

# Enhanced Strategic Model Portfolios

April 2024

## ANNUAL STRATEGIC ASSET ALLOCATION (SAA) REVIEW

We recently conducted our annual review of the portfolios' strategic asset allocation (SAA), where we re-assessed the capital market assumptions, investment universe and strategic holdings of the portfolios. These SAA changes were implemented during the latest portfolio rebalance on 3<sup>rd</sup> April, along with our latest tactical views.

## KEY SAA CHANGES

**Slightly higher growth/defensive split** amid ongoing economic resiliency and higher return expectations for equities over bonds

**Add new asset classes** – Global Property, Global Infrastructure and Gold – to increase portfolio diversification and resilience

**Increase FX hedge ratio** within growth assets given the potential for the Australian dollar to strengthen

**Remove allocation to Chinese equities** given elevated uncertainty around the structural outlook for China

**Reduce cash** and increase exposure to Australian inflation-linked bonds in expectation of sticky inflation

## ASSET CLASS VIEWS

Asset Class	View	Rationale
<b>Growth/Defensive Split</b>	Increase	Higher expected equity returns and ongoing resiliency in forward earnings lead us to slightly increase the allocation to growth assets. For example, the Balanced portfolio is now 51/49 compared to 50/50 last year.
<b>Growth Assets</b>		
Australian Equities	Increase	Relatively attractive valuations and higher dividend yields lead us to increase Australian equities marginally.
Developed ex AU Equities	Decrease	We reduce Developed equities as a funding source for the new Property and Infrastructure allocations. Within Developed Market equities, we reduce unhedged equities in favour for hedged equities to increase the currency hedge ratio. A higher currency hedge ratio would better protect the value of the portfolio in the event of a stronger Australian dollar. In addition, we slightly reduce European equities in favour for US equities.
Emerging Market Equities	Decrease	We remove the strategic allocation to Chinese equities given heightened uncertainty around the structural outlook for the Chinese economy, but pair that with a slight increase in broad Emerging Market equities given favourable capital market assumptions.
Global Listed Property (Hedged)	New addition	Fading headwinds from rising interest rates and more attractive valuations create a case for the new strategic exposure to Global REITs. The index's reallocation from underperforming traditional sectors like office REITs towards sectors positioned for megatrends like Data Centers also places REITs in a favourable position over the long-term.
Global Listed Infrastructure (Hedged)	New addition	Infrastructure offers inflation resilience and can further diversify the portfolio with the potential to deliver equity-like returns with less volatility. We fund this new exposure via a reduction in the World Minimum Volatility factor.
Factors	Remove	We remove the strategic holding to the World Minimum Volatility factor, while continuing to provide ballast in the portfolio through the allocation to Infrastructure (another defensive growth asset)
<b>Defensive Assets</b>		
Inflation-Linked bonds	Increase	We prefer inflation-linked bonds over nominal bonds in expectation that inflation will stay "higher-for-longer".
Gold	New addition	Gold has a negative beta to growth assets, making it a good diversifier within the portfolio alongside bonds.
Cash	Decrease	Reduce cash in favour for fixed income and gold.

Source: BlackRock, as of latest SAA review on 3<sup>rd</sup> April 2024.

SAA CHANGES

	Asset class	Fund	Conservative 2024	Moderate 2024	Balanced 2024	Growth 2024	Aggressive 2024	AllGrowth 2024	Conserv. - Change	Moderate - Change	Balanced - Change	Growth - Change	Aggressive - Change	All Growth - Change
Growth Assets	Australian Equities	iShares S&P/ASX 200 ETF	7.0%	11.5%	19.5%	28.0%	33.0%	38.0%	0.5%	0.5%	0.5%	1.0%	1.0%	1.5%
	Developed Market Equities	iShares S&P 500 AUD Hedged ETF	0.0%	2.0%	3.5%	5.5%	8.0%	7.5%	-1.0%	-0.5%	-0.5%	-0.5%	0.0%	-1.0%
	Developed Market Equities	iShares S&P 500 ETF	2.5%	5.7%	10.5%	15.0%	18.7%	23.3%	1.0%	1.2%	2.0%	2.5%	2.2%	4.3%
	Developed Market Equities	iShares Europe ETF	1.0%	1.8%	3.5%	5.0%	6.5%	7.5%	-0.5%	-1.2%	-3.0%	-3.0%	-3.0%	-4.0%
	Developed Market Equities	iShares MSCI Japan ETF	0.0%	1.0%	1.0%	1.5%	2.0%	2.3%	0.0%	1.0%	0.0%	-0.5%	0.0%	-0.5%
	Developed Market Equities	iShares MSCI EAFE ETF	0.0%	0.0%	1.0%	1.0%	1.3%	1.4%	0.0%	0.0%	1.0%	0.0%	0.3%	0.4%
	Developed Market Equities	iShares Edge MSCI World ex Australia Minimum Volatility ETF	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-2.0%	-4.0%	-4.5%	-5.5%	-6.0%	-7.0%
	Emerging Market Equities	iShares MSCI EM ETF	2.0%	4.0%	6.0%	8.0%	9.0%	10.0%	0.5%	1.0%	1.5%	2.5%	2.5%	2.5%
	Emerging Market Equities	iShares China Large-Cap ETF	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-1.0%	-2.0%	-2.0%	-2.5%	-3.5%	-4.0%
	Property & Infrastructure	iShares Core FTSE Global Property Ex Australia (AUD Hedged) ETF	0.0%	1.0%	1.5%	2.0%	2.5%	2.5%	0.0%	1.0%	1.5%	2.0%	2.5%	2.5%
	Property & Infrastructure	iShares Core FTSE Global Infrastructure (AUD Hedged) ETF	3.5%	4.0%	4.5%	5.0%	5.0%	5.5%	3.5%	4.0%	4.5%	5.0%	5.0%	5.5%
Defensive Assets	Australian Fixed Income	iShares Core Composite ETF	42.0%	33.5%	21.0%	10.5%	2.5%	0.0%	1.0%	-1.0%	-4.0%	-3.5%	-1.0%	0.0%
	Australian Fixed Income	iShares Treasury ETF	3.0%	2.5%	2.0%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-1.0%	0.0%
	Australian Fixed Income	iShares Government Inflation ETF	10.0%	9.0%	7.0%	5.0%	3.0%	0.0%	5.0%	5.0%	4.0%	3.5%	2.0%	0.0%
	International Fixed Income	iShares Global Aggregate Bond ESG ETF (AUD Hedged)	4.5%	3.0%	3.0%	1.0%	0.0%	0.0%	-1.5%	-2.0%	-1.0%	-2.0%	-2.5%	0.0%
	International Fixed Income	iShares Global Corporate Bond ETF (AUD Hedged)	3.5%	3.5%	2.5%	2.0%	1.0%	0.0%	-5.5%	-3.0%	-1.0%	0.0%	0.0%	0.0%
	International Fixed Income	iShares Global High Yield ETF (AUD Hedged)	3.5%	3.5%	2.5%	2.0%	1.5%	0.0%	0.5%	0.5%	0.0%	0.0%	0.0%	0.0%
	International Fixed Income	iShares JPM EM Bond ETF (AUD Hedged)	1.5%	1.0%	1.0%	1.0%	1.0%	0.0%	-0.5%	-1.0%	-1.0%	-0.5%	-0.5%	0.0%
	Alternatives	iShares Physical Gold ETF	3.0%	3.0%	3.0%	3.0%	3.0%	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%	0.0%
	Cash	iShares Enhanced Cash ETF	10.5%	7.5%	4.5%	1.0%	0.0%	0.0%	-8.0%	-2.5%	-1.0%	-1.0%	-1.0%	0.0%
	Cash	Platform Cash	2.5%	2.5%	2.5%	2.0%	2.0%	2.0%	0.0%	0.0%	0.0%	-0.5%	0.0%	0.0%
Growth assets			16.0%	31.0%	51.0%	71.0%	86.0%	98.0%						
Defensive assets			84.0%	69.0%	49.0%	29.0%	14.0%	2.0%						

Source: BlackRock, as of latest SAA review on 3<sup>rd</sup> April 2024.

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