multi-year basis, suggesting the uptrend is still intact...**



When it comes to the US Dollar, it is well recognised that it tends to do well when; (a) global growth is slowing in the world, and (b) global capital market liquidity is slowing... this creates a strengthening USD dynamic (see appendix of GEFM for further details). **This also is USD bullish right now:**



We can also see that it is highly probable for the USD to be in a 'trending' market condition (as opposed to a 'choppy' condition) for the next 12-18 months at least...



One of our larger exposures in our Portfolios is the US Dollar & US Assets (effectively short AUD).

In terms of the question framed at the beginning of this Letter, it is our view that over the last two years the US Dollar was simply in 'a pull-back within a larger multi-year uptrend'. Related to this is our view for the AUD to continue to weaken on a multi-year basis.

Being aligned with the broader longer-term trend in the US Dollar allows us opportunity to profit by holding exposure to dollar denominated assets in addition to providing a portfolio 'shock absorber' during any periods of stress or volatility in the world (as 'risk off' conditions typically are US Dollar bullish).

Obviously, we hold forward looking views loosely, and will continue to watch as conditions unfold and further information comes to hand.

We hope this has been a helpful Letter. As always, please feel free to contact us should you have any questions about your portfolios or the conditions unfolding in the world.

Kind regards,

The PCM Team



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Strategic Opportunities Portfolio

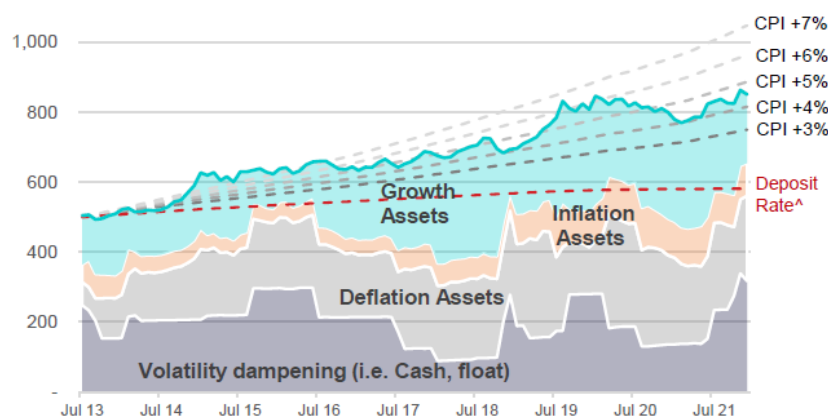
Portfolio Description

The **Strategic Opportunities Portfolio** seeks to take calculated risks in order to generate above average risk adjusted returns targeting returns equal to inflation +3 to 7% p.a. on average over rolling 5-year periods (whilst maintaining a positive total-return profile over any 24-month rolling timeframe).

Key Benefits

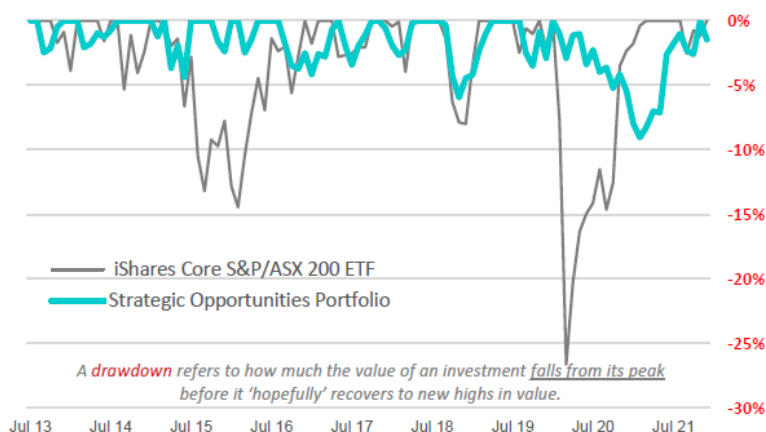
- **ABSOLUTE RETURNS:** A targeted positive return objective over any rolling 2-year period utilising a variety of 'long only' instruments.
- **LOW VOLATILITY:** Targets up to 20-50% less volatility than the equity market.
- **UNCORRELATED RETURNS:** Seeks to be materially uncorrelated to the equity market over a full 7-year cycle.
- **CONSISTENCY:** Targeted maximum drawdown tolerance of 15% (from high water mark).
- **HIGHLY LIQUID:** Only utilises *highly liquid listed securities* on major Developed-World stock exchanges (such as the ASX, NYSE, Nasdaq, TSX, XTER, LSE). There is no use of derivatives, leverage or shorting.
- **TRANSPARENCY:** Complete transparency through the SMA (Separately Managed Account) Platform portal to all transactions and securities.

Performance by Risk Element* (Monthly, '000s, 31 July 2013 to 31 Dec. 2021)



* More information regarding Risk Elements provided on Page 3, "Step 2". ^ Deposit Rate of Return

Peak to Trough Drawdown (Monthly, 31 July 2013 to 31 Dec. 2021)



Return Profile (To 31 December 2021, from 31 July 2013 for comparison)

	7 Yr (p.a.)	5 Yr (p.a.)	2 Yr (p.a.)	1 Yr	Since Inception Return (p.a.)	Volatility (p.a.)	Beta to S&P/ASX 200	Largest Drawdown
PCM Strategic Opportunities Portfolio	5.38%	5.72%	2.61%	6.33%	6.51%	7.10%	0.12	(9.05%)
Benchmark: CPI +3%	4.78%	4.91%	4.87%	5.80%	4.93%			
S&P/ASX 200 (IOZ:AU Total Return)	9.88%	11.48%	10.82%	19.90%	9.80%	13.51%	1.00	(26.62%)

Information

Name	Strategic Opportunities Portfolio	Investment Category	Conservative Alternatives
Inception	23 July 2013	Portfolio Holdings	10 to 25 securities, including ETFs
Management	Prerequisite Capital Pty Ltd	Platform(s)	Xplore Wealth
Contact	1300 133 681		

► Our Portfolio Strategy...

- **GOAL:** To generate *average returns of “inflation + 3 to 7%” p.a.* over a full cycle (of at least 7 years), and to do so in a conservative, liquid, and resilient manner. We have three sub-objectives of:
- generating a *positive return over any rolling two year period*,
 - being largely *uncorrelated* to any of the major asset classes on average over time, and
 - utilising only *highly-liquid*, exchanged traded (developed world stock exchanges), long-only securities without the use of derivatives, shorting or leverage.

► How does the Strategy deliver on the above Goals & Objectives? (Explained in 3 simple steps)

- **STEP 1:** We will ‘typically’ maintain a multi-year structural asset allocation that is roughly 1/3rd Confidence assets (i.e. efficiency) and 2/3rd Collateral assets (i.e. resiliency).

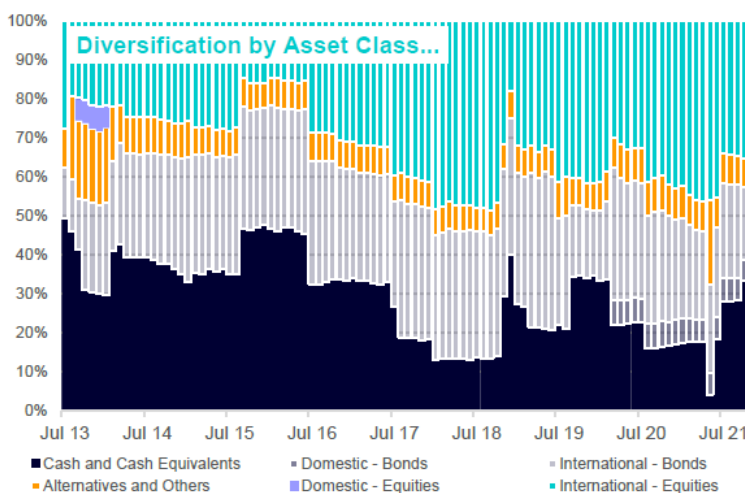
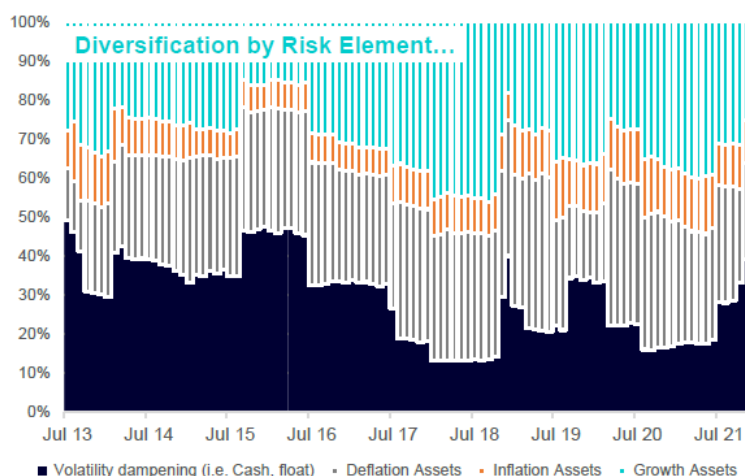
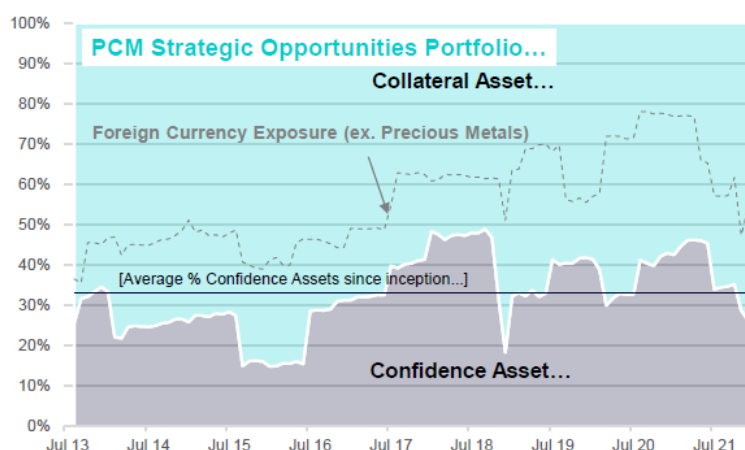
- ⇒ This gives the strategy a resilient, potential long-volatility skew (almost anti-fragile characteristic) to its return profile that is still able to maintain a positive overall cost of carry.
- ⇒ It means that we will underperform growth assets in an expansionary environment.

- **STEP 2:** We will ‘typically’ maintain a diversified allocation that accounts for each of the three primary drivers of all markets, namely: Growth, Inflation and Capital Flows (any unexpected change in the world is simply a directional rearrangement of these three market drivers).

- ⇒ This gives us an uncorrelated, resilient foundation that gives us the confidence that we should be able to materially maintain purchasing power irrespective of what ‘surprises’ occur in the world.

- **STEP 3:** We will skew (over- or under-weight) our asset allocation exposures to maintain alignment with the *multi-year strategic level trends* in the major asset classes whilst maintaining some small awareness of multi-month tactical level swings (at the margin) in the portfolios.

- ⇒ This activity helps us to generate average compounded returns above the rate of inflation irrespective of market conditions over time.
- ⇒ This means that natural performance-cycle drawdowns will typically occur when we are maintaining alignment to multi-year strategic level trends.
- ⇒ We utilise ‘at the margin’ insights generated from leading indicators of growth, inflation and capital flows, in addition to more tactical money flows, liquidity and participant positioning studies. The aim is to remain quite inactive, and that overall less than 1/3rd of the return profile is attributable to tactical rebalancing or skews. To date, the portfolio turnover has averaged less than 25% p.a.



*"For they shall be like a tree planted by the waters,
Which spreads out its roots by the river,
And will not fear when heat comes;
But its leaf will be green,
And will not be anxious in the year of drought,
Nor will cease from yielding fruit."*

...Jeremiah (627BC – 586BC)

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The Prerequisite Capital Models are model (theoretical) portfolios which, over the long term, aim to exceed the returns of the relevant benchmark, details of which are contained in each portfolio snapshot report (the 'Benchmark') (which is also effectively a model portfolio with reinvestment of dividends and other income). Each model's performance will differ from actual performance depending on actual fees, taxes and other factors including transaction timing and divergence from constituent weightings, rounding adjustments and minimum trade sizes.

The risk profile of each Model Portfolio is similar to that of the Benchmark because its constituents are chosen from the same asset classes within the weight range displayed in this report, albeit with a preference for higher quality assets. Model Portfolio tactical shifts away from Benchmark asset class weights will alter the risk profile of the Model Portfolio over time.

Performance for Model Portfolios are expressed on the following basis and assumptions:

- No allowance has been made for franking credits or individual tax considerations; and
- Dividends and other income that would notionally be received are reinvested without any tax deduction.