

Monthly Investment Returns

As of 28/02/2023

MARKET REVIEW

Wall Street speculation reached fever pitch during the third week of February as the volume of the so called “0DTE options” hit a record 50% share of all the options traded on the S&P 500. The acronym “0DTE” stands for “Zero Days to Expiration” and, as reported by Reuters, identifies option contracts “that have less than a day before expiring, though they may have been listed days, weeks or months ago. The contracts could be tied to the price of indexes, exchange traded funds (ETFs) or single stocks.”

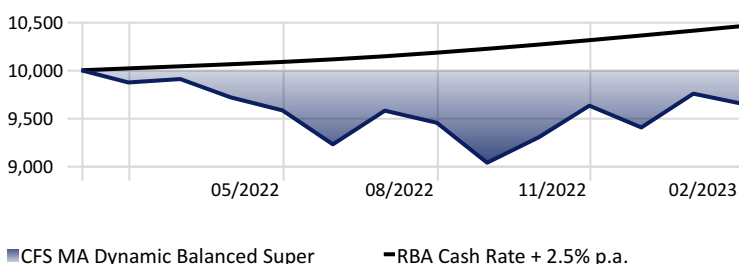
(...Continues on page 4)

Latest performance*

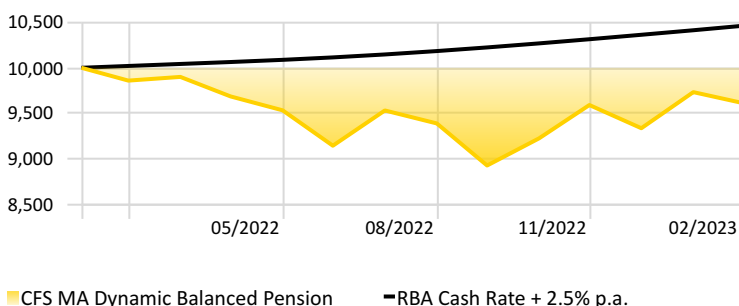
	1-mth	3-mths	6-mths	1-yr	Inception
CFS MA Dynamic Balanced Pension	-1.16	0.29	2.44	-2.43	-3.80
CFS MA Dynamic Balanced Super	-1.03	0.25	2.13	-2.19	-3.43
RBA Cash Rate + 2.5% p.a.	0.45	1.40	2.69	4.36	4.57
Morningstar AUS Growth Tgt Alloc NR AUD	-1.09	-0.19	3.09	-1.12	-2.19

*Past performance is not a reliable indicator of future performance. Performance is calculated before taxes, model management and platform fees and after underlying investment management fees. For full details of fees please refer to the relevant platform offer documents. Performance is notional in nature and an individual investor's actual performance may differ to the that of the model portfolio. Investment performance is shown from 21/2/2022 and represents modelled performance only and assumes income received is reinvested.

\$10,000 invested over time - Super



\$10,000 invested over time - Pension

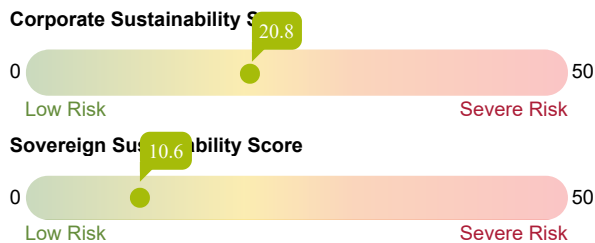


Portfolio information

- Investment Objective:
target RBA cash rate +2.5% per annum over rolling 5-year periods after fees.
- Asset Class: Diversified
- 70% Growth / 30% Defensive Split
- Portfolio Inception Date: 21 February 2022
- Estimated Total Cost¹:
Super: 0.94%
Pension: 0.94%

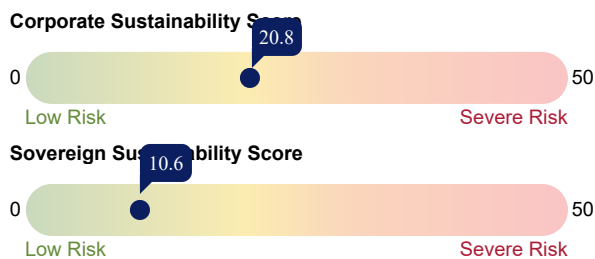
¹ Estimated total cost includes administration, investment and performance fees.

Sustainability Score - Super



● CFS MA Dynamic Balanced Super

Sustainability Score - Pension



● CFS MA Dynamic Balanced Pension

ESG Pillar Score - Super



ESG Pillar Score - Pension



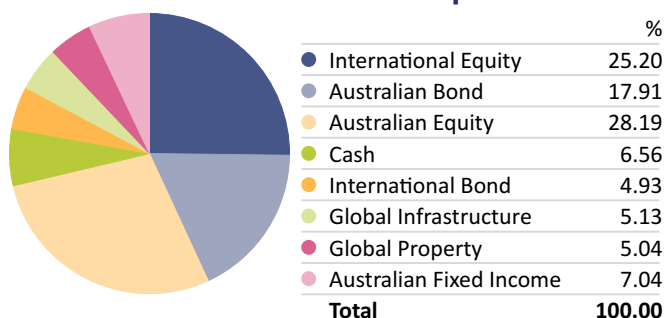
Important information

The Morningstar Historical Corporate Sustainability Score is a weighted average of the trailing 12 months of Morningstar Portfolio Corporate Sustainability Scores. Historical portfolio scores are not equal-weighted; rather, more-recent portfolios are weighted more heavily than older portfolios. Combining the trailing 12 months of portfolio scores adds consistency while still reflecting portfolio managers' current decisions by weighting the most recent portfolio scores more heavily.

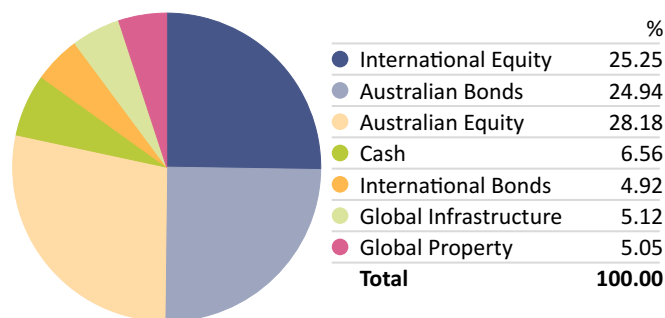
ESG pillar scores are displayed as a number between 0 and 100 with most scores range between 0 and 25. It is the asset-weighted average of the company environmental, social, governance risk scores for the covered corporate holdings in a portfolio. The scores measure the degree to which a company's economic value may be at risk driven by environmental, social, and governance factors. The risk represents the unmanaged risk exposure after taking into account a company's management of such risks.

This document has been prepared by AZ Sestante Limited, ABN 94 106 888 662, AFSL 284 442 (AZ Sestante). This document is not an offer of securities or financial products, nor is it financial product advice. As this document has been prepared without taking account of any investors' particular objectives, financial situation or needs, you should consider its appropriateness having regard to your objectives, financial situation and needs before taking any action. Past performance is not a reliable indicator of future results. Although specific information has been prepared from sources believed to be reliable, we offer no guarantees as to its accuracy or completeness. The information stated, opinions expressed and estimates given constitute best judgement at the time of publication and are subject to change without notice. Consequently, although this document is provided in good faith, it is not intended to create any legal liability on the part of any other entity and does not vary the terms of a relevant disclosure statement. All dollars are Australian unless otherwise specified.

Current Asset Allocation - Super



Current Asset Allocation - Pension



Where your funds are invested

Australian Equity	28.19	—
CFS FC W PSup-Schroder W Aus Equity	11.11	—
CFS FC W PSup-Fidelity W Aus Equities	8.98	—
CFS FC W PSup-Bennelong ex-20 W Aus Eq	8.10	—
International Equity	25.20	—
CFS FC W PSup-Ironbark RL W Con Gb Share	6.87	—
CFS FC W PSup-CFS W Index Global Shr-Hgd	6.28	—
CFS FC W PSup-Fidelity W Asia	5.18	—
CFS FC W PSup-Stewart Inv W Wldwide Sus	4.84	🌐🌐🌐
CFS FC W PSup-Janus Henderson Glb Nat Re	2.02	—
Australian Bond	17.91	—
CFS FC W PSup-Franklin W Aus Abs Rtn Bnd	6.99	—
CFS FC W PSup-Pendal W Sust Aus Fix Int	6.93	—
CFS FC W PSup-Macquarie W Income Opps	3.99	—
Australian Fixed Income	7.04	—
CFS FC W PSup-CFS W Index Aus Bond	7.04	🌐🌐🌐
Cash	6.56	—
CFS FC W PSup-FSI W Strategic Cash	6.56	—
Global Infrastructure	5.13	—
CFS FC W PSup-FSI Gbl Listed Infrastruct	5.13	🌐🌐🌐
Global Property	5.04	—
CFS FC W PSup-Legg Mason M Curr Real Inc	5.04	—
International Bond	4.93	—
CFS FC W PSup-Colchester W Glb Gov Bnd	2.95	—
CFS FC W PSup-PIMCO W Global Bond	1.98	—
Total	100.00	

Morningstar's Globe Ratings are just one tool that can help investors work out a fund's ESG credentials. A 5 Globe Rating indicates a fund is at the top end of its peer group in terms of sustainability, while a 1 Globe Rating shows it is underperforming on sustainability issues.

Portfolio changes

No changes this month

Major Index Returns

	1 Month	3 Months	6 Months	1 Year	3 Years
MSCI World Ex Australia GR AUD	2.13	-0.55	5.97	0.03	8.80
Bloomberg Global Aggregate TR Hdg AUD	-1.80	-1.04	-2.62	-9.40	-4.05
S&P Global Infrastructure NR AUD	0.92	-1.60	0.72	6.58	2.77
Bloomberg AusBond Composite 0+Y TR AUD	-1.32	-0.69	0.39	-6.37	-3.44
S&P/ASX 200 TR AUD	-2.45	0.30	6.37	7.16	7.93

Where your funds are invested

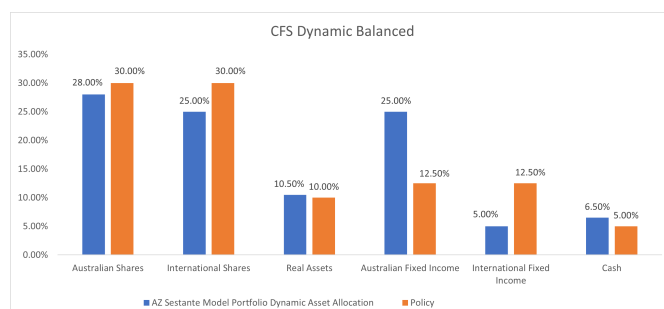
Australian Equity	28.18	—
CFS FC W Pen-Schroder W Aus Equity	11.12	—
CFS FC W Pen-Fidelity W Aus Equities	8.97	—
CFS FC W Pen-Bennelong ex-20 W Aus Eq	8.09	—
International Equity	25.25	—
CFS FC W Pen-Ironbark RL W Con Gb Share	6.91	—
CFS FC W Pen-CFS W Index Global Shr-Hgd	6.28	—
CFS FC W Pen-Fidelity W Asia	5.21	—
CFS FC W Pen-Stewart Inv W Wldwide Sus	4.83	🌐🌐🌐
CFS FC W Pen-Janus Henderson Glb Nat Res	2.01	—
Australian Bonds	24.94	—
CFS FC W Pen-CFS W Index Aus Bond	7.03	🌐🌐🌐
CFS FC W Pen-Franklin W Aus Abs Rtn Bond	6.99	—
CFS FC W Pen-Pendal W Sust Aus Fix Int	6.92	—
CFS FC W Pen-Macquarie W Income Opps	3.99	—
Cash	6.56	—
CFS FC W Pen-FSI W Strategic Cash	6.56	—
Global Infrastructure	5.12	—
CFS FC W Pen-FSI Gbl Listed Infrastruct	5.12	🌐🌐🌐
Global Property	5.05	—
CFS FC W Pen-Legg Mason M Curr Real Inc	5.05	—
International Bonds	4.92	—
CFS FC W Pen-Colchester W Glb Gov Bnd	2.94	—
CFS FC W Pen-PIMCO W Global Bond	1.98	—
Total	100.00	

Morningstar's Globe Ratings are just one tool that can help investors work out a fund's ESG credentials. A 5 Globe Rating indicates a fund is at the top end of its peer group in terms of sustainability, while a 1 Globe Rating shows it is underperforming on sustainability issues.

Portfolio changes

No changes this month

Active Asset Allocation: AZ Sestante Model Portfolio vs Investment Policy Target



As the entire value of a 0DTE option is essentially determined by the price movement of the underlying asset on a single day, it is “very sensitive to relatively small price changes in the market”, which makes that type of contract “attractive to traders looking to bet on intraday moves”. Contracts with less than 24 hours left to expiry accounted for only 5-10% of the total volume of options traded on a daily basis before the pandemic. That number increased to 20% between 2020 and 2021 and then exploded to 44% during Q3 and Q4 of 2022. For certain popular stocks, the volume of short-dated options traded that are linked to the name is now exceeding the turnover of the stock itself. In a classic case of “the tail wagging the dog”, the short term performance of those stocks can be driven and even pushed to extremes by the buying and the selling of those derivatives. In fact, when an investor purchases a 0DTE from a broker, the latter will typically hedge its risk by buying (in the case of a call option) or selling (in the case of a put option) the underlying stock. If the stock then starts to move in the direction that the investor was betting on, the dealer is forced to buy more of the underlying stock, essentially “chasing” its performance higher or lower, thus exacerbating the movement. The risk is that the market value of the stock is pushed too far away from the fundamentals of the company, potentially having a reflexive positive or negative effect on the business itself. For example, a company may find it easier or harder to access credit based on the recent performance of its stock. As there may be consequences in the real world for extreme price movements, the disproportionate use of 0DTE contracts increases the possibility of market distortions or even manipulation. However, as those options are also used to bet on the direction of indices such as the S&P 500, and not just of single names, they may help to magnify market’s movements, particularly during those days when important macroeconomic data is released (for example, US CPI), giving rise to financial instability.

The most striking thing is that the popularity of 0DTE options trading, which is clearly a sign of excessive speculation in the system, seems to have been (so far) immune to the rate hikes administered by the FED. If anything, higher cash rates may have encouraged speculators to gravitate towards those contracts. In fact, now that they can safely earn 4-4.5% parking their cash in money market funds, they may be tempted to allocate part of that income to high risk trades whose payoff is a total loss, although small, or a multiple of the initial investment. In short, it appears that the “animal spirit” is alive and kicking despite the fastest hiking cycle since the 1980s or at least until the next recession hits.

International Equities

US equities declined in February, with the S&P 500 (-2.61% in USD terms) and the Nasdaq 100 (-0.49%) outperforming the “Old Economy” heavy Dow Jones Industrial (-4.19%) for the second month in a row. As a result, the performance of the latter index since the beginning of the year moved into negative territory, while that of the two former averages remained solidly in the black. Investors continued to rotate aggressively from value to growth and from defensives to cyclicals. Materials, energy, utilities and real estate were the worst performing sectors, while industrials, financials and consumer discretionary curbed losses. Technology was the best performing group, ending the month almost unchanged, or even in positive territory, depending on the benchmark used. In any case, the pocket of outperformance was concentrated in the so called “Big Tech” segment and in semiconductor companies, while the Goldman Sachs Non Profitable Tech Index sold off hard. The S&P 500 High Beta TR Index outperformed the S&P 500 Low Volatility TR Index despite the decline of the overall market.

US equities ended a three-month losing streak vis-à-vis the rest of the world (as exemplified by the MSCI AC World Index ex USA TR Index) as the Dollar Index (DXY) recorded its best month since September 2022. However, Europe was the best performing region for the second consecutive month, as the leading economic indicators for the region rebounded sharply, pointing to the strongest expansion of business activity since Q2 2022. Japan underperformed on the back of an underwhelming reporting season. Emerging markets gave back a large part of the gains recorded in January following the re-escalation of geopolitical tension between US and China. In addition, investors reassessed the prospect of a large fiscal and monetary stimulus materializing in China and, as a result, took profits from the region. All in all, the MSCI AC World Daily TR was down -2.87% in USD terms but up +1.40% in AUD terms as the Australian Dollar ended the month at its lowest level since November 2022 against the greenback. The domestic currency softened across the board, depreciating vis-à-vis all major developed and emerging currencies.

Australian Equities

The S&P/ASX 300 TR fell -2.55% in January, led lower by resources and financials, however, performance was mixed within the latter sector, with insurance rallying on the back of the strong gains posted by QBE Insurance Group, and banks plummeting. A-REITs managed to curb losses despite rising nominal yields as inflation expectations increased. Utilities, technology, industrials, consumer staples and telecom bucked the trend. Smaller companies and mid-caps marginally underperformed the Top 20, while value stocks outperformed growth stocks. Finally, the MSCI Daily TR Net Australia broke a three month winning streak vis-à-vis the MSCI AC World Daily TR.

International Fixed Income

On February 1st, the FED increased its target rate by a widely expected 25 Bps to a range of 4.5%-4.75%, its highest level since October 2007, for a cumulative 450 Bps of tightening in the space of eleven months. During his press conference, Chairman Powell was specifically asked whether he thought appropriate “lifting rates higher than you otherwise would to offset the easing of financial conditions”, to which he replied “financial conditions have tightened very significantly over the past year”. Risk assets took off globally following his remarks, as he seemed to imply that the FED was no longer targeting lower valuations for asset markets to manufacture a “negative wealth effect”. One day later, the European Central Bank (ECB) delivered its second consecutive 50 Bps increase, lifting its policy interest rate from 1.5% to 2%. Finally, on February 14th Kazuo Ueda was nominated the new Governor of the Bank of

Japan (BOJ). He is a former policy board member of the central bank and supports the maintenance of the current (dovish) monetary policy stance. Apparently, Masayoshi Amamiya, the current deputy governor, was chosen for the role first but declined it. The Bloomberg Barclays Global Aggregate shed -1.8% in February as government bond yields were generally higher and credit spreads widened.

Australian Fixed Income

On February 6th, the RBA hiked the cash rate by a widely expected 25 Bps to 3.35%, for a cumulative 325 Bps in the space of ten months. The accompanying statement surprised market participants with its hawkish forward guidance, as Governor Lowe affirmed that "the Board expects that further increases in interest rates will be needed over the months ahead to ensure that inflation returns to target and that this period of high inflation is only temporary". The Australian yield curve transposed higher and flattened, with the 2 year yield jumping 47 Bps to 3.59%, its highest level since October 2011, while the 5 and 10 year yield added 38 Bps and 30 Bps to 3.67% and 3.85% respectively. As a result, the Bloomberg AusBond Composite 0+ Yr was down -1.32% for the month.

Real Assets

Global property fell -4.33% in USD terms and -0.12% in AUD terms for the month. US underperformed the general index on the back of stronger economic data pointing to stickier inflation. Asia was a mixed bag, with Japan and Hong Kong the best and the worst performing countries in absolute terms respectively. According to research published in February by Redfin, a real estate broker based in Seattle, the total value of US homes at the end of December 2022 was 45.3 Tril USD, down -4.9% from a record high of 47.7 Tril USD in June of the same year, its largest decline in percentage terms since 2008.

Global infrastructure was down -3.33% in USD terms but up +0.92% in AUD terms in February. Transportation stocks continued to recover, rising to their highest level since April 2022. Conversely, US regulated utilities and cell towers fell for the third consecutive month. Finally, global infrastructure outperformed global property during the month.

Market Outlook

Santa Clara based Silicon Valley Bank (SVB) was closed on March 10th by the California Department of Financial Protection and Innovation (DFPI), which appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. The FDIC transferred all insured deposits of SVB to the newly created Deposit Insurance National Bank of Santa Clara (DINB), a bridge bank, with the objective of making them fully available to customers "no later than Monday morning, March 13". In the US, the standard insurance provided by the FDIC amounts to "250,000 USD per depositor, per insured bank, for each account ownership category". At the end of 2022, SVB had 106,420 customers whose accounts were fully insured, equivalent to 4.8 Bil USD of deposits. However, the bank had 37,466 customers each holding an average of 4.2 mil USD per account, and thus uninsured, equivalent to 157 bil USD. In other words, the client base of SVB was highly concentrated, cash rich and not protected by the FDIC. In fact, the primary customers of the bank were companies at various stages of development and part of the local technology ecosystem. For example, Roku, the manufacturer of various digital media players for video streaming, held approximately 487 mil USD million of its 1.9 Bil USD in cash, that is, close to 26%, at the bank. Circle, a peer-to-peer payments technology company that manages the stablecoin USDC, held around 3.3 Bil USD at SVB, equivalent to 8% of the reserves backing the cryptocurrency. According to the statement issued by the FDIC on March 10th, the plan for those uninsured depositors was to pay them "an advance dividend within the next week" and to provide them with a "receivership certificate for the remaining amount of their uninsured funds". With the FDIC already at work over the weekend looking for buyers for the bank's assets, the prospect for uninsured depositors was to receive further "dividend payments" at some unspecified time in the future.

Of the roughly 210 Bil USD in assets held by SVB, 120 Bil USD (57%) were allocated to an investment portfolio primarily comprised (78%) of Mortgage-Backed Securities (MBS) yielding on average 1.56% with a duration of close to 6 years. The portfolio had clearly suffered severe losses in 2022 on the back of the rapid increase in interest rates, but it was comprised of good quality bonds. In other words, the issue was that SVB had deliberately decided not to hedge the duration risk, not that it had engaged in risky lending. As a result, the credit risk was limited and according to various estimates, uninsured depositors could have been expected to receive, over time, most if not all the cash they had parked at the bank following its orderly liquidation. However, two days later, on March 12th, the Treasury, the FED and the FDIC released a joint statement in which they announced the backstop of all depositors, granting them "access to all of their money starting Monday, March 13". In addition, the central bank announced "the creation of a new Bank Term Funding Program (BTFP), offering loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging US Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral". The most critical feature of the program is that "these assets will be valued at par". Officially, the government acted to prevent a "systemic" risk for the banking system. On the one hand, making depositors whole is aimed at averting a bank run at other regional entities. In fact, the FDIC took over SVB after customers initiated withdrawals of 42 Bil USD from the latter on March 9th, equivalent to a quarter of its overall deposit base. On the other hand, allowing banks to pledge to the FED good quality bonds whose value have decreased because of rising yields and to receive their value at maturity (100) instead of their market value (say 80-90 depending on the duration), is aimed at giving time to the bank to "digest" the new rate environment without having to crystallize losses. In fact, the FDIC estimates unrealized losses among US banks resulting from the abrupt readjustment of the yield curve occurred in 2022 at roughly 650 Bil USD.

Following the tumultuous events of the previous days, at the time of writing of this note (March 14th) it seems to us that the last minute intervention of the authorities has been more instrumental in protecting the technology ecosystem of Silicon Valley, averting the bankruptcy of companies unable to (temporarily) access the cash necessary to meet their expenses, rather than in preventing a full-blown bank crisis. On March 13th, "in statements to The Wall Street Journal, several regional banks indicated they haven't seen the large deposit outflows that investors fear. However, that was after the announcement of the backstop, so we will never know to what extent the bank run would have gone if the authorities hadn't stepped in. In any case, this is not a repeat of 2008 in our view. Back then, the issue was the quality of credit, that is, banks had extended credit to borrowers who could not repay. Today the issue is that the value of bonds held on the books of the banks have decreased and banks face competition from money market funds offering yields above 4.5%. The money going into those money market funds is ending up in Treasury Bills or in the Reverse Repo Facilities (RRP) directly at the FED, that is, it is leaving the banking system. Banks are thus forced to increase the remuneration that they offer on checking accounts if they want to keep their customers at a time when lending activity is declining as borrowers do not want to pay higher rates. As the yield they are getting from their legacy portfolio is way lower than market rates, they are forced to either crystallize losses by selling part of the bonds they hold, or to accept lower earnings going forward. However, we think that even in the absence of the newly launched BTFP, big systemic banks have sufficient capital to face the worst case scenario. The picture is less clear-cut for regional banks given their larger exposure to commercial real estate (CRE) lending, which has come under pressure as well, but one thing is for sure SVB was an outlier in terms of typology and concentration of customers, exposure to long duration bonds and complete disregard of basic risk management. In short, it was the proverbial bad apple.

In our opinion, the collapse of SVB is more akin to the "Gilt moment" experienced in UK back in September 2022 than to the more (in) famous and consequential "Lehman moment" that precipitated the GFC in September 2008. In short, a public authority found out the hard way what was the limit of the policy that it was pursuing. In the UK, it was the government that tried to push a big package of (unfunded) tax cuts, necessitating the issuance of new government debt at a time the Bank of England (BOE) was increasing interest rates and planning to reduce its balance sheet by selling government bonds. In the US, it was the FED that pushed Quantitative Tightening (QT), reducing bank reserves in the system at a time banks needed them to accommodate customers moving their cash from checking accounts to money market funds, with the latter trend prompted by the FED increasing its target rate and aggravated by an inverted yield curve. In the UK, the BOE was forced to step in, temporarily restarting Quantitative Easing (QE) to essentially bailout the domestic pension fund system. However, following the dissipation of concerns, the central bank continued to hike rates. In fact, it added another 175 Bps between November 2022 and February 2023. It also stopped expanding its balance sheet and reverted back to its original plan of selling government bonds, although at a more conservative pace. We think that the FED may follow a similar playbook. Removing good quality assets from the banks' balance sheet at par via the BTFP is not Quantitative Easing, as banks will be required to pay interest to the FED, but it will increase the amount of reserves in the banking system nevertheless, offsetting QT. However, on the interest rate front, we think that the FED will continue to increase its target rate, potentially diluting the hikes over a longer period of time and refraining from further 50-75 Bps moves, a possibility that the central bank was openly considering just one week ago. In fact, on March 7th, during his testimony in front of the Senate Banking Committee, Chairman Powell observed that "the latest economic data has come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated", that is, he opened the door to a terminal rate higher than 5%-5.25%. In addition, he stated that "if the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes."

In conclusion, we think that the FED will make a differentiated use of its monetary tools going forward, (temporarily) expanding its balance sheet to alleviate the pressure on the banking system, while continuing to increase interest rates to combat an inflation problem, that, in our view, is getting more and not less entrenched in the US economy. If the SVB scare is quickly reabsorbed without long lasting, negative impacts on the aggregate demand coming from consumers and corporates, we may be back to a scenario in which the US economy remains more resilient than expected and the FED is not restrictive enough. In that context, a 25 Bps hike on March 22nd, our base case, may prove to be insufficient, that is, the central bank should do more, as hinted by Powell, but being unable to deliver a larger increase, it may find itself behind the curve once again if inflation remains stubbornly high or even reaccelerates in the following months. For the above reasons, we think that the S&P 500 will continue to be stuck in a trading range between the highs of January (4,200) and the lows of October 2022 (3,500) and that the US 10 year yield is more likely to go back to 4.5% rather than to fall to 2.5%.

AZ SESTANTE

AZ Sestante is a specialist investment consultant focused on designing and managing a range of multi-manager model portfolios via SMAs, MDAs, and fund of funds. Our parent company Azimut is Italy's largest independent asset manager listed on the Italian stock exchange. The group manages over AU\$55 billion in assets globally including over AU\$6 billion in multi-manager solutions.

E: invest@azsestante.com
www.azsestante.com