Cornerstone Sustainable Managed Portfolios

Portfolio changes

February 2024

In this note, we provide a short update on recent trade activity and changes to the **Cornerstone Sustainable Managed Portfolio – Conservative**, the **Cornerstone Sustainable Managed Portfolio – Balanced**, the **Cornerstone Sustainable Managed Portfolio – Balanced Growth**, the **Cornerstone Sustainable Managed Portfolio – Growth** and the **Cornerstone Sustainable Managed Portfolio – High Growth** (Portfolios).

Summary of key changes

- Rebalanced the direct Australian equity portfolio.
- Reduced portfolio allocations to Australian equities and global fixed income; increased exposure to cash (*ex-High Growth*).
- Reduced portfolio allocation to credit (*Conservative and Balanced only*).
- Reduced portfolio allocation to listed infrastructure (*Balanced only*).
- Reduced portfolio allocation to listed property (*Growth only*).
- Reduced portfolio allocation to global equities; increased exposure to Australian equities and global and Australian listed property (*High Growth only*).

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 industrials sectors, and sold out of financials, information technology and materials; though miner Rio Tinto was a notable exception. We bought Rio Tinto after the company was removed from the ESG exclusion list. In terms of factor exposure, the portfolio is positioned with overweights to growth and quality, while maintaining relatively neutral exposures to momentum, low volatility and value.

Following the rebalancing, the portfolio achieved a 32% carbon reduction versus the benchmark S&P/ASX 100 Index and a 5.6% improvement in its Material ESG Score.

Portfolio rebalancing trades

	COMPANY	WEIGHT (%)
Shares purchased	Rio Tinto	+4.8
	QBE Insurance	+2.7
	Technology One	+2.0
	Medibank	+2.0
	Stockland	+1.5
Shares sold	Ansell	-1.8
	Scentre Group	-1.7
	Computershare	-1.7
	Mineral Resources	-1.6
	IGO Ltd.	-1.0

Australian equities, global fixed income and cash (*ex-High Growth*)

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 Ethically Conscious Global Aggregate Bond Index (Hedged) ETF.

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

Credit (*Conservative and Balanced only*)

Within the Cornerstone Sustainable Managed Portfolio – Conservative and the Cornerstone Sustainable Managed Portfolio – Balanced, we reduced exposure to both short-term and extended credit.

Our decision to reduce credit risk was part of a broader rebalancing of the two portfolios' defensive assets.

Listed infrastructure (*Balanced only*)

Within the Cornerstone Sustainable Managed Portfolio – Balanced, we also reduced exposure to listed infrastructure following the recent rally in interest rate sensitive equities.

Given the potential for interest rates to remain higher for longer, we felt it prudent to modestly trim exposure to the asset class.

Listed property (*Growth only*)

Within the Cornerstone Sustainable Managed Portfolio – Growth, we reduced exposure to listed property.

We had increased our exposure to listed property midway through 2023. At the time, we believed listed property had become oversold and thus offered attractive value. We also felt market expectations of a downturn within the sector were overdone; a view that paid off as listed property performed well through the second half of last year and into 2024. Reducing exposure to the sector allows us to take some profits off the table while further reducing overall portfolio risk.

Global and Australian equities, global and Australian listed property (*High Growth only*)

The Cornerstone Sustainable Managed Portfolio – High Growth maintains a high exposure to growth assets like global and Australian equities.

Global equities have performed well recently. However, given expectations of softer global growth ahead and the potential for interest rates to remain higher for longer, it made sense to take some profits off the table while also reducing the overall level of risk within the Portfolio.

We reduced the Portfolio's allocation to global equities in favour of Australian equities. Whilst Australian equities have also enjoyed a strong run of outperformance of late, the local market has lagged their global counterparts; particularly US equities, which comprise a large part of the global equities universe. In turn, we closed this relative overweight/underweight gap to align with our long-term strategic views on the two geographies. As part of the same rebalance, we also increased our allocations to global and Australian listed property to be more in line with the Portfolio's overall risk profile.

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

Changes in asset allocation (%)

ASSET CLASS	RISK PROFILE				
	CONSERVATIVE	BALANCED	BALANCED GROWTH	GROWTH	HIGH GROWTH
Australian equities (Reduced)	-0.5	-0.5	-1.0	-1.0	+1.0
Global fixed income (Reduced)	-	-	-1.0	-1.0	-
Credit (Reduced)	-3.0	-3.4	-	-	-
Global & Australian listed property (Added)	-	-	-	-	+1.0
Global & Australian listed property (Reduced)	-	-	-	-1.0	-
Global equities (Reduced)	-	-	-	-	-2.0
Listed infrastructure (Reduced)	-	-0.5	-	-	-
Cash (Added)	+3.5	+4.4	+2.0	+3.0	-

Final asset class after these changes (%)[1]

ASSET CLASS	RISK PROFILE				
	CONSERVATIVE	BALANCED	BALANCED GROWTH	GROWTH	HIGH GROWTH
GROWTH ASSETS	**30.9**	**51.4**	**66.8**	**83.2**	**97.8**
Australian equity	13.7	21.7	28.6	34.8	42.9
Global equity	12.3	22.4	29.6	39.7	44.8
Australian property	1.1	2.4	3.0	3.0	4.2
Global property	1.1	2.3	2.6	2.9	3.0
Infrastructure	1.5	1.4	2.4	2.3	2.9
Growth alternatives	-	-	-	-	-
Extended credit	1.3	1.3	0.6	0.6	0.0
DEFENSIVE ASSETS	**69.1**	**48.6**	**33.2**	**16.8**	**2.2**
Loans & absolute return credit	-	-	-	-	-
Australian fixed income	21.0	16.5	12.4	3.4	-
Global fixed income	18.3	12.5	6.9	2.5	-
Defensive alternatives	3.8	2.0	1.9	0.9	-
Short-term credit	11.6	8.4	4.9	1.9	-
Cash	14.4	9.3	7.1	8.1	2.2

[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

Important information