PROACTIVE PORTFOLIOS

Listed Security SMA Portfolio Update

28 November 2023

As part of our most recent Dynamic Asset Allocation (DAA) review process we focused on positioning, conviction, cost and risk controls. The resultant changes see portfolios positioned to drive alpha generation whilst providing downside protection given our outlook.

Macro headwinds to riskier assets persist

We anticipate that resilient fundamentals in the US economy, supported by continued tight labour market conditions and durable retail sales, will deteriorate throughout 2024. We continue to remain cautious about the state of the Real Estate market. Factors such as tightening lending standards, elevated office vacancies, and downward trends in capitalisation rates have raised concerns. Given current market conditions, we believe that relatively risk-free government bonds offer more attractive returns compared to the risks associated with real estate investment trusts (REITs).

In September we took the opportunity to pivot portfolio allocations to property and infrastructure by removing the dedicated REITs exposure. We also diversified the fixed income allocations to ensure enhanced control over the Fixed Income building blocks i.e., Credit, Government, Cash.

Outlook and changes

We believe the risk of recession for developed economies will continue to linger as we move into 2024. Given the heightened, more persistent inflation levels, notably in the developed world, we have made further changes to the defensive allocations within portfolios. Specifically, we reduced allocations to cash and to Australian corporate bonds, to fund increases to Australian floating rate bonds which are currently providing a significant yield premium, as well as adding to the government bond allocations. Additionally, we also made some minor adjustments to international equity allocations to align portfolios with our defensive outlook. These changes should see enhanced returns for portfolios without impacting underlying defensive qualities.

Key changes and the associated rationale follow:

ACTION	FUNDED BY	RATIONALE
- Add the Vaneck Australia Floating Rate ETF (ASX: FLOT) to all portfolios. - Increase the allocation to the Vanguard Australian Government Bond Index ETF (ASX: VGB) for the balanced, growth and high growth portfolios - Increase the allocation to the Global X US Treasury Bond (H) ETF (ASX: USTB) for the balanced, growth and high growth portfolios.	- Reducing the allocation cash and the iShares Core Cash ETF (ASX: BILL) across all portfolios. - Slight reduction in international equity allocations including emerging markets for the balanced, growth and high growth portfolios.	Slightly increase the defensive allocations within portfolios whilst providing a relatively attractive yield.

Appendix 1 provides a summary of newly added investments.

The portfolio change instructions are effective **27 November 2023**. The updated holdings reports will be available on the Proactive Portfolios website here in the coming days.

Appendix 1

Summary of added investment(s).

VanEck Australian Floating Rate ETF

The ETF invests in a diversified portfolio of Australian dollar denominated floating rate bonds with the aim of providing investment returns (before fees and costs) that closely track the returns of the Index.

Click here to view the October 2023 factsheet for the VanEck Australian Floating Rate ETF.