

Cornerstone Strategic Index Managed Portfolios

Portfolio changes

February 2026

Here is a short update on recent trade activity and changes to the **Cornerstone Strategic Index Managed Portfolios**.

Summary of key changes

- Completed a rebalance to realign the portfolios to our preferred positioning. This generally included increasing exposure to global equities unhedged, with a preference for diversified exposure to US, developed markets ex-US and emerging market equities. Partially offsetting this was a reduction in Australian equities. We also rebalanced our exposure to other asset classes, and modestly increased Australian fixed income exposure funded from global fixed income.
- The direct shares portfolio was rebalanced, which included some companies being added and others removed from the portfolio. Turnover of the direct shares portfolio was about ~20% (one way) and added to growth and momentum factors and reduced low volatility and value.
- Portfolios affected by these changes are the **Cornerstone Strategic Index Managed Portfolio – Conservative, Balanced, Balanced Growth, Growth and High Growth** (Portfolios).

Rationale for portfolio changes

These changes are part of a regular rebalancing cycle that is undertaken to ensure portfolio positioning is in alignment with target.

Specific portfolio changes

We rebalanced Global equities exposure, trimming Australian equities. We are now modestly overweight to the United States and developed markets ex-US (to a lesser extent). We are also overweight to emerging market equities which have outperformed in recent months. This positioning is driven by strong positive earnings expectations from developed markets – the United States in particular – and loose financial conditions including lowered rates in the US and the UK; central banks in both countries cut their base interest rates at their December meetings. Productivity gains from AI – and continued investment in the space – also influenced the regional direction of funds.

Emerging markets are presenting attractive valuations and are arguably underweight by capital allocators. A weaker US dollar – which fell steadily through 2025 – is positive for emerging markets. Additionally, markets like China have experienced positive technical advancements that have shaken markets, including AI and battery related announcements. Regulatory policy in those nations is also supporting a market sentiment of value in emerging markets.

We rebalanced our real assets exposure, including listed property and infrastructure to align with strategic asset allocation targets.

We added to unhedged global equities, which provides some diversification benefit to our moderately overweight position on global equities. The strength of the Australian dollar against the US dollar supports this move; it's sitting close to fair value and supports the reduction in AUD and increase to USD and foreign currency.

We added to Australian bonds. We see more value in Australian bonds compared to US bonds due to Australian economic conditions including high inflation reports and low unemployment figures. This pushed prices down (yields up) for Australian bonds as expectations were the Reserve Bank of Australia (RBA) would act swiftly.

We added Macquarie's Core Australian Equity Active ETF, reducing passive exposure. We believe the multi-factor quantitative investment strategy can add above-benchmark returns with low volatility over the investment horizon.

Specific share changes (direct shares):

- The direct shares portfolio was rebalanced, which included some companies being added and others removed from the portfolio. Turnover of the direct shares portfolio was about ~20% (one way) and added to growth and momentum factors and reduced low volatility and value. We added to the materials sector, funding the purchases by moving out of communication services, consumer discretionary and consumer staples.
- New buys: Stockland (SGP), Ramelius Resources (RMS), Brambles (BXB) ALS Ltd (ALQ), Newmont Corporation (NEM), Cochlear (COH), TechnologyOne (TNE), Perseus Mining (PRU) and Pro Medicus (PME).
- Additions of >50bps: National Australia Bank (NAB), Suncorp (SUN), Macquarie Group (MCQ).
- Reductions of >50bps: QBE Insurance (QBE), Woolworths Group (WOW), Woodside Energy Group (WDS), Fortescue (FMG), Goodman Group (GMG), BHP Group (BHP), CSL Ltd (CSL), Evolution Mining (EVN).
- Exits: REA Group (REA), JB Hi-Fi (JBH), Bendigo and Adelaide Bank (BEN), WiseTech Global (WTC), Metcash (MTS), Medibank Private (MPL), SGH Ltd (SGH), Ansell (ANN) and Qantas (QAN).

Changes in asset allocation (%)

| ASSET CLASS | RISK PROFILE | | | | |
|--------------------------------|--------------|-------------|-----------------|-------------|-------------|
| | CONSERVATIVE | BALANCED | BALANCED GROWTH | GROWTH | HIGH GROWTH |
| GROWTH ASSETS | -0.8 | -0.5 | 0.0 | 0.8 | 0.2 |
| Australian equity | -1.1 | -0.7 | -0.1 | 0.4 | 0.6 |
| Global equity | 1.0 | 0.6 | 1.0 | 1.0 | 0.6 |
| Australian property | -0.4 | -0.5 | -0.1 | -0.3 | -0.4 |
| Global property | -0.8 | -0.4 | -0.8 | -0.3 | -0.6 |
| Infrastructure | 0.5 | 0.5 | 0.0 | 0.0 | 0.0 |
| Growth alternatives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Extended credit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| DEFENSIVE ASSETS | 0.8 | 0.5 | 0.0 | -0.8 | -0.2 |
| Loans & absolute return credit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Australian fixed income | 0.8 | 1.0 | 1.0 | 0.0 | 0.0 |
| Global fixed income | 0.0 | 0.0 | -0.5 | 0.0 | 0.0 |
| Defensive alternatives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Short-term credit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash | 0.0 | -0.5 | -0.5 | -0.8 | -0.2 |

Final asset class allocations after these changes (%)¹

| ASSET CLASS | RISK PROFILE | | | | |
|--------------------------------|--------------|-------------|-----------------|-------------|-------------|
| | CONSERVATIVE | BALANCED | BALANCED GROWTH | GROWTH | HIGH GROWTH |
| GROWTH ASSETS | 33.6 | 54.1 | 73.8 | 92.8 | 98.5 |
| Australian equity | 10.9 | 18.7 | 27.2 | 34.1 | 38.7 |
| Global equity | 17.3 | 29.4 | 39.0 | 51.6 | 49.1 |
| Australian property | 2.0 | 1.5 | 3.1 | 2.6 | 3.0 |
| Global property | 1.5 | 2.6 | 2.6 | 3.6 | 3.5 |
| Infrastructure | 1.0 | 1.0 | 1.0 | 1.0 | 4.2 |
| Growth alternatives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Extended credit | 0.9 | 0.9 | 0.9 | 0.0 | 0.0 |
| DEFENSIVE ASSETS | 66.4 | 45.9 | 26.3 | 7.2 | 1.5 |
| Loans & absolute return credit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Australian fixed income | 31.5 | 22.2 | 12.9 | 3.4 | 0.0 |
| Global fixed income | 16.5 | 13.6 | 7.5 | 2.0 | 0.0 |
| Defensive alternatives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Short-term credit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash | 18.4 | 10.1 | 5.9 | 1.7 | 1.5 |

¹ Asset class breakdown is based on the model and may vary slightly depending on the Platform.

Effective date

These changes were completed on **30 January 2026**.

Looking ahead

There have been many market drivers over the past 12 months; from Trump returning to office, to central banks cutting rates and global economies demonstrating resilience, however, one key theme that has been a strong contributor to equity price appreciation over this period has been the accelerating adoption of generative AI across different sectors, leading to increased productivity and profitability. Looking to the year ahead, we see the tools expanding into new sectors and being used by new sectors – resulting in positive corporate results. There is also potential for reaccelerating US growth in the year ahead as policy drags that concerned investors through 2025 fade; we are seeing policy tailwinds building over coming quarters. There are still policy considerations that are weighing on the markets, including a hiring slowdown due to immigration restrictions and a cut back in government hiring – not due to firms reducing headcount because of a weak economy.

Despite many equity markets at or approaching all-time highs, along with valuations that are not cheap, our contrarian sentiment indicator (a measure of panic or euphoria in markets) is not showing unsustainable extremes of euphoria in markets, which we believe provides opportunity for markets to continue to move higher over the short term. Risks do exist, however, with a still uncertain geopolitical and a slowing US labour market - this highlights the value of building portfolio resilience across private markets, real assets, and diversified alternatives – an important point of distinction for active management.

We believe non-US developed equities are more attractively valued than US equities and could benefit from USD weakness; a dynamic we've seen in 2025. However, we're yet to see how large global themes like artificial intelligence play out, with US markets in particular likely to benefit from this. In emerging markets, investors have become more optimistic on Chinese equities following a series of monetary and fiscal policy support; though sustained growth will depend on further fiscal initiatives, particularly in infrastructure and technology. For fixed income assets, we believe Australian government bonds offer reasonable value, versus the US which appears more fully valued. We expect that government bonds should act as portfolio diversifiers if the growth outlook deteriorates further from here. Private credit and infrastructure markets offer compelling alternative investment opportunities, with these assets benefiting from a differentiated opportunity set and their resilience in a higher interest rate environment. In the currency space, the USD appears overvalued in real trade-weighted terms; though it has depreciated in recent months. We still see relative value in the AUD over the medium term.

During moments of volatility, our investment process of cycle, value and sentiment ensures that we're able to respond to events appropriately. The Portfolios have been designed to respond in real time to manage risks and take advantage of market dislocations.

Note: Past performance is not a reliable indicator of future performance.

For more information please visit our website:

russellinvestments.com.au/cornerstone or

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