

Monthly Investment Returns
 As of 31/05/2023

MARKET REVIEW

Mr. Market's mood swung wildly in May, as concerns about a potential banking crisis in US at the beginning of the month gave way to enthusiasm for Artificial Intelligence (AI) rapid adoption just a few weeks later.

(...Continues on page 4)

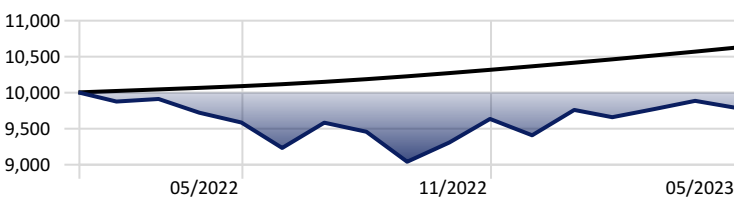


Latest performance*

	1-mth	3-mths	6-mths	1-yr	Inception
CFS MA Dynamic Balanced Pension	-1.14	1.44	1.73	2.35	-2.41
CFS MA Dynamic Balanced Super	-1.01	1.31	1.56	2.09	-2.16
RBA Cash Rate + 2.5% p.a.	0.54	1.57	2.99	5.30	6.21
Morningstar AUS Growth Tgt Alloc NR AUD	-1.01	1.82	1.62	2.94	-0.41

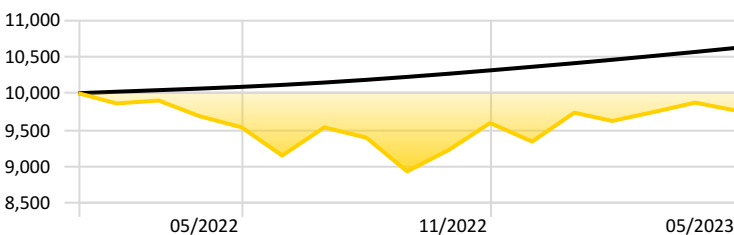
*Past performance is not a reliable indicator of future performance. Performance is calculated before taxes, model management and platform fees and after underlying investment management fees. For full details of fees please refer to the relevant platform offer documents. Performance is notional in nature 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



■ CFS MA Dynamic Balanced Super — RBA Cash Rate + 2.5% p.a.

\$10,000 invested over time - Pension



■ CFS MA Dynamic Balanced Pension — RBA Cash Rate + 2.5% p.a.

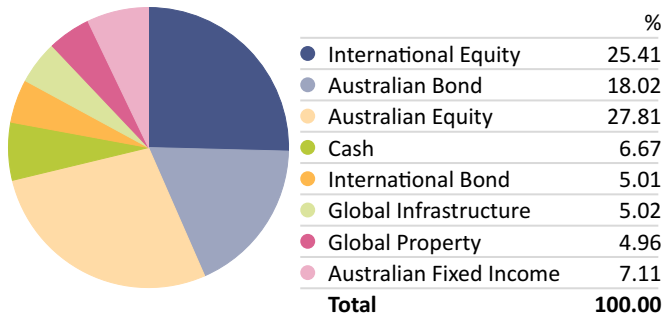
Portfolio information

- 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%

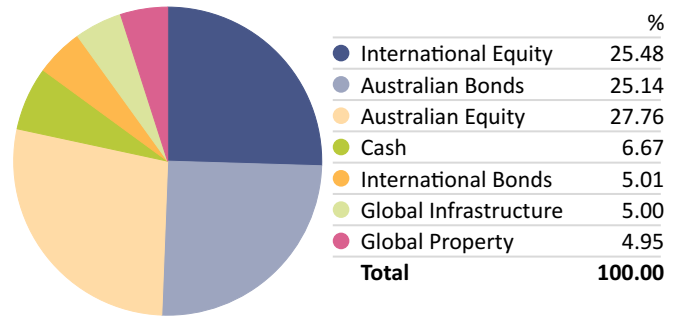
¹ Estimated total cost includes administration, investment and performance fees.



Current Asset Allocation - Super



Current Asset Allocation - Pension



Where your funds are invested

Australian Equity	27.81	—
CFS FC W PSup-Schroder W Aus Equity	10.91	—
CFS FC W PSup-Fidelity W Aus Equities	8.92	—
CFS FC W PSup-Bennelong ex-20 W Aus Eq	7.97	—
International Equity	25.41	—
CFS FC W PSup-Ironbark RL W Con Gb Share	6.89	—
CFS FC W PSup-CFS W Index Global Shr-Hgd	6.34	—
CFS FC W PSup-Fidelity W Asia	5.15	—
CFS FC W PSup-Stewart Inv W Wldwide Sus	4.98	🌐🌐🌐
CFS FC W PSup-Janus Henderson Glb Nat Re	2.04	—
Australian Bond	18.02	—
CFS FC W PSup-Franklin W Aus Abs Rtn Bnd	7.01	—
CFS FC W PSup-Pendal W Sust Au Fix Int	7.00	—
CFS FC W PSup-Macquarie W Income Opps	4.01	—
Australian Fixed Income	7.11	—
CFS FC W PSup-CFS W Index Aus Bond	7.11	🌐🌐🌐
Cash	6.67	—
CFS FC W PSup-FSI W Strategic Cash	6.67	—
Global Infrastructure	5.02	—
CFS FC W PSup-FSI Gbl Listed Infrastruct	5.02	🌐🌐🌐
International Bond	5.01	—
CFS FC W PSup-Colchester W Glb Gov Bnd	3.00	—
CFS FC W PSup-PIMCO W Global Bond	2.00	—
Global Property	4.96	—
CFS FC W PSup-Legg Mason M Curr Real Inc	4.96	—
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	1.26	8.65	8.05	13.98	12.45
Bloomberg Global Aggregate TR Hdg AUD	-0.54	1.97	0.90	-2.62	-3.43
S&P Global Infrastructure NR AUD	-3.68	3.13	1.48	2.53	9.14
Bloomberg AusBond Composite 0+Y TR AUD	-1.21	2.11	1.40	1.73	-2.77
S&P/ASX 200 TR AUD	-2.53	-0.89	-0.58	2.90	11.43

Where your funds are invested

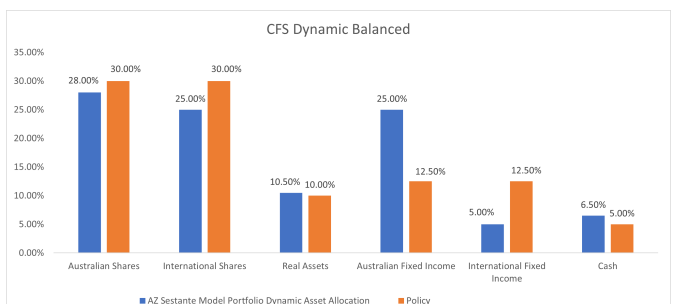
Australian Equity	27.76	—
CFS FC W Pen-Schroder W Aus Equity	10.90	—
CFS FC W Pen-Fidelity W Aus Equities	8.92	—
CFS FC W Pen-Bennelong ex-20 W Aus Eq	7.94	—
International Equity	25.48	—
CFS FC W Pen-Ironbark RL W Con Gb Share	6.92	—
CFS FC W Pen-CFS W Index Global Shr-Hgd	6.35	—
CFS FC W Pen-Fidelity W Asia	5.18	—
CFS FC W Pen-Stewart Inv W Wldwide Sus	4.99	🌐🌐🌐
CFS FC W Pen-Janus Henderson Glb Nat Res	2.04	—
Australian Bonds	25.14	—
CFS FC W Pen-CFS W Index Aus Bond	7.11	🌐🌐🌐
CFS FC W Pen-Franklin W Aus Abs Rtn Bond	7.02	—
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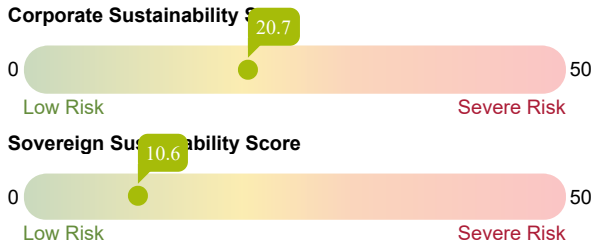
Portfolio changes

No changes this month

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

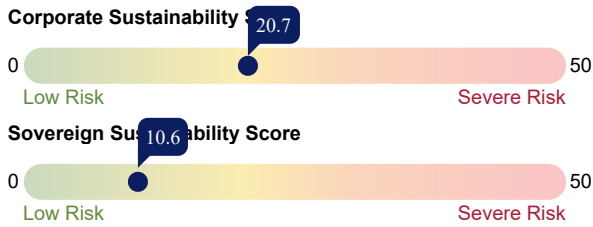


Sustainability Score - Super



● CFS MA Dynamic Balanced Super

Sustainability Score - Pension



● CFS MA Dynamic Balanced Pension

ESG Pillar Score - Super



ESG Pillar Score - Pension



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

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.

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On May 1st, California-based, publicly listed First Republic Bank (FRC) was taken over by the Federal Deposit Insurance Corporation (FDIC). On the same day, the government struck a deal with JPMorgan Chase & Co. (JPM), with the latter agreeing to take over the failed regional bank's assets, including 173 billion of USD loans and 30 billion of USD of securities, as well as 92 billion USD in deposits. The FDIC agreed to provide Jamie Dimon's bank, the largest in the US, with 50 billion USD in financing and to share losses of up to 80% on single-family residential mortgages and commercial loans, including commercial real estate, which make up nearly 80% of FRC's loan book. With 229 billion USD of assets as of April 13th, the collapse of FRC was the second largest bank failure in US history, only topped by the demise of Washington Mutual Bank back in September 2008 (307 billion USD). FRC ranked as the 14th largest in the US at the end of Q1 according to the latest statistics released by the FED. It is the fourth regional lender to go under since early March. As in the Silvergate and Silicon Valley Bank (SVB) cases, a bank run was the proximate cause of its collapse. Founded in 1985, FRC specialized in high net-worth customers, whom it attracted by providing long-term mortgage loans at preferential rates. That strategy made the bank particularly vulnerable in the aftermath of the fastest hiking cycle in decades, as paper losses on its loan book and investment portfolio ballooned, while the focus on single-family residential mortgage loans (around 50% of the total) made it difficult to offload assets. In addition, about 70% of its total deposits were uninsured, hence more prone to become flighty. Following the closure of SVB, panicked depositors withdrew 100 billion USD from FRC, equivalent to around 40% of its total deposits, resulting in its seizing by the government. According to Bloomberg, the losses caused to investors by the demise of Silvergate, SVB, Signature Bank and FRC in just two months amounts to 54 billion USD, 49.7 billion USD in erased market capitalization and 7.5 billion USD in virtually defaulted bonds and preferred shares.

That sum is dwarfed by the 184 billion USD of market capitalization increase recorded by Nvidia on May 25th alone. On that day, the world's most valuable chipmaker revealed how much it expects to profit from the AI boom, as it forecasted that sales in the three months ending in July will be 50% higher than analysts' estimates (11 billion USD Vs 7.18 billion USD). During the company's earnings release, founder and CEO Jensen Huang said that "a trillion dollars of installed global data centre infrastructure will transition from general purpose to accelerated computing as companies race to apply generative AI into every product, service and business process". The stock jumped +24.37% on the news and its market capitalization rose to 940 billion USD. 184 billion USD is the third largest single day market cap gain in US stock market history, only topped by the 190.9 billion USD increase recorded by Apple on November 10th, 2022 and the 190.8 billion USD recorded by Amazon on February 4th, 2022. The positive momentum in the stock and in the technology sector continued in the following days and on May 30th Nvidia (briefly) joined the so called "Trillion Dollar Club" of companies, currently comprising Apple, Microsoft, Aramco (Saudi state-owned oil giant) Alphabet (Google), Amazon, Meta and Tesla.

International Equities

US equities rose in May. The S&P 500 (+0.25% in USD terms) and the Nasdaq 100 (+7.61%) outperformed the "Old economy" heavy Dow Jones Industrial (-3.49%), which ended the month in the red. As a result, the oldest benchmark for US stocks underperformed the Nasdaq 100 by the most since October 2001. The S&P 500 Equal Weight Index was also down for the month, recording its 4th worst relative monthly return vis-à-vis the more concentrated S&P 500. The S&P Regional Banks Select Industry Index TR shed another -8.84%, dragging the Russell 2000 (-1.09%) lower once again. Market breadth deteriorated further during the month, with the rally in the major averages becoming narrower and narrower. At the end of May, the NYSE FANG+ Index, which tracks the performance of "10 highly-traded growth stocks of technology and tech-enabled companies", was up +61.27% since the beginning of the year. Investors continued to pile into the so-called "Magnificent Seven", that is, Apple, Microsoft, Nvidia, Meta (Facebook), Amazon, Alphabet (Google) and Tesla. As a result, the Nasdaq 100 recorded its 3rd best relative monthly return ever vis-à-vis the Nasdaq 100 Equal Weighted Index. Technology funds attracted record flows on the back of what Bank of America (BofA) termed a developing "baby bubble" in AI-related stocks. However, purchases were concentrated only in the megacap technology names, as the Nasdaq Next Generation 100, which tracks the performance of the largest 100 Nasdaq-listed companies outside of the Nasdaq 100, posted losses for the month. US equities outperformed the rest of the world (as exemplified by the MSCI AC World Index ex USA TR Index) by the largest amount since October 2022. Japan was the best performing region despite a weakening Japanese Yen (JPY), as foreign investors snapped up shares in domestic large cap growth names. Conversely, Europe was the worst performing region as revised figures showed that Germany officially slipped into recession in Q1 2023. Emerging markets underperformed the general index as Chinese stocks listed in Hong Kong entered into bear market territory on weak macro data while South Korea and Taiwan were driven higher by a sharp rally in semiconductors. All in all, the MSCI AC World Daily TR was down -1.07% in USD terms but up +1.25% in AUD terms as the Australian Dollar fell for the fourth consecutive month against the US Dollar. Within the benchmark, all major sectors, with the exception of technology and communication services, ended the month in the red. Finally, the MSCI World Growth Index recorded its 2nd largest monthly outperformance ever vis-à-vis the MSCI World Value Index.

Australian Equities

After a rangebound month, Australian equities broke down during the very last trading sessions on higher than expected domestic inflation and a faltering economic recovery in China. The S&P/ASX 300 TR dropped -2.53% in May, led lower by consumer related stocks and miners. Technology rose double digit on the back of the strength exhibited by the sector globally and of Xero beating earnings expectations. Utilities bucked the trend, boosted solely by the rally in AGL, while energy and healthcare were flat for the month. Financials were a mixed bag, with banks underperforming the general index, A-REITs curbing losses and insurance posting

gains. Mid-caps strongly outperformed the Top 20, while smaller companies lagged. Value stocks outperformed growth stocks. Finally, the MSCI Daily TR Net Australia underperformed the MSCI AC World Daily TR for the fourth month in a row.

International Fixed Income

All major central banks that held a meeting during the month hiked rates. On May 4th, the FED increased its target rate by a widely expected 25 Bps to a range of 5%-5.25%, its highest level since August 2007, and signalled a potential pause. The decision was unanimous. During his press conference, Chairman Powell stated that “looking ahead, we’ll take a data-dependent approach to determining the extent to which additional policy firming may be appropriate”. On the same day, the European Central Bank (ECB) delivered a 25 Bps increase, lifting its deposit rate from 3.00% to 3.25%, its highest level since October 2008. The latest announcement slowed the pace of the tightening cycle, as it came after three consecutive 50 Bps increases, however, President Lagarde reiterated the hawkish message by stating that the central bank has “more ground to cover” and that “we are not pausing”. On May 11th, the Bank of England’s (BOE) Monetary Policy Committee (MPC) voted 7-2 to hike its official bank rate by 25 Bps to 4.25%. Governor Bailey stated that further tightening may be required to “stay the course” in the fight against inflation, which has recently surprised on the upside on the back of a more resilient than expected economy. On May 24th, the Reserve Bank of New Zealand (RBNZ) hiked the cash rate by 25 Bps to 5.50%, and released economic forecasts that showed that the monetary tightening cycle had reached its terminal rate. The Bank of Japan (BOJ) had no scheduled meeting for the month. However, speaking in parliament on May 9th, Governor Ueda stated that the central bank intends to scrap its Yield Curve Control (YCC) policy and shrink its balance sheet “once we have an inflation outlook indicating that sustainable and stable 2% inflation will be achieved”. The Japanese CPI reaccelerated to +3.5% YoY at the end of April. The Bloomberg Barclays Global Aggregate dipped -0.54% in May as government bond yields were generally higher in the US and flat in Europe, while in the UK they broke out to their highest level since the September 2022 “mini-budget” crisis.

Australian Fixed Income

On May 2nd, the RBA unexpectedly increased the cash rate by 25 Bps to 3.85%, its highest level since April 2012, and signalled further policy tightening ahead. In the accompanying statement, Governor Lowe observed that “inflation has passed its peak in Australia but remains very high” and “a long way from the target range”, and that “domestic demand pressures on inflation are at a high level”. In addition, he pointed to unit labour costs rising at a fast pace and productivity remaining subdued. Finally, he made reference to housing prices, stating that, following the decision of the central bank to pause in April, they “have been responding to the expectation that interest rates may not increase”. In other words, Governor Lowe singled out the nascent rebound in property prices as one of the reasons of the surprise hike. Australian macroeconomic data released in May indicated that the so-called “soft landing” sought by the RBA may be achievable. Salaries grew at around half the pace of inflation in Q1 2023, warding off the spectre of a wage-price spiral, as the Wage Price Index advanced +3.7% YoY, slightly above expectations of a +3.6% gain. In addition, the country posted a budget surplus of 4.2 billion USD for the year to June 2023, its first since the 2007-2008 fiscal year. The Australian yield curve transposed higher and flattened further. The 2, 5 and 10 year yield jumped 51 Bps, 30 Bps and 27 Bps to 3.55%, 3.38% and 3.61% respectively. As a result, the Bloomberg AusBond Composite 0+ Yr fell -1.21% for the month.

Real Assets

Global property dropped -4.69% in USD terms and -2.45% in AUD terms for the month. Europe was the worst performing region on deteriorating economic conditions and stickier inflation, as the European Union Harmonised Indices of Consumer Prices (EU HICP) and the UK CPI came out at +7.0% and +8.7% YoY respectively. Australia outperformed the benchmark despite the weakness in regional malls and shopping centres.

Global infrastructure fell -5.89% in USD terms and -3.68% in AUD terms in May. Regulated utilities, telecommunication infrastructure and renewables were all down for the month.

Market Outlook

On June 15th, the FED paused its tightening cycle but provided a hawkish guidance with the release of the new Dot Plot, which projected two more 25 Bps hikes to reach the so called “terminal rate” by the end of 2023 at a range of 5.50%-5.75%. The central bank expects to cut by 100 Bps in 2024 to a range of 4.50%-4.75% and by another 125 Bps in 2025 to a range of 3.25%-2.50%. Market consensus called the decision a “hawkish skip” as US cash futures projections continue to price in an additional 25 Bps hike in July with a 70%+ probability. Interestingly enough, during his press conference Chairman Powell pushed back against the idea of a “skip” as he corrected himself by saying that he should not have called it that way and that the FED has not made “any decision about going forward, including what would happen at the next meeting”. So, which one is it, a pause or a skip? Let’s review the evidence.

Firstly, as pointed out by several commentators, the FED has a history of pausing its hiking cycle while at the same time leaving the door open for additional increases that, in the end, it does not deliver. In fact, once the terminal rate has been reached, the modus operandi of the central bank has typically been to talk hawkish to push farther in the future the start of the countdown to rate cuts. For example, on June 29th, 2006, the FED increased its target rate by 25 Bps to 5.25% and released a statement in which it said that “the extent and timing of any additional firming that may be needed to address these [inflation] risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information”. Remarkably, the words that 17 years later the central bank chose to announce its decision to stay put echoed that statement. Back in 2006, it was a pause and not a skip. In the end, the FED held rates steady at 5.25% for 15 months before cutting by 50 Bps at the end of September 2007.

Secondly, since the onset of the pandemic, the coordination between the fiscal and the monetary policies pursued by the US government and the FED has been on the rise, facilitated by the fact that Treasury Secretary Janet Yellen served as the 15th chair of the central bank from 2014 to 2018. With the lifting of the debt ceiling, the US Treasury is expected to issue up to 600 billion USD of new debt by the end of Q3 to replenish its dwindling Treasury General Account (TGA) and, in doing so, to temporarily drain liquidity out of the financial system. It is plausible that the FED may have decided to skip in order to (stealthily) discourage money market funds (MMFs) from continuing to park 2 trillion USD directly at the central bank through the so called Overnight Reverse Repo Facility (ON RRP). In fact, a heavy issuance of Treasury Bills may push their yield slightly higher on the market, while the remuneration provided by the FED on the ON RRP is fixed. The additional return may lure MMFs to switch from the latter to the former, avoiding unnecessary stress to the banking system during the restocking of the TGA.

Finally, the FED’s own economic projections continue to implicitly point to a recession materializing sometime in the next 6-12 months. At the June meeting, estimates for the unemployment rate were revised to 4.1% at the end of this year and 4.5% in 2024 (from +3.7% at present), while those for Core PCE to +3.9% and +2.6% respectively (from the current level of +4.7%). Post War, increases/declines of that magnitude in those two variables have always been associated with a recession.

In summary, the balance of probability seems to suggest, at least to us, that the FED may want to pause its hiking cycle and maintain its target rate at this level for an extended period of time, to wit, downgrading its “higher for longer” stance one notch lower to “high for longer”. We can think of a few reasons to support that thesis. First, the central bank can continue to tighten its monetary policy by reducing the size of its balance sheet via Quantitative Tightening (QT). Second, holding rates at the current level in the context of declining inflation expectations becomes progressively more restrictive as real rates increase. Third, US CPI YoY should continue to disinflate going into the summer on the back of a favourable base effect, as the reading of June 2022 (+9.1% YoY and +1.2% MoM) was the absolute top of the cycle. The next FED meeting is scheduled for July 26th, and by then headline inflation will most likely be closer to +3.0% than to +4.0% YoY. It would make sense for the central bank to declare “mission accomplished” rather than to announce another hike. In fact, if the FED did not feel compelled to raise rates in June, it should have even less justifications to do so in July. That said, YoY comparisons with previous year’s numbers will become increasingly difficult starting from Q4. Hence, things may look different in autumn, with inflation stalling at a level inconsistent with the +2% mandate and the FED having to do more to get there. That, or the economy may have deteriorated enough in the meantime, with the result that the central bank maintaining its current target rate would de facto amount to additional tightening. In summary, we think that the FED may be on hold for the US summer, and potentially pause its hiking cycle for good if the “long and variable lags” of monetary policy finally start to bite in H2 2023.

The possibility of the FED having reached its terminal rate presents an interesting scenario in the short term. In fact, the RBA, the Bank of Canada (BOC) the ECB and the BOE all hiked rates in June and signalled that they are not done. Market participants are pricing in a cash rate of 4.6% in Australia by year end, that is, two additional 25 Bps hikes. A more favourable rate differential, coupled with stronger economic growth in China should the local government decide to stimulate, can support the value of the Australian Dollar in the following months. In addition, a declining greenback vis-à-vis other major developed and emerging currencies tends to be positive for growth assets. For the above reasons, we will continue to participate in the stock market with a selective approach, favouring defensive sectors which offer income and dividends. In our opinion, the S&P 500 will continue to be stuck in a trading range as liquidity dynamics are set to worsen. Our preference for Australian equities over international equities is currently being challenged by the renewed RBA hawkishness. The “soft landing” base case may give way to something that looks more and more like an actual recession should the central bank deliver additional tightening. Incidentally, New Zealand officially entered into a technical recession in Q1, although it endured an admittedly more severe hiking cycle and its economy was adversely impacted by cyclones Hale and Gabrielle. Finally, our macro-outlook calls for an increased allocation to bonds, and we intend to make use of any potential (temporary) spike in yields to lengthen the duration of our portfolios.