

## Proactive Portfolios Managed Fund Model 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 will be making 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 and emerging markets in favour of government bonds.

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 follow.

ACTION	FUNDED BY	RATIONALE
<ul style="list-style-type: none"> <li>- Add the Alexander Credit Income Fund (APIR: ETL2805AU) to the conservative and balanced portfolios.</li> <li>- Add the Torica Absolute Return Income Fund (APIR: MST0002AU) across all portfolios.</li> </ul>	<ul style="list-style-type: none"> <li>- Removal of the Franklin Australian Absolute Return Bond Fund (APIR: FRT0027AU) across all portfolios.</li> <li>- Reducing the Daintree Core Income Trust (APIR: WPC1963AU) holding for the conservative portfolio.</li> <li>- Removing the Quay Global Real Estate Fund (APIR: BFL0020AU) from the Conservative and Balanced portfolios.</li> <li>- Reducing the allocation to the Schroder Global Emerging Markets Fund (APIR: SCH0034AU) for the Moderate Growth, Growth and High Growth portfolios.</li> <li>- Reducing the cash allocation across all portfolios.</li> </ul>	<p>Increase the defensive allocations within portfolios whilst rotating out of real estate and reducing exposure to emerging markets.</p>

Appendix 1 provides a summary on each of the new active managed fund additions.

The instructions for the portfolio changes are effective **4 September 2023**. The changes are being implemented by the relevant platforms (OneVue and Netwealth). Any client withdrawals during that period may be deferred until the portfolio rebalance is completed depending on the platform.

The updated holdings reports will be available on the Proactive Portfolios website [here](#) in the coming days.

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. Any changes will take into consideration the cost of the underlying investments.

## Appendix 1

Summary on each of the new active managed fund additions

### **Torica Absolute Return Income Fund**

Torica Absolute Return Income Fund is a low duration and risk adjusted return focused fixed income strategy. The firm adopts an agile and active portfolio management approach to capture inefficiencies in the global fixed income markets, with risk management and the preservation of capital at the core of the firm's investment process. The Fund is targeting a return of Cash + 2.5%.

[Click here](#) to access further information on the Torica Absolute Return Income Fund.

### **Alexander Credit Income Fund**

The Alexander Credit Income Fund is a diversified portfolio of primarily investment-grade Australian credit assets and targets an absolute return of 1% above the Bloomberg Ausbond Bank Bill Index (after fees). While the strategy is a high yielding portfolio, risk management is a key focus, with the portfolio being predominantly invested in floating rate securities and loans and hedges implemented to help mitigate capital volatility when credit spreads widen in adverse market conditions.

[Click here](#) to view the factsheet for the Alexander Credit Income Fund.