PROACTIVE PORTFOLIOS

Listed Security SMA Portfolio Update

5 September 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 should equity markets suffer given the current economic environment.

Macro headwinds to riskier assets

The risk of recession for developed economies continues to linger, triggered by the unprecedented monetary tightening by Central Banks over recent years. Given the heightened, more persistent inflation levels, notably in the developed world, we have made changes to increase the defensive allocations within portfolios.

We are wary about the state of the real estate market including factors such as tightening lending standards, elevated office vacancies, and downward trends in capitalisation rates. Given current market conditions, we see that relatively risk-free government bonds offer more attractive returns. As a result, we will be reducing portfolio exposures to real estate investments in favour of government bonds and more broadly, where needed, will be reducing our allocation across equities.

Additionally, we will take the opportunity to further diversify the fixed income allocations, by adding both US and Australian government bonds to portfolios. This provides a relatively attractive yield whilst providing downside protection should equity markets suffer. The new structure avoids duplication and gives us better control over the Fixed Income building blocks i.e., Credit, Government, Cash.

Key changes and associated rationale are as follows:

ACTION	FUNDED BY	RATIONALE
Add the Global X US Treasury Bond (H) ETF (ASX: USTB).	In part by a reduction in the Vanguard International Credit Securities Index (H) ETF (ASX: VCF) where an overweight position is held and the removal of the VanEck FTSE International Property (H) ETF (REIT).	This change provides portfolios with dedicated government bond exposure at relatively attractive yields. It also provides significant downside protection should a global recession play out and real estate markets suffer.
Add the Vanguard Australian Government Bond Index ETF (ASX: VGB).	Removal of the Vanguard Australian Fixed Interest Index ETF (VAF) where held.	This change provides portfolios with dedicated government bond exposure at relatively attractive yields.

The portfolio changes are effective from **4 September 2023**. The updated holdings reports will be available on the Proactive Portfolios website here in the coming days.

Australian equity holdings were changed throughout the August reporting season. Key changes will be highlighted in the August monthly reports due to be published in mid-September.

We will continue to monitor the portfolios with a focus on the equity asset classes and will look to implement any associated changes in coming months depending on the prevailing market conditions.