

# Cornerstone Managed Portfolio Update

## Trade activity

July 2023

### Cornerstone Sustainable Managed Portfolios

Russell Investments advises of some changes to the Cornerstone Sustainable Managed Portfolios.

#### Summary of key changes

- Rebalanced the direct Australian equity portfolio.
- Increased portfolio allocation to listed property and reduced exposure to global equities.
- Increased portfolio allocation to fixed income and reduced exposure to cash.
- These changes were made to the **Cornerstone Sustainable Balanced Managed Portfolio**, the **Cornerstone Sustainable Balanced Growth Managed Portfolio** and the **Cornerstone Sustainable Growth Managed Portfolio** (Portfolios).

#### Direct Australian equity portfolio

The direct Australian equity portfolio is constantly reviewed and rebalanced at least twice a year; though it may be rebalanced more often as required or as market opportunities arise. 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 quality Australian businesses that we believe have strong future earnings growth potential, including software company WiseTech Global and gold miner Evolution Mining. We also bought protective product manufacturer Ansell and mineral sands explorer Iluka Resources; two stocks we believe are undervalued. We like Ansell's solid financials, while Iluka Resources looks well placed to benefit from strong global demand for zircon; a mineral typically used in ceramics manufacturing.

At the same time, we sold engineering firm Worley Ltd. on the back of its weaker financial prospects, and gold miner Newcrest Mining due to uncertainty following its acquisition by US peer Newmont and a decline in gold production. We also sold Alumina, which invests in bauxite mining, alumina refining and selected aluminium smelting operations globally, amid concerns over its earnings outlook.

#### Direct Australian equity portfolio

Direct Australian equity portfolio (% of direct share portfolio)	
Shares purchased	WiseTech Global (+2.4%)
	Evolution Mining (+1.6%)
	Ansell (+2.0%)
	Iluka Resources (+2.3%)
Shares sold	Worley Ltd. (-2.3%)
	Newcrest Mining (+3.3%)
	Alumina (+1.6%)

### Listed property and global equities

We increased the Portfolios' allocation to global and domestic listed property. We believe listed property has become oversold and now offers attractive value. Moreover, we feel the market still expects to see a downturn in the sector, which we believe is unlikely in the near future; an opinion that has so far paid off and is likely to continue to do so.

We also reduced the Portfolios' allocation to global equities. We did this due to recent equity market strength and expectations of softer global growth ahead. In doing so, we are bringing the Portfolios' equity exposure back to a neutral position. We also feel it's appropriate to take some profits given the sector's recent gains, particularly as interest rates look set to remain higher for longer and a selloff in equity markets remains a possibility.

#### Cornerstone Sustainable Managed Portfolios

	Added listed property	Reduced global equities
Cornerstone Sustainable Balanced Managed Portfolio	+1.0%	-1.3%
Cornerstone Sustainable Balanced Growth Managed Portfolio	+1.5%	-1.8%
Cornerstone Sustainable Growth Managed Portfolio	+2.0%	-0.7%

### Fixed income and cash

We increased the Portfolios' allocation to fixed income. Government bonds experienced their worst year of returns on record in 2022, and we believe they're likely to rebound through the remainder of this year as long-term yields decline<sup>1</sup> on recession risks. In addition, government bonds that mature further into the future, e.g. 10 years or more, continue to look attractive and help diversify the Portfolios.

Increasing exposure to government bonds also brings the Portfolios overall positioning closer to neutral (relative to the benchmark). However, we remain mindful not to become too defensive in case central banks are successful in using higher interest rates to lower inflation without causing a recession; a scenario commonly referred to as a 'soft landing'.

The Portfolios' cash holdings were used to fund the additional fixed income exposure.

#### Cornerstone Sustainable Managed Portfolios

	Added fixed income	Reduced cash
Cornerstone Sustainable Balanced Managed Portfolio	+3.7%	-0.7%
Cornerstone Sustainable Balanced Growth Managed Portfolio	+2.0%	-0.1%
Cornerstone Sustainable Growth Managed Portfolio	-0.4%	-0.1%

<sup>1</sup> Bond yields have an inverse relationship with bond prices, meaning that when yields fall, prices rise and vice versa.

## Asset class breakdown

	Balanced (%)	Balanced Growth (%)	Growth (%)
<b>Growth assets</b>	<b>52.149</b>	<b>68.1975</b>	<b>85.693</b>
Australian equity	22.18	30.18	36.35
Global equity	22.04	29.69	39.74
Australian property	2.24	2.79	3.31
Global property	2.22	2.54	3.34
Infrastructure	1.93	2.39	2.35
Growth alternatives	0.00	0.00	0.00
Extended credit	1.539	0.6075	0.603
<b>Defensive assets</b>	<b>47.851</b>	<b>31.8025</b>	<b>14.307</b>
Loans & absolute return credit	0.00	0.00	0.00
Australian fixed income	16.65	12.38	3.42
Global fixed income	12.721	7.9525	3.517
Defensive alternatives	2.03	1.95	0.97
Short-term credit	11.54	5.00	1.94
Cash	4.91	4.52	4.46

## Effective date

These changes were completed on 24 July 2023.

## Looking ahead

Growth in most major economies is slowing down and there's a risk of further interest rate rises as central banks try to control inflation.

In the US, a recession seems likely in the next 12 to 18 months; though any potential recession is expected to be mild to moderate. In other regions, the euro-zone is experiencing a decline in bank lending, persistent inflation in the UK has forced the central bank there to lift interest rates despite a lack of growth, and China's economy is struggling 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 ahead of a possible (global) recession, Russell Investments will adjust the Portfolios away from their current neutral stance to a more defensive one, i.e. potentially look to add more fixed income assets and cash. 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, Russell Investments is committed to achieving long-term outperformance for investors and remains both patient and alert for any investment opportunities.

For more information please visit our website:

[russellinvestments.com.au/cornerstone](https://russellinvestments.com.au/cornerstone) or

contact your Invest Blue representative: 1300 346 837

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