

Enhanced Strategic Model Portfolios – Conservative

August 2023

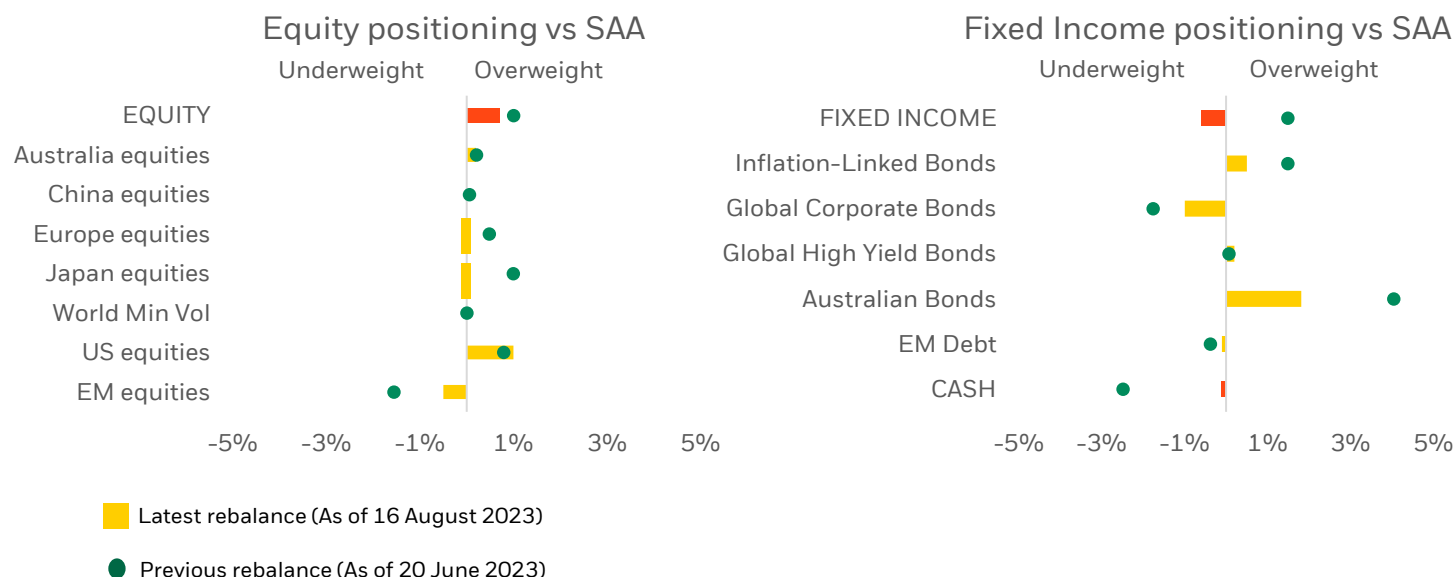
Key Takeaways

- Take profits on year-to-date winners and prune active risk following the strong run in global sharemarkets**
- Recalibrate risk by realising gains in European and Japanese equities, to fund an increase in exposure to EM equities**
- Maintain an overweight to US equities amidst the broadening of the market rally beyond the mega-cap stocks**
- Adopt a barbell approach within fixed income, increasing cash whilst maintaining a preference for Australian government bonds**

KEY TRADES IN THE SCHEDULED QUARTERLY REBALANCE

- **Take profits on year-to-date winners and prune active risk:** The preference for equities over cash has generated positive returns for the portfolio year-to-date given the market rally. We take the opportunity to capitalise on profits whilst increasing portfolio cash back to neutral to guard against the elevated uncertainty stemming from central banks entering the last leg of the tightening cycle.
- **Recalibrate cross-sectional equity positioning:** European and Japanese equities have outperformed the broad market in the first half of 2023, leading us to take some profits in these positions to fund a reduction in the underweight to EM equities on the back of more favourable trading signals and potential policy surprise coming out of China.
- **Maintain an overweight to US equities:** While gains over the first half of 2023 were concentrated within a handful of mega-cap tech stocks, we are beginning to notice a broadening in market leadership in the US. We maintain our preference for US equities in expectation of the drivers of returns to broaden further.
- **Adopt a barbell approach in fixed income:** The elevated volatility in bond markets leads us to follow a barbell strategy by increasing the allocation to cash whilst reducing but still maintaining a preference for Australian government bonds. The higher cash allocation reduces overall portfolio risk, while the exposure to longer-duration bonds acts as a diversifier in the event of a market downturn.
- **Take profits on inflation-linked bonds:** Inflation-linked bonds have outperformed nominal bonds year-to-date, but the peaking of inflation pressures domestically and globally leads us to capitalise on existing gains and trim our exposure in favour for cash.

PORTFOLIO POSITIONING CHANGES (CONSERVATIVE MODEL)



ASSET ALLOCATION

Portfolio Constituents & Weights – 16 August 2023		Conservative
Indirect Cost Ratio (% p.a.)		0.17%
Equity		15.80%
International Equity		9.10%
IVV	iShares S&P 500 ETF	2.30%
IHV	iShares S&P 500 (AUD Hedged) ETF	1.30%
IVE	iShares MSCI EAFE ETF	0.00%
IEU	iShares Europe ETF	1.50%
IJP	iShares MSCI Japan ETF	0.00%
WVOL	iShares Edge MSCI World Minimum Volatility ETF	2.00%
IEM	iShares MSCI Emerging Markets ETF	1.00%
IZZ	iShares China Large-Cap ETF	1.00%
Australian Equity		6.70%
IOZ	iShares Core S&P/ASX 200 ETF	6.70%
Fixed Income		68.30%
International Fixed Income		17.10%
AESG	iShares Global Aggregate Bond ESG (AUD Hedged) ETF	4.00%
IHCB	iShares Core Global Corporate Bond (AUD Hedged) ETF	8.00%
IHHY	iShares Global High Yield Bond (AUD Hedged) ETF	3.20%
IHEB	iShares J.P. Morgan USD Emerging Markets Bond (AUD Hedged) ETF	1.90%
Australian Fixed Income		51.20%
IAF	iShares Core Composite Bond ETF	38.80%
IGB	iShares Treasury ETF	6.90%
ILB	iShares Government Inflation ETF	5.50%
Cash		15.90%
ISEC	iShares Enhanced Cash ETF	13.40%
BAUBIL	AusBond Bank Bill Index	2.50%

Source: BlackRock, as of latest rebalance on 16 August 2023.

Notes: Indirect Cost Ratio only includes the underlying sub-fund fees, but excludes investment management, platform and transaction fees.

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