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| sustainable managed portfolios |
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portfolio changes: july 2024

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| Dear client,  In this note, we provide a short update on recent trade activity and changes to the **Russell Investments Sustainable Managed Portfolio – Conservative**, **Diversified 50**, **Balanced**, **Growth** and **High Growth** (Portfolios). Here’s a summary of key changes:   * Reduced portfolio allocations to Australian real estate investment trusts and cash; increased exposures to global real estate investment trusts and global and Australian fixed income. * Rebalanced the direct Australian equity ESG portfolio. |
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# Rationale for portfolio changes

## All Portfolios

## We reduced the Portfolios’ allocation to Australian real estate investment trusts (A-REITs) in favour of global real estate investment trusts (G-REITs). Our passive exposure to A-REITs has performed strongly year-to-date, significantly outperforming both G-REITs and the broader Australian equity market[[1]](#footnote-2). Much of this outperformance has been driven by industrial property giant Goodman Group; the local market’s largest constituent. Goodman Group has continued to benefit from its move into data centres and the artificial intelligence thematic.

## G-REITs have not only underperformed A-REITs but also the broader global equity market. As a result, we believe G-REITs offer better value. G-REITs also provide greater diversification benefits, with the global listed property market comprising more than 300 constituents compared to just 33 in Australia. In addition, easing US inflationary pressures suggest the Federal Reserve (Fed) will likely begin cutting interest rates soon, while interest rates in Australia look set to remain higher for longer against a backdrop of stubbornly high inflation. We believe this could provide a cyclical advantage for G-REITs over their Australian counterparts.

## We reduced exposure to A-REITs by selling the Vanguard Australian Property Securities Index ETF. We increased exposure to G-REITs by buying the Russell Investments International Property Securities Fund – $A Hedged (Class A).

## Russell Investments Sustainable Managed Portfolio – Conservative, Diversified 50, Balanced and Growth only

We increased the Portfolios’ allocations to global and Australian fixed income, which we expect to outperform cash as government bond yields fall in response to central bank interest rate cuts. Already the European Central Bank, the Swiss National Bank and the Bank of England have begun lowering their benchmark policy rates, while the Fed is widely expected to follow suit in the coming months.

We increased exposure to global and Australian fixed income by buying the Vanguard Ethically Conscious Global Aggregate Bond Index (Hedged) ETF and the Pendal Sustainable Australian Fixed Interest Fund. These increases were funded mainly by the Portfolios’ cash-related holdings.

## Russell Investments Sustainable Managed Portfolio – Conservative, Diversified 50, Growth and High Growth only

More broadly, we rebalanced the Portfolios’ global and Australian equity exposures nearer to their strategic benchmark allocations. We had been overweight Australian equities in particular; which have continued to perform well this year. Not only did this allow us to lock in some profits but it also provided an opportunity to reduce the overall level of risk within the Portfolios. We achieved this via the rebalancing of the direct Australian equity portfolio.

## Direct Australian equity ESG portfolio

The direct Australian equity ESG portfolio is rebalanced semi-annually. The purpose of rebalancing is to ensure the portfolio’s holdings are in line with the underlying investment strategy. We do this by buying and/or selling shares.

As part of this latest rebalancing, we bought into the healthcare, financials and industrials sectors, and sold out of real estate, information technology and materials. In terms of factor exposure, the portfolio is positioned with overweights to growth, momentum, low volatility and value. The portfolio is also overweight quality, though we did trim the overall exposure to this factor.

Following the rebalancing, the portfolio achieved a 31% carbon reduction versus the benchmark S&P/ASX 100 Index and a 5.0% improvement in its Material ESG Score.

## Portfolio rebalancing trades

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| --- | --- | --- |
|  | company | weight |
| Shares purchased (new) | Ramsay Health Care  Cochlear  Atlas Arteria  Suncorp Group  Xero | +2.3%  +2.2%  +2.1%  +1.8%  +1.6% |
| Shares sold (exited) | Sonic Healthcare  TechnologyOne  Stockland  Evolution Mining  Lynas Rare Earths | -2.4%  -2.4%  -1.4%  -1.4%  -1.3% |

# Changes in asset allocation (%)

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| --- | --- | --- | --- | --- | --- |
| ASSET CLASS | RISK PROFILE | | | | |
| **CONSERVATIVE** | **DIV 50** | **BALANCED** | **GROWTH** | **HIGH GROWTH** |
| A-REITs | -0.4 | -1.3 | -1.3 | -1.0 | -1.0 |
| G-REITs | +0.9 | +0.8 | +1.4 | +1.0 | +1.0 |
| Global fixed income | +4.3 | +2.4 | +2.0 | +3.0 | - |
| Australian fixed income | +1.7 | +1.1 | +0.4 | +2.0 | - |
| Cash | -6.8 | -1.9 | -3.0 | -4.1 | - |

# Final asset class exposure after these changes (%)[[2]](#footnote-3)

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| --- | --- | --- | --- | --- | --- |
| ASSET CLASS | RISK PROFILE | | | | |
| **CONSERVATIVE** | **DIV 50** | **BALANCED** | **GROWTH** | **HIGH GROWTH** |
| GROWTH ASSETS | **31.8** | **51.2** | **67.7** | **83.2** | **97.7** |
| Australian equity | 13.0 | 21.3 | 29.1 | 36.0 | 41.7 |
| Global equity | 12.8 | 22.9 | 29.8 | 38.5 | 44.3 |
| Australian property | 0.7 | 1.3 | 1.8 | 2.1 | 3.4 |
| Global property | 2.0 | 3.1 | 4.0 | 3.8 | 4.0 |
| Infrastructure | 1.5 | 1.4 | 2.3 | 2.3 | 4.3 |
| Growth alternatives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Extended credit | 1.8 | 1.3 | 0.6 | 0.6 | 0.0 |
| DEFENSIVE ASSETS | **68.2** | **48.8** | **32.3** | **16.7** | **2.2** |
| Loans & absolute return credit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Australian fixed income | 22.7 | 17.3 | 12.3 | 5.2 | 0.0 |
| Global fixed income | 22.6 | 14.5 | 8.6 | 5.3 | 0.0 |
| Defensive alternatives | 3.7 | 1.9 | 1.8 | 0.9 | 0.0 |
| Short-term credit | 11.7 | 8.4 | 5.5 | 1.8 | 0.0 |
| Cash | 7.6 | 6.8 | 4.1 | 3.5 | 2.2 |

# Effective date

These changes were completed during the final week of July 2024.

# Looking ahead

Markets have faced multiple concerns over the past 12 to 24 months. In particular, higher inflation driven by post-COVID economic abnormalities and several major geopolitical events saw central banks aggressively raise interest rates, which led to a material increase in market volatility. Despite these concerns, the US economy has to date proven remarkably resilient, and markets are pricing in a ‘soft landing’ as inflationary pressures continue to ease and unemployment remains low. This has contributed to strong equity and credit market returns so far this year, with valuations now appearing stretched.

If equity markets continue to rally, we may continue to trim risk assets and increase defensive assets. Opportunities may also arise if markets react more negatively to potential recession outcomes.

Moving forward, it’s important to remember that whilst we cannot control what markets do, we can control how we react to them. The Portfolios have been constructed to respond to changing market dynamics in real time, to effectively manage risk and to take advantage of market opportunities as they arise.

Moreover, we are committed to achieving long-term outperformance for investors and remain both patient and alert to any investment opportunities.

Questions?

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About Russell Investments

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1. A-REITs measured by the S&P/ASX 300 A-REIT Index. G-REITs measured by the FTSE EPRA Nareit Developed Index Net TRI – $A Hedged. Australian shares measured by the S&P/ASX 100 Index. [↑](#footnote-ref-2)
2. Asset class breakdown is based on the model and may vary slightly depending on the Platform. [↑](#footnote-ref-3)