

Portfolio Update

11 APRIL 2023

PORTFOLIO CHANGE AND RATIONALE

US employment and manufacturing data confirmed a slowing economy last week whilst bond markets continue to price falling inflation and a likely chance of recession, with 10-year yields now at 3.3% in the US compared to a high of 4.25% last October. We believe the recent stress on the banking sector will exacerbate already tightening credit conditions and slow growth further in the months ahead. The chart below shows the Jerome Powell's (Chair of the US Federal Reserve) favoured recession indicator moving into further negative territory.



In our last TAA note we discussed adding equity exposure in Asia as we believed the China re-opening would continue to drive growth outperformance compared to the US. Today we are counteracting this increase in equity exposure by reducing US focused value exposure (Barrow Hanley), more exposed to the US centric recession risks. We are also reducing some exposure to global real estate (Quay) in favour of more defensive infrastructure (ClearBridge) given real estate's higher exposure to the slowing US economy and tighter credit conditions.

This leaves portfolios in a defensive position overall as there is no historical precedent for an exit from the current environment without a recession. Our view is that equity markets price this risk/outcome over the year ahead as economic data deteriorate and corporate earnings come under pressure. This is counterbalanced by healthy private sector balance sheets (corporate and household) in the US and China operating on a different economic cycle than major developed markets. We intend to use periods of volatility as we witnessed during March to begin rebuilding growth asset exposure at more favourable entry points.

PORTFOLIO CHANGE

Fund	Change	Dynamic	DS30	DS50	DS70	DS90	DS100	DS100+
Perpetual Pure Equity Alpha Fund	▲	1.0%	2.0%					
ClearBridge Rare Income (Hedged) Fund	▲			1.0%	1.5%	2.0%	1.0%	
CC Sage Capital Absolute Return Fund	▲						1.0%	
Barrow Hanley Global Share Fund	▼	-2.0%	-1.5%	-1.5%	-2.0%	-2.0%	-2.0%	-2.0%
GQG Partners Global Equity (Hedged) Fund	▼		-0.5%	-0.5%				
Quay Global Real Estate Fund	▼			-1.0%	-1.5%	-2.0%	-1.0%	
Cash	▲	1.0%		2.0%	2.0%	2.0%	1.0%	
L1 Capital Long Short Fund	▲							1.0%
Fidelity Asia Fund	▲							1.0%
Perpetual Australian Share Fund	▼	-2.0%						
DNR Capital Australian Equities High Conviction Fund	▲	2.0%						

ASSET CLASS POSITIONING

The portfolios are now strongly underweight growth assets and overweight cash. We have also shifted underweight property an overweight infrastructure.

	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight
Australian Equities	○	○	●	○	○
Global Equities	●	○	○	○	○
Property	○	●	○	○	○
Infrastructure	○	○	○	●	○
Global Alpha	○	○	○	●	○
Government Bonds	○	○	●	○	○
Corporate Debt	●	○	○	○	○
Cash	○	○	○	○	●
Total Growth vs Defensive	●	○	○	○	○

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