

Cornerstone Managed Portfolios (core model)

Portfolio changes

February 2024

In this note, we provide an update on recent trade activity and changes the Cornerstone Managed Portfolios (core model).

Summary of key changes

- Rebalanced the direct Australian equity portfolio.
- Reduced portfolio allocations to Australian equities and global fixed income; increased exposure to cash.
- These changes were made to the **Cornerstone Balanced Growth Managed Portfolio (core model)** and the **Cornerstone Growth Managed Portfolio (core model)** (Portfolios).

Rationale for portfolio changes

We modestly reduced the Portfolios' allocations to Australian equities and global fixed income in favour of cash.

We maintain the view that the risk of recession this year remains elevated, which is why we took a prudent approach to reducing higher levels of equities and credit throughout 2023.

The recent, strong run up in Australian equities provided a further opportunity for us to reduce the overall level of risk within the Portfolios, which we achieved via the rebalancing of the direct Australian equity portfolio. We reduced exposure to global fixed income by selling the Vanguard Global Aggregate Bond Index (Hedged) ETF.

We chose to increase the Portfolios' allocation to cash due to the current, relatively attractive yield on offer.

From here, we will likely maintain portfolio positioning via rebalances as the tension between slower growth and easing inflation continues.

Specific portfolio changes

1. Direct Australian equity portfolio

The direct Australian equity 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 real estate, healthcare and communication services sectors, and sold out of financials, energy and utilities. In terms of factor exposure, the portfolio is positioned with overweight to low volatility, quality, momentum and value while being underweight growth.

Portfolio rebalancing trades

	COMPANY	WEIGHT (%)
Shares purchased	Cleanaway Waste Management	+1.8
	Bendigo & Adelaide Bank	+1.7
	Newmont	+1.5
	Ansell	+1.5
	Origin Energy	+1.5
	Fisher & Paykel Healthcare	+1.5
	Ampol	+1.5
	Seven Group Holdings	+1.5
	Incitec Pivot	+1.5
Shares sold	Cochlear	-2.6
	Brambles	-2.3
	Car Group	-2.1
	South32	-1.9
	Computershare	-1.5
	Sonic Healthcare	-1.4
	Dexus	-1.4
	Mineral Resources	-1.3

2. Changes in asset allocation (%)

ASSET CLASS	RISK PROFILE	
	BALANCED GROWTH	GROWTH
Australian equities (Reduced)	-1.0	-1.0
Global fixed income (Reduced)	-1.0	-0.9
Cash (Added)	+2.0	+1.9

Final asset class after these changes (%)¹

ASSET CLASS	RISK PROFILE					
	CONSERV	BALANCED	BALANCED GROWTH	GROWTH	HIGH GROWTH	HIGH GROWTH PLUS
GROWTH ASSETS	29.6	50.0	69.5	83.1	98.0	119.5
Australian equity	12.7	21.1	28.6	34.5	43.0	52.6
Global equity	12.4	22.3	29.4	39.0	43.7	56.1
Australian property	1.1	2.7	2.7	2.7	4.2	4.3
Global property	1.1	1.7	2.7	2.7	4.1	3.2
Infrastructure	1.0	0.9	1.8	2.3	3.0	3.4
Growth alternatives	0.0	0.0	4.0	1.4	0.0	0.0
Extended credit	1.3	1.2	0.3	0.4	0.0	0.0
DEFENSIVE ASSETS	70.4	50.0	30.5	16.9	2.0	3.0
Loans & absolute return credit	3.8	3.6	2.2	2.6	0.0	0.0
Australian fixed income	23.5	17.6	10.0	3.5	0.0	0.0
Global fixed income	19.3	12.5	8.5	2.6	0.0	0.0
Defensive alternatives	0.0	0.0	0.9	0.6	0.0	0.0
Short-term credit	6.1	5.8	3.5	1.7	0.0	0.0
Cash	17.7	10.4	5.3	5.8	2.0	3.0

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

Effective date

These changes were completed between **2 February and 8 February 2024**².

Looking ahead

Growth in most major economies is slowing down and most central banks appear to have finished raising interest rates. However, there is still a risk of further rate hikes if inflation fails to cool as expected.

Whilst economic data in the US has so far proven more resilient than markets initially expected, we believe the risk of a recession in the world's biggest economy over the next 12 to 18 months remains elevated. Elsewhere, the euro-zone is experiencing a decline in bank lending, persistent inflation in the UK has forced the Bank of England to lift interest rates despite a lack of growth, and China's economy continues to face challenges following a post-pandemic lockdown surge. Japan remains the notable outlier. Interest rates in Japan are still very low, while growth in the country is likely to remain above trend.

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 for any investment opportunities.

² Actual trade dates may vary between platforms.

For more information please visit our website:

russellinvestments.com.au/cornerstone or

contact your Invest Blue representative: 1300 346 837

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