

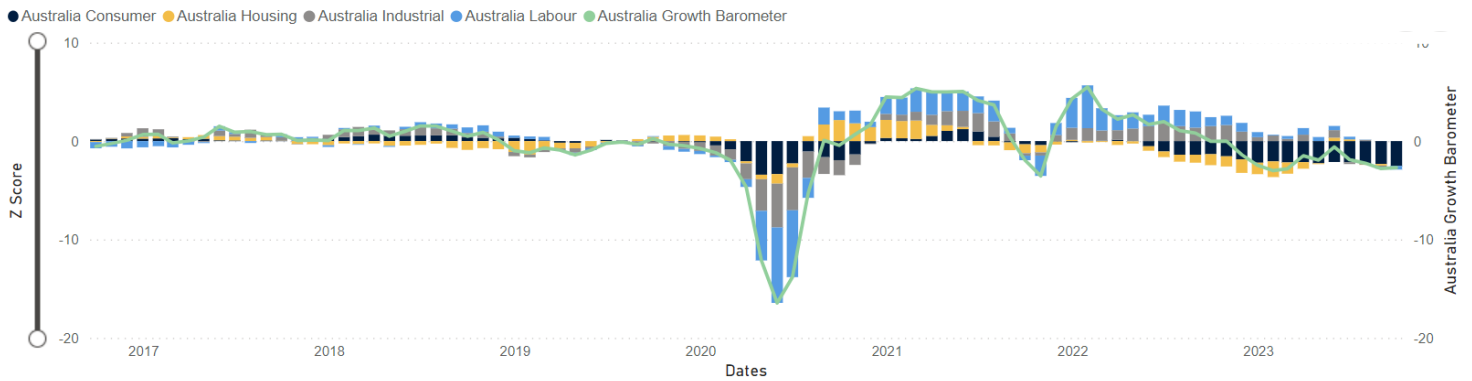
Portfolio Update

21 SEPTEMBER 2023

PORTFOLIO CHANGE AND RATIONALE

Australian Equities

As outlined in our recent *Market Insight* [Australia's Rate Surprise](#) the Australian economy continues to slow and faces headwinds as higher interest rates impact household balance sheets and consumer spending. The weakness in the consumer sector can be seen below in our *Growth Barometer* which shows the navy-blue bar (consumer) dragging growth below trend.

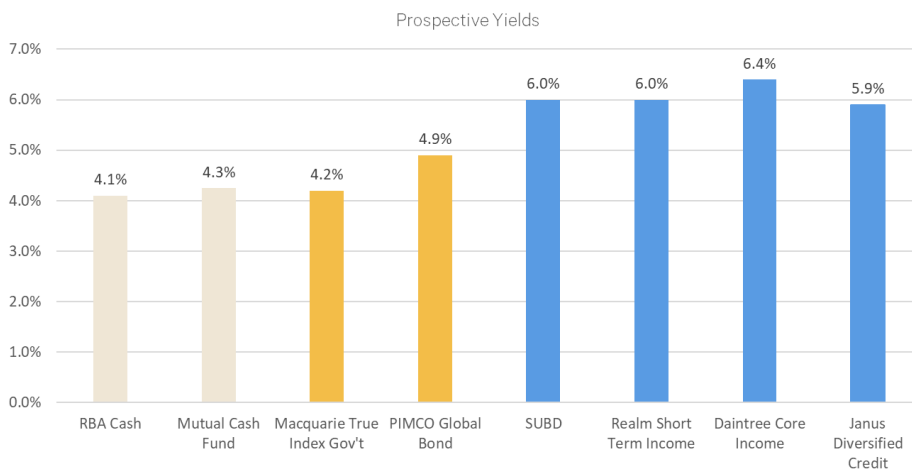


In this environment, cyclical sectors of the equity market such as discretionary retail and banks, often favoured by value investors tend to underperform more defensive & quality sectors such as consumer staples and health care. As a result, we are switching our Australian equity exposure away from Perpetual Australian Share Fund into our remaining managers and the index as we believe Perpetual will struggle to outperform in this environment. Recent corporate issues at Perpetual following the merger with Pandal also provide some reason for concern as these can be an unnecessary distraction as we witnessed at Magellan in 2021/22.

We are also continuing to reduce our equity market neutral global alpha managers Sage and Perpetual in favour of Corporate Debt for reasons outlined below.

Defensive Assets

As previously outlined and highlighted in the chart below, we believe the current yields on Australian investment grade corporate debt are attractive vs cash and government bonds and we are continuing to build exposure to this sector via the addition of Janus Diversified Credit (Drummond Research attached) as well as increasing Realm Short Term Income.



We are also switching Vanguard Australian Government Bond Index Fund to the Macquarie True Index Australian Fixed Interest Fund. Vanguard charge 0.24% whilst the Macquarie product which replicates the index charges 0%, a meaningful saving compared to a 0.06% buy sell spread.

The combination of the above changes reduces underlying management fees by between 3bps and 5bps across the portfolios.

PORTFOLIO CHANGES

The table below shows the specific portfolio changes.

Fund	Change	Dynamic	DS30	DS50	DS70	DS90	DS100	DS100+
Perpetual Pure Equity Alpha Fund	▼	-1.0%	-1.0%	-1.0%				
CC Sage Capital Absolute Return Fund	▼	-2.0%	-1.0%	-1.0%	-2.0%	-2.5%	-1.5%	
iShares Australian Equity Index Fund	▲			2.0%	2.5%	3.5%	3.8%	
Solaris Core Australian Equity Fund (Performance Alignment)	▲	2.0%			2.0%	1.0%	1.5%	
Perpetual Australian Share	▼	-4.1%	-2.0%	-4.0%	-5.0%	-5.0%	-6.3%	
DNR Capital Australian Equities High Conviction Fund	▲	2.0%	2.0%	2.0%	1.5%	2.0%	2.0%	
Cash	▼	-4.1%	-5.0%	-4.0%	-5.5%	-4.0%	-1.0%	
Mutual Cash and Term Deposits	▲	1.8%	2.0%	2.0%	2.5%		1.5%	
PIMCO Wholesale Plus Global Bond Fund	▼	-3.9%	-3.0%	-3.0%	-3.0%			
Macquarie True Index	▲	17.0%	19.0%	16.0%	10.0%			
Vanguard Australian Government Bond Index Fund	▼	-16.7%	-19.0%	-16.0%	-10.0%	-2.0%		
Janus Diversified Credit	▲	6.0%	8.0%	5.0%	4.0%	3.0%		
Realm Short Term Income Fund	▲	3.0%		2.0%	3.0%	4.0%		

ASSET CLASS POSITIONING

Following the changes, the portfolios are now underweight Global Alpha and overweight Corporate Debt.

	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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