CFS Dynamic Portfolio

Dynamic 85

December 2024 update

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CFS's 'best ideas' managed account offers sophistication without complexity.

Dynamic asset allocation
We believe skilful asset allocation is a cost-effective and powerful form of active management that is often underappreciated in the 'active versus passive' debate.

Direct shares
The active decision to Index the ASX 20 is to efficiently harness the natural benefits of the Australian market (such as franking credits) in a low-turnover manner to avoid unnecessary after-tax leakage. Advisers and clients are therefore better able to control their-after-tax outcomes.

Full toolkit
We use a combination of managers, ETFs and direct shares across the portfolio. These include 'enhanced' exposures, which sit between what are traditionally considered 'passive' and 'active' building blocks.

Investment mix
85% growth | 15% defensive assets

Minimum suggested timeframe
7 years

Platform availability
CFS Edge

Total ongoing fees and costs (p.a)[1]
0.74%

Minimum investment
$50,000

Research rating
4 star (Superior) - SQM

1 Managed account fee (CFS SMA PDS 1/11/2024), indirect costs, recoverable expenses, performance fee, transaction costs.

What happened over the quarter?

- The emphatic US election result saw equities react positively in November, before easing slightly in December.
- Bond yields continued their upward march, with US 10-year rates ending the quarter nearly 100 basis points higher than the September low of 3.6%.
- Continued US dollar strength saw the AUD/USD slide further to 0.62, down from 0.69 the prior quarter.

The CFS Dynamic portfolios were launched at an interesting juncture in markets – mere days before the US Presidential election. We embedded two key tilts in the portfolio launch weights to navigate this environment.

The first, in global equities, was to increase the allocation to Global Small and Mid-cap equities (via the Bell Global Emerging Companies Fund). Small and Mid-caps outperformed Large-caps immediately after all but one of the past seven US elections over the past 30 years[2]. The 2024 result – a Republican 'sweep' of Congress – saw a similar pattern emerge in November, benefitting the portfolio.

The second tilt was in fixed income, where we saw an opportunity to increase our exposure to Australian bonds while decreasing our Global exposure. Australian 10-year yields are trading at similar levels to the US despite the latter's much higher debt-to-GDP and bond issuance levels. Global bonds also look unattractive when considering political risk (with France, Germany and South Korea in the spotlight for this reason over the past few months).

The allocations to the Western Asset Australian Bond Fund and the Bentham Global Income Fund (which has exposure to Australian duration) were increased to express this view in the Dynamic portfolios.

Our initial view is that a 'Trump 2.0' administration should be pro-growth, but more finely balanced on the inflation front. Will the dividend from any deregulation measures offset the inflationary pressure from immigration curbs? And will tariff revenues balance the impact of tax cuts? Time will tell.

Looking ahead, three near-term watchpoints include:

- policy announcements in the lead-up to and following President-elect Trump's inauguration,
- China's policy response to any tariff announcements from the US, and
- the impact of 'higher for longer' bond yields dominating the Fed's easing cycle.

2 The exception was November 2008 – in the midst of the Global Financial Crisis

Performance: Portfolio and managers

	Since inception[1] (2 months)
Return (net)	2.5%
Benchmark (gross)	-0.7%

1 1 November 2024

APIR	Asset Class	Manager	2-month return
FSF6226AU	Global Equities	RQI Global Value	5.9%
FSF8622AU	Global Equities	Bell Global Emerging Cos	5.9%
FSF7753AU	Global Equities	Royal London Core	5.7%
EMKT	Global Equities	VanEck EM Multifactor ETF	4.9%
CSA0046AU	Fixed Income	Bentham Synd Loan	2.0%
FSF4813AU	Fixed Income	Western Asset Aust Bond	1.8%
FSF3550AU	Aust Equities	Antares ex-20	1.4%
FSF7613AU	Fixed Income	Bentham Global Income	1.2%
FSF4820AU	Fixed Income	PIMCO Global Bond	0.9%
FSF9620AU	Cash	CFS Enhanced Cash	0.5%
FSF9690AU	Global Equities	GQG (hedged)	0.2%
FSF0874AU	Global Infra	CFS Global Infra	-2.7%
FSF4609AU	Global Prop	ResCap GREIT	-4.5%

Past performance is no indication of future performance.

- The portfolio outperformed its benchmark over the two months to December.
- Our larger position in unhedged Global Equities was a positive contributor to performance, as the Australian dollar weakened significantly.
- The broadening of returns from US 'mega-cap' stocks was evident in the strong performance from value stocks (RQI Global Value) and small/mid-cap stocks (Bell Global Emerging Companies).
- The outperformance of Australian fixed income (Western Asset Australian Bond) over Global fixed income (PIMCO Global Bond) has been a positive given the higher domestic allocation in the portfolio.
- The rise in long bond yields over the two months weighed heavily on listed real assets with CFS Global Infrastructure Securities and Resolution Capital Global Property Securities suffering negative returns.

Performance: Direct ASX equities

Weight in portfolio	Ticker	Name	2-month return
2.8%	CBA	Commonwealth Bank	7.4%
2.5%	BHP	BHP	-7.2%
1.6%	CSL	CSL	-1.9%
1.4%	NAB	National Australia Bank	-2.3%
1.3%	WBC	Westpac	3.1%
1.1%	ANZ	ANZ Banking	-5.9%
0.9%	MQG	Macquarie Group	-3.2%
0.9%	WES	Wesfarmers	6.3%
0.7%	GMG	Goodman Group	-2.3%
0.5%	WDS	Woodside Energy	3.5%
0.5%	TLS	Telstra	5.0%
0.5%	RIO	Rio Tinto	-1.6%
0.5%	TCL	Transurban	7.8%
0.5%	WOW	Woolworths	1.8%
0.4%	ALL	Aristocrat Leisure	11.8%
0.4%	FMG	Fortescue Metals	-4.8%
0.3%	QBE	QBE Insurance	11.6%
0.3%	COL	Coles Group Ltd	7.4%
0.3%	STO	Santos	-1.5%
0.2%	JHX	James Hardie	2.5%
		Total	0.9%

Past performance is no indication of future performance.

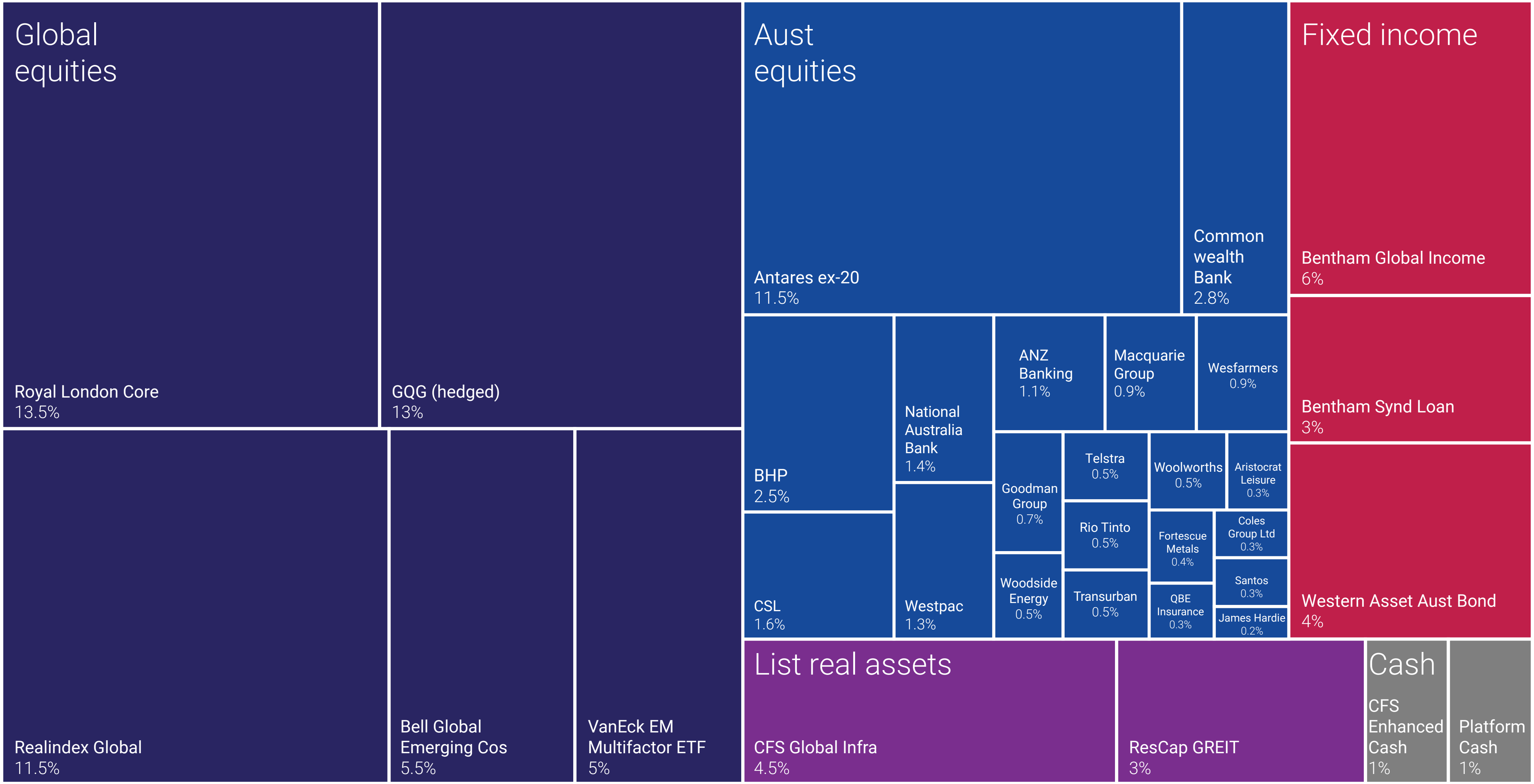
- As a group, the top 20 Australian shares returned 0.9% for the two months to December 2024.
- Among financials, Commonwealth Bank had a strong finish to the year, although Westpac was the best performer overall in 2024.
- BHP suffered the biggest decline as hopes for Chinese stimulus faded. All three major miners saw negative returns over the final months of 2024.
- Aristocrat Leisure and QBE Insurance were the two strongest performers in the portfolio over the two months. Both benefitted from the weakening Australian dollar.

Portfolio at a glance

Growth / Defensive mix: 85 / 15

Asset allocation (%)			
Global Equities	48.5	Fixed Income	13
Australian Equities	29	Cash	2
Listed Real Assets	7.5		

How to read this treemap. This visualisation shows larger asset allocations and holdings at the top-left of the box, and smaller holdings at the bottom-right. Holdings are grouped and colour-coded by asset class. Direct stock weights are listed on the previous page and the platform cash allocation is 1%.



 The holdings shown are for a representative Model Portfolio and may differ from a client's actual portfolio.

Find out more

To find out more about CFS managed account portfolios, investors can contact their financial adviser or call CFS on 1300 769 619.

Advisers can contact their CFS Business Development Manager or call CFS on 13 18 36.

Total ongoing fees and costs are GST inclusive, net of any input tax credits (including reduced input tax credits). Refer to the CFS Edge Signature Managed Account PDS for more information.

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