Cornerstone Managed Portfolios (funds only)

Portfolio changes

February 2024

In this note, we provide an update on recent trade activity and changes to the **Cornerstone Balanced Growth Managed Portfolio (funds only)**, the **Cornerstone Growth Managed Portfolio (funds only)** and the **Cornerstone High Growth Managed Portfolio (funds only)**.

Summary of key changes

Cornerstone Balanced Growth and Growth Managed Portfolios:

- Reduced portfolio allocations to Australian equities, listed property and fixed income.
- Reduced portfolio allocation to global fixed income.
- Reduced portfolio allocation to global equities; increased exposure to Australian fixed income (*Growth only*).
- Increased portfolio allocation to cash.

Cornerstone High Growth Managed Portfolio:

- Reduced portfolio allocation global equities.
- Increased portfolio allocation to Australian equities.

Cornerstone Balanced Growth and Growth Managed Portfolios

We modestly reduced the Portfolios' allocations to Australian equities, listed property and fixed income, as well as global fixed income.

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 by reducing exposure to the AMP Australian Equity Index Fund.

In terms of Australian listed property, we had increased our exposure to this sector 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.

We reduced exposure to Australian and global fixed income by selling the AMP Australian Fixed Interest Index Fund and the AMP International Fixed Interest Index Fund Hedged, respectively.

Within the Cornerstone Growth Managed Portfolio, we also reduced exposure to global equities. Like Australian equities, global equities have performed well of late. Given expectations of softer global growth ahead and the potential for interest rates to remain higher for longer, it made sense to further reduce the Portfolio's growth exposure. We achieved this by selling the AMP International Equity Index Fund.

At the same time, we modestly increased the Cornerstone Growth Managed Portfolio's allocation to Australian fixed income to provide additional defensive exposure should global and domestic growth slow as expected. We did this by buying the AMP Australian Fixed Interest Index Fund.

We reduced portfolio allocations in favour of cash, which currently offers a relatively attractive yield.

Changes in asset allocation (%)

ASSET CLASS	RISK PROFILE	
	BALANCED GROWTH	GROWTH
Australian equities (Reduced)	-0.3	-0.5
Australian listed property (Reduced)	-0.3	-0.2
Australian fixed income (Reduced)	-0.9	-
Global fixed income (Reduced)	-1.0	-0.5
Global equities (Reduced)	-	-0.6
Australian fixed income (Added)	-	+0.2
Cash (Added)	+2.5	+1.6

Cornerstone High Growth Managed Portfolio

The Cornerstone High Growth Managed Portfolio invests predominantly in 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 did this by selling the AMP International Equity Index Fund.

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. We increased exposure to Australian equities by buying the AMP Australian Equity Index Fund.

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
	HIGH GROWTH
Australian equities (Added)	+0.5
Global equities (Reduced)	-0.5

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

ASSET CLASS	RISK PROFILE			
	CONSERVATIVE	BALANCED GROWTH	GROWTH	HIGH GROWTH
GROWTH ASSETS	**27.9**	**69.7**	**83.3**	**97.8**
Australian equity	12.0	28.8	34.4	42.9
Global equity	12.5	29.4	39.3	43.5
Australian property	1.1	2.7	2.6	4.4
Global property	1.1	2.7	2.8	4.0
Infrastructure	0.9	1.9	2.3	3.1
Growth alternatives	0.0	4.0	1.5	0.0
Extended credit	0.3	0.3	0.5	0.0
DEFENSIVE ASSETS	**72.1**	**30.3**	**16.7**	**2.2**
Loans & absolute return credit	3.8	2.2	2.7	0.0
Australian fixed income	25.2	10.0	3.8	0.0
Global fixed income	20.4	8.8	3.1	0.0
Defensive alternatives	0.0	0.9	0.6	0.0
Short-term credit	6.2	3.5	1.8	0.0
Cash	16.5	4.8	4.7	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 eurozone 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