AZ Sestante Quarterly Report Q1 2024
Market Review

Market Review

The global economy in early 2024 is witnessing a shift: interest rate hikes are out, and rate cuts are in. Central banks, after a two-year battle with inflation, are changing course. For instance, the Federal Reserve is expected to gradually decrease interest rates to achieve a soft landing for the economy, thus avoiding a recession altogether. The outlook on inflation is also improving, with the Federal Open Market Committee (FOMC) predicting core inflation to decrease from 3.2% in 2023 to 2.4% this year, and further down to 2.2% in 2025. Similarly, private experts anticipate inflation to dip below 2.5% in 2024.

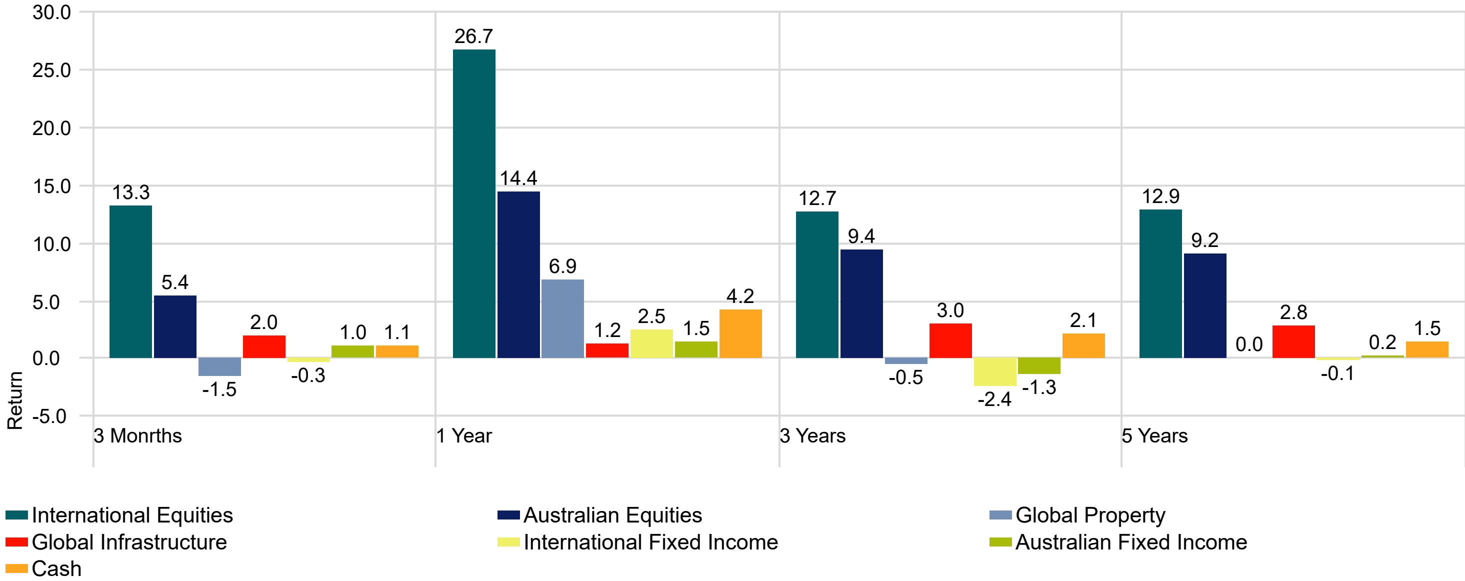
In Australia, consumer price inflation rose below expectations in Q4 2023, while retail sales declined more than forecasted. This shift led the Reserve Bank of Australia (RBA) to move from considering more hikes to believing that the rate-hiking cycle is likely over, which the market interpreted as the first step of an easing cycle. This speculation about rate cuts in 2024 impacted the Australian yield curve and currency.

Nevertheless, both the market and central banks are closely monitoring factors that may influence inflation. Labor market conditions will likely play a crucial role in determining the pace and extent of rate cuts. Despite some forward indicators suggesting a softer outlook for the labor market, data remains robust so far this year. Additionally, geopolitical tensions pushed oil prices higher in Q1 2024, potentially driving inflation upwards.

Overall, central banks are positioned to navigate this delicate balance between growth, inflation, and monetary policy adjustments in the coming quarters.

Returns

As of Date: 31/03/2024



*International Equities: MSCI ACWI Ex Australia; Australian Equities: S&P/ASX 300; Global Property: FTSE EPPA Nareit Ex Australia Hdg AUD; Global Infrastructure: FTSE Dev Core Infrastructure 50/50 Hdg AUD; International Fixed Income: Bloomberg Global Aggregate Hdg AUD; Australian Fixed Income: Bloomberg Ausbond Composite 0+Y; Cash: Bloomberg AusBond Bank 0+Y.

Source: Morningstar Direct

International Equity
The MSCI ACWI ex Australia index delivered a stellar performance of 13% over the quarter, primarily led by the US. The US market benefited from the semiconductor industry and garnered significant attention over the last 12 to 15 months. Nvidia led the pack, gaining around 80% after its earnings release in the quarter. Other notable gainers included TSMC (+42%), Broadcom (+28%), and Applied Materials (+40%). Although global semiconductor sales declined in 2023, forecasts suggest steady growth, with calls for significant investments to boost chip-building capacity, particularly in AI-related technologies.

While the tech sector, especially the "magnificent seven" and US tech sector, has been leading since 2023, the rally has broadened. The S&P 500 (+16%) outperformed the Nasdaq 100 (+14%) in Q1, as investors began seeking potential companies that may benefit from AI-related technologies with less valuation.

In Q1 2024, sectors other than IT (+8%) and communication services (+13%) in the US also delivered decent results, such as financials (+12%), industrials (+11%), and materials (+9%). Geographically, Japan (+11%) continued its strong performance, benefiting from the Bank of Japan's accommodative policy stance and corporate reform, while European markets started picking up in February. From February to the end of March, Germany (+8%) and France (+6%) gained, while the S&P 500 returned 7% during the same period.

Australian Equity
The ASX 200 gained 5% in Q1 2024. Reporting seasons revealed some names with strong results, such as Life360, NextDC, and Wisetech in the IT sector (+24%), Goodman, Scentre Group, and Mirvac in the REIT sector (+17%), and Financials (+12%). The material sector suffered in Q1, losing over 6%, followed by relatively weak performance from consumer staples (+1%). Major consumer staples index constituents, Coles and Woolworths (circa 70% of the index), faced criticism from the parliament regarding their profit margins and suspicious market practices.

Gold prices reached a record high due to several reasons, including expectations of rate cuts by the Fed, central banks, and investors buying gold amid geopolitical uncertainties. Copper also gained back to early 2023 levels. Some gold and copper producers benefited from this rally in commodity prices, offsetting the sector's loss partly. However, heavily weighted Iron Ore producers BHP, RIO Tinto, and Fortescue experienced pressure, each losing around 10% over the quarter. Although Iron Ore is not their sole product, it represents at least circa 50% of their revenue, historically resulting in their share prices having a higher correlation with Iron Ore prices. Iron Ore prices declined by around 28% since the beginning of the year, attributed to seasonal factors in China, a shift in China's development strategy towards less steel-intensive sectors like EV, Lithium batteries, and Solar cells, and potential higher demand from West Africa disrupting the equilibrium of Iron Ore prices.

Fixed Income
The quarterly performance of global fixed interest was subdued (-0.3%), despite the strong performance of credit, which benefited from tighter credit spreads. Lagging behind was the performance of US government bonds, given the upward shift in the US yield curve. This shift was driven by the market adjusting its expectations of FED rate cuts from 5 - 7 cuts early in the quarter to the recent 2 - 3 cuts. As some inflation data unfolded hotter than expected, the US 2-Year yield shifted up by around 35 bps over the quarter.

Meanwhile, in Europe, the Swiss National Bank (SNB) surprised the market by cutting its key interest rate from 1.75% to 1.50%, considering lower inflation at the start of the year and lower updated inflation forecasts. This gave the SNB the opportunity to cut rates before other major central banks, such as the Fed and the ECB. The SNB's updated inflation forecast suggests that further interest rate action can be expected in the coming meetings. The market now expects the ECB and BOE to cut rates before the FED.

Australian fixed interest returned a positive 1% over the quarter, attributable to the strong performance from the credit sector (+1.5%), driven by the credit rating upgrades of some Australian banks by S&P Global. Government bond performance detracted from the index performance. As the Australian yield curve shifted higher, the market adjusted the RBA rate cut expectations from 2 - 3 to 1 - 2, which is a lesser adjustment relative to the US market.

Real Asset
The ASX 200 A-REIT surged 17% over the quarter, heavily contributed to by Goodman Group, which represents 30% of the index and gained circa 30%. The gain was driven by analysts foreseeing developments in Goodman's data center project to meet future generative AI needs. While the property sector is typically sensitive to bond yields, the global property index closed the quarter 1.5% lower, given the higher bond yields. Additionally, the market had some concerns around the US office sector stemming from Moody's downgrade to New York Community Bancorp's credit rating earlier in the year.

Global infrastructure performed better in Q1 and climbed 2%. Strong returns in US utilities and energy-related infrastructure were driven by the higher crude oil price, contributing to the result.

Source: Morningstar Direct

Conservative Profile

The risk profile exceeded the respective SAA target over the quarter. From the perspective of asset allocation decisions, the overweight allocation to international equities and underweight international fixed interest drove performance significantly. However, the AUD hedging position against the USD dragged down the portfolio due to weakness in the AUD during Q1.

Regarding manager selection, within the Sestante Dynamic portfolio, GQG global equity and Ironbark Royal London Concentrated Global shares stood out as notable contributors to performance. Fidelity Asia underperformed the benchmark, primarily due to HDFC Bank in India, as the market was concerned about potentially higher costs related to its merger with HDFC Group. Another detractor was Franklin Australian Core Plus Bond, which was exited during the quarter due to governance concerns.

In the ESG portfolio, Australian Ethical Australian Shares, Alphinity Sustainable Share, Janus Henderson Tactical Income, and Pimco Global Bond Fund delivered robust relative performance, contributing positively to manager selection. 4D infrastructure negatively impacted both absolute and relative performance measures, mainly due to weakness in some utility stocks in Europe and the US. Additionally, Stewart Investors Worldwide Leaders underperformed the benchmark, primarily because its investment process drifted away from mega-cap names in the benchmark. During the quarter, Janus Henderson Global Natural Resource was replaced with Robeco Emerging Conservative Equity due to a rotation of opportunity sets.

While the Index portfolio made similar asset allocation decisions, its overweight position in Australian Fixed Interest slightly detracted from relative performance.

Moderately Conservative Profile

The risk profile exceeded the respective SAA target over the quarter. From the perspective of asset allocation decisions, the overweight allocation to international equities, underweight cash, and international fixed interest drove performance significantly. However, the AUD hedging position against the USD dragged down the portfolio due to weakness in the AUD during Q1. The tactical asset allocation decision to invest in Australian property rather than global property also contributed positively to performance.

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While the Index portfolio made similar asset allocation decisions, its overweight position in Australian Fixed Interest slightly detracted from relative performance.

Balanced Profile

The risk profile exceeded the respective SAA target over the quarter. From the asset allocation decision perspective, the overweight allocation to international equities, underweight to international fixed interest, and global infrastructure were the main performance drivers. However, overweighting Australian Fixed Income and global property detracted from the portfolio's relative performance. Meanwhile, the AUD hedging position against the USD detracted from t...

Source: Morningstar Direct

away from mega-cap names. Janus Henderson Global Natural Resource was disappointing during the quarter, and we replaced the fund with Robeco Emerging Conservative Equity due to a rotation of opportunity sets.

While the Index portfolio made similar asset allocation decisions, its overweight position in Australian Fixed Interest slightly detracted from relative performance.

Assertive Profile

The risk profile exceeded the respective SAA target over the quarter. From the asset allocation decision perspective, the underweight to fixed income was the main performance driver. However, the overweight to property detracted from the relative performance. Meanwhile, the AUD hedging position against the USD detracted from the portfolio's performance due to weakness in AUD during Q1. The tactical asset allocation decision to invest in Australian property rather than global property aided the performance last quarter.

Regarding manager selection, GQG global equity and Ironbark Royal London Concentrated Global shares were two noticeable contributors to the performance. Fidelity Asia underperformed the benchmark, primarily due to HDFC Bank in India, as the market was concerned about potentially higher costs related to its merger with HDFC Group. Martin Currie real income returned 3% over the quarter, underperforming the ASX 200 A-Reit index. The A-REIT index is dictated by Goodman Group, which returned around 30% over the quarter. We remain comfortable with the strategy and expect it to benefit when Goodman's performance starts to normalize.

In the ESG portfolio, Australian Ethical Australian Shares, Alphinity Sustainable Share and Janus Henderson Tactical Income delivered robust relative performance, contributing positively to manager selection. 4D infrastructure was a detractor from both absolute and relative performance measures, mainly due to weakness in some utility stocks in Europe and the US. Additionally, Stewart Investors Worldwide Leaders underperformed the benchmark, mainly because its investment process drifted away from mega-cap names. Janus Henderson Global Natural Resource was disappointing during the quarter, and we replaced the fund with Robeco Emerging Conservative Equity due to a rotation of opportunity sets.

While the Index portfolio made similar asset allocation decisions, its underweight position to property had a positive effect on the portfolio's relative performance.

Aggressive

The risk profile exceeded the respective SAA target over the quarter. From the asset allocation decision perspective, the underweight to global infrastructure and overweight to international equities were the two main performance drivers. However, the overweight to property detracted from the relative performance. Meanwhile, the AUD hedging position against the USD detracted from the portfolio's performance due to weakness in AUD during Q1. The tactical asset allocation decision to invest in Australian property rather than global property aided the performance last quarter.

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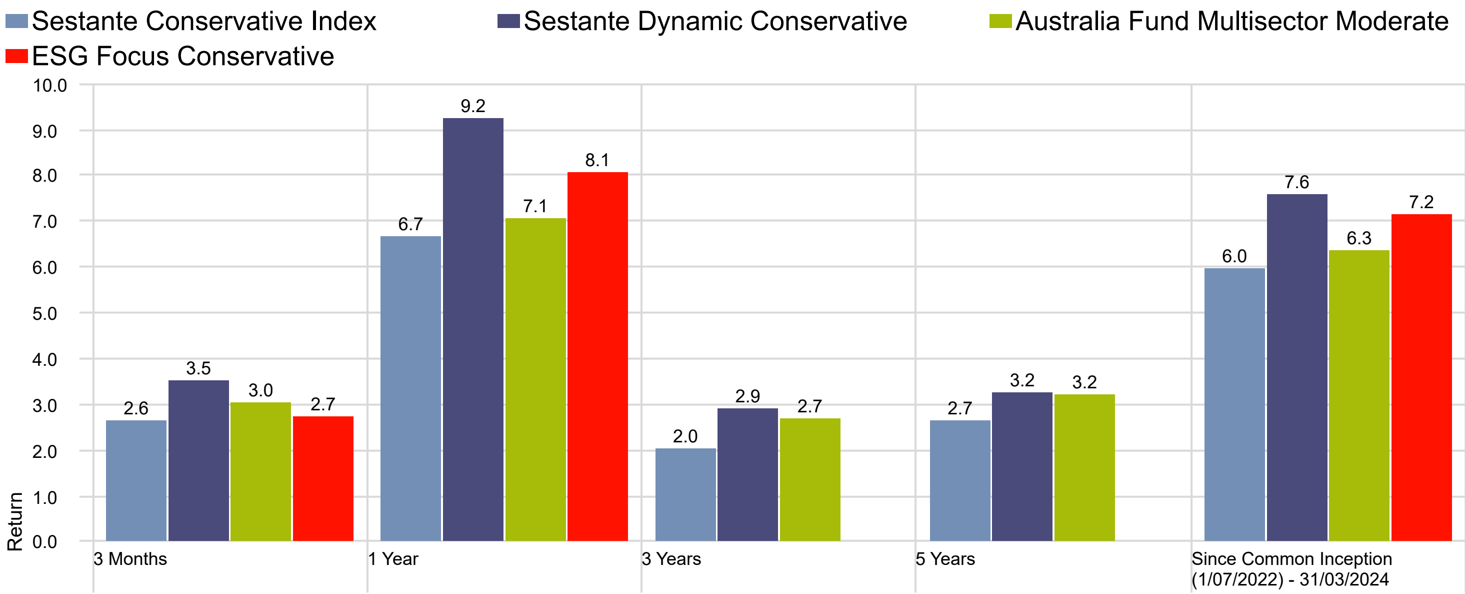
Source: Morningstar Direct

AZ Sestante Quarterly Report Q1 2024
Peer Group Returns
Multisector Moderate Category

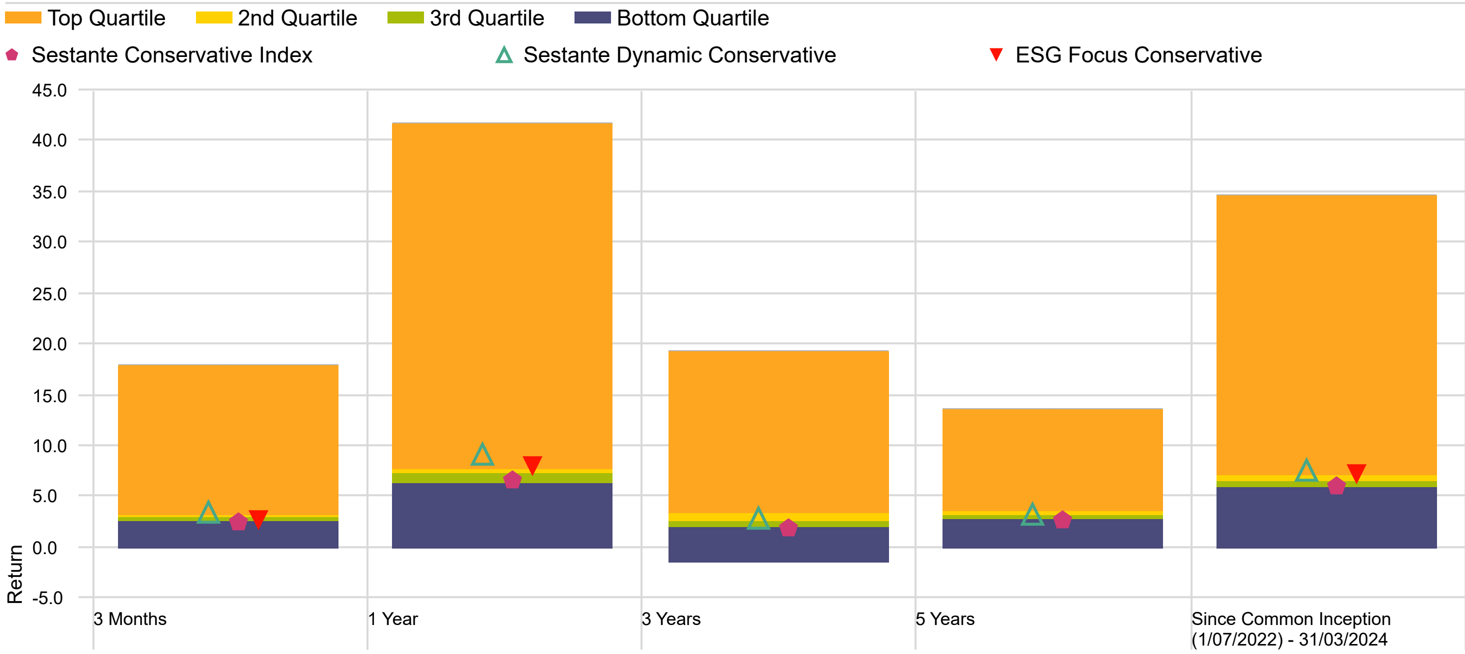
This part of the report aims provide investors an effective way to compare the AZ Sestante portfolios with like options. The Multisector Moderate Category consists of funds that invest in a number of sectors and have between 21% and 40% of their investments exposed to the growth sectors.

Sestante Conservative Portfolios vs Morningstar Peers



Sestante Conservative Performance Relative to Peer Group

Peer Group (1-100%): Funds - Australia - Multisector Moderate



Source: Morningstar Direct

AZ Sestante Quarterly Report Q1 2024
Peer Group Returns
Multisector Moderate Category

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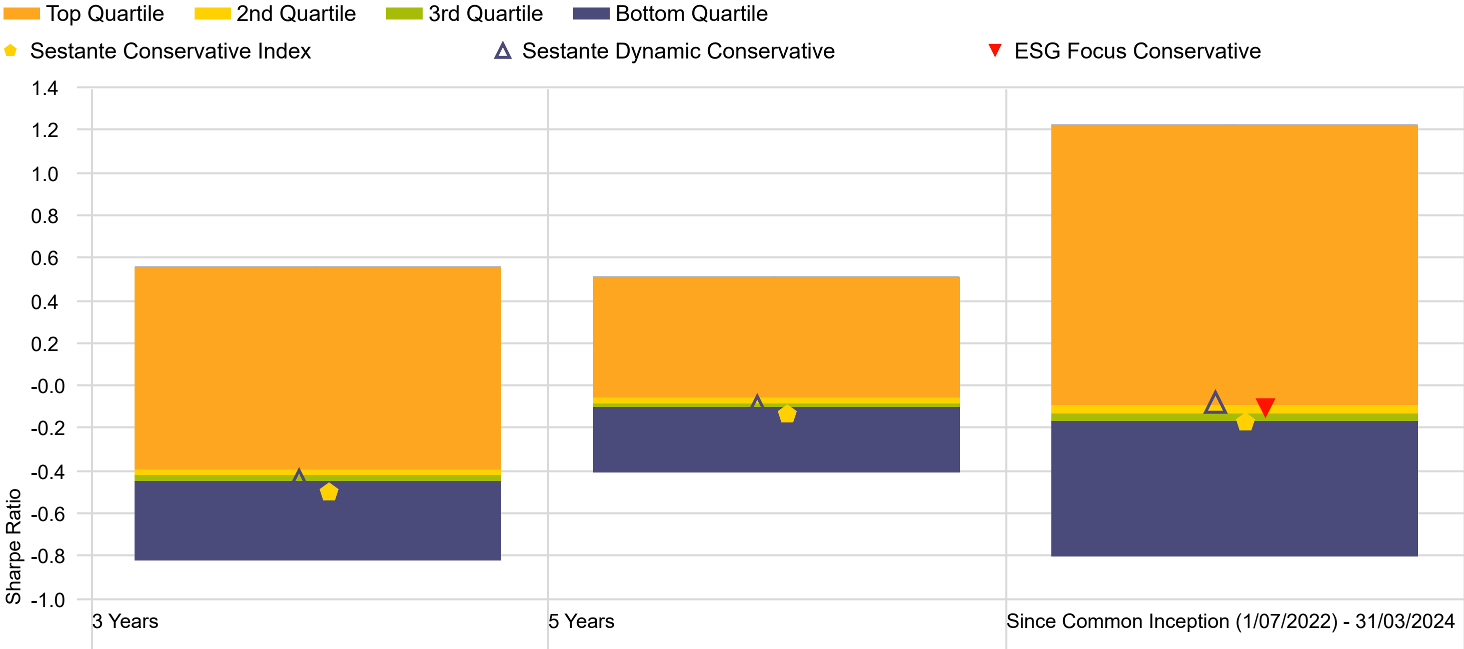
Sharpe Ratio Relative to Peer Group - Conservative

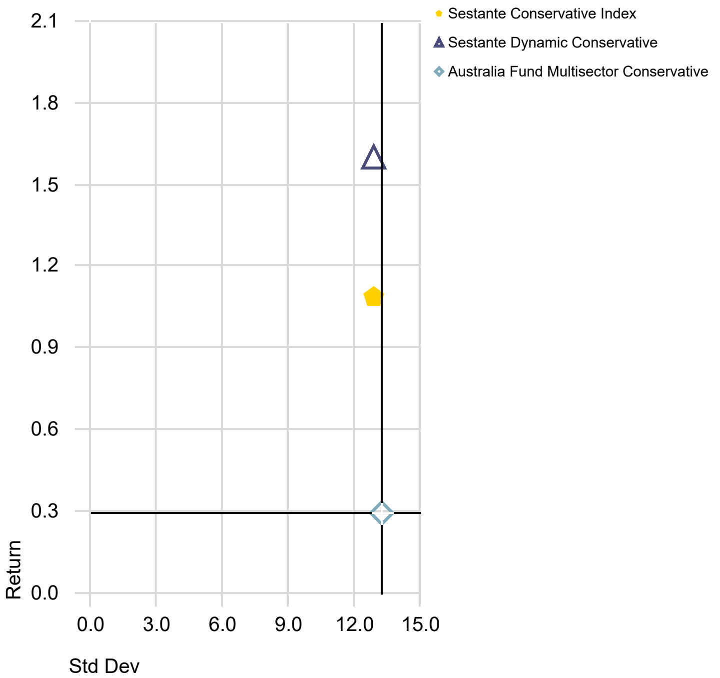
Peer Group (1-100%): Funds - Australia - Multisector Moderate



Sharpe Ratio is a risk-adjusted measure, It is calculated by using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe Ratio, the better the fund's historical risk-adjusted performance. The Sharpe Ratio can be used to compare two portfolios directly on how much risk a fund had to bear to earn an excess return over the risk-free rate.

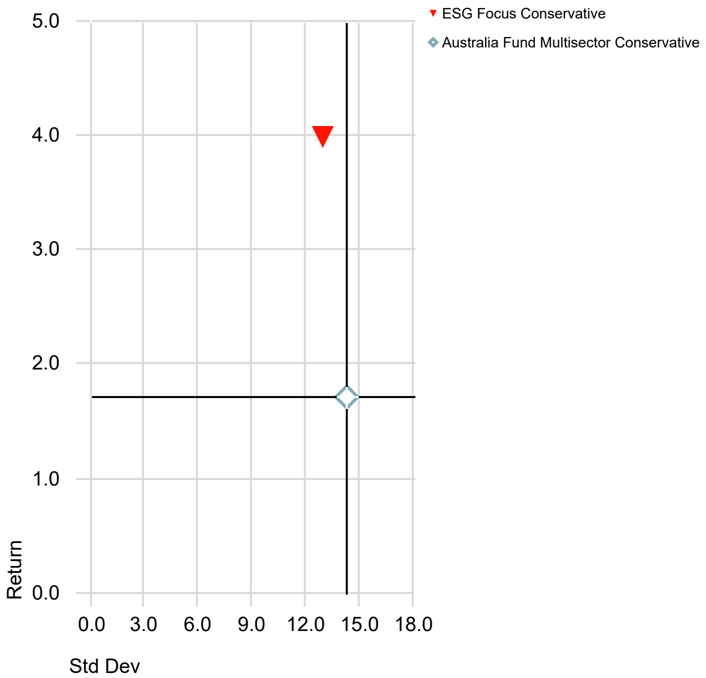
Risk-Reward (Since common inception exclude ESG)

Time Period: Since Common Inception (1/03/2019) to 31/03/2024



Risk-Reward (Since common inception ESG)

Time Period: Since Common Inception (1/07/2022) to 31/03/2024

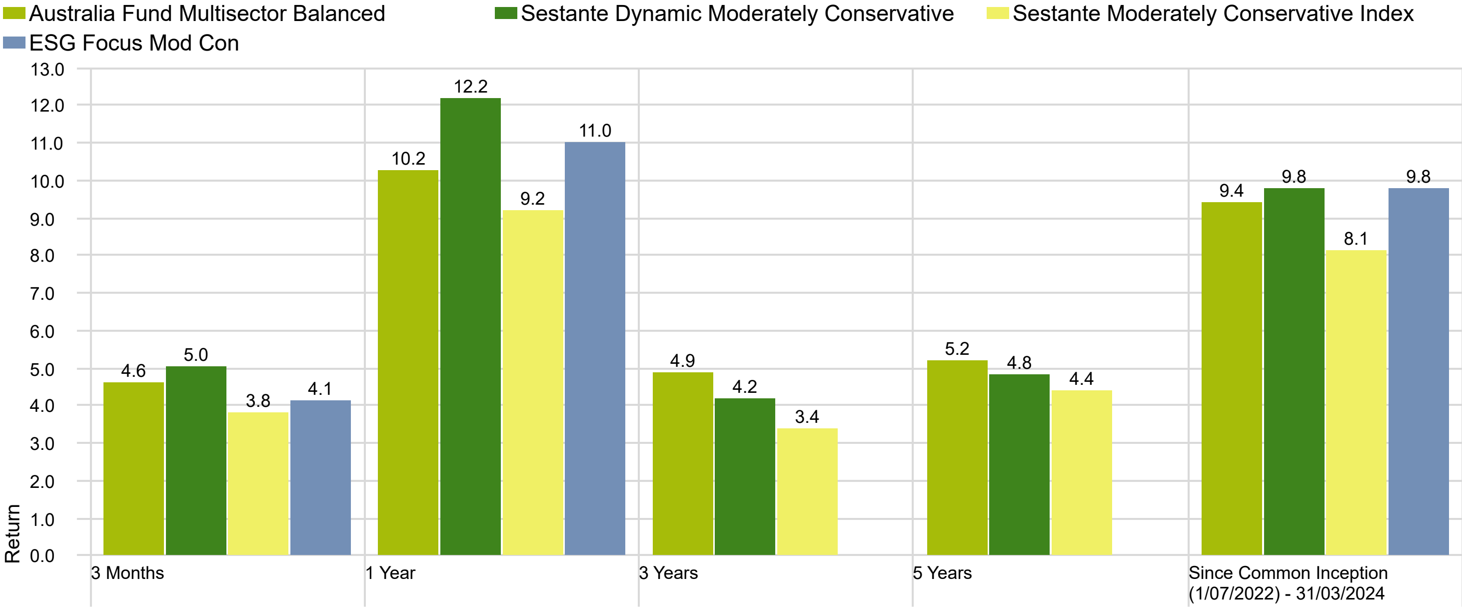


Source: Morningstar Direct

AZ Sestante Quarterly Report Q1 2024
Peer Group Returns
Multisector Balanced Category

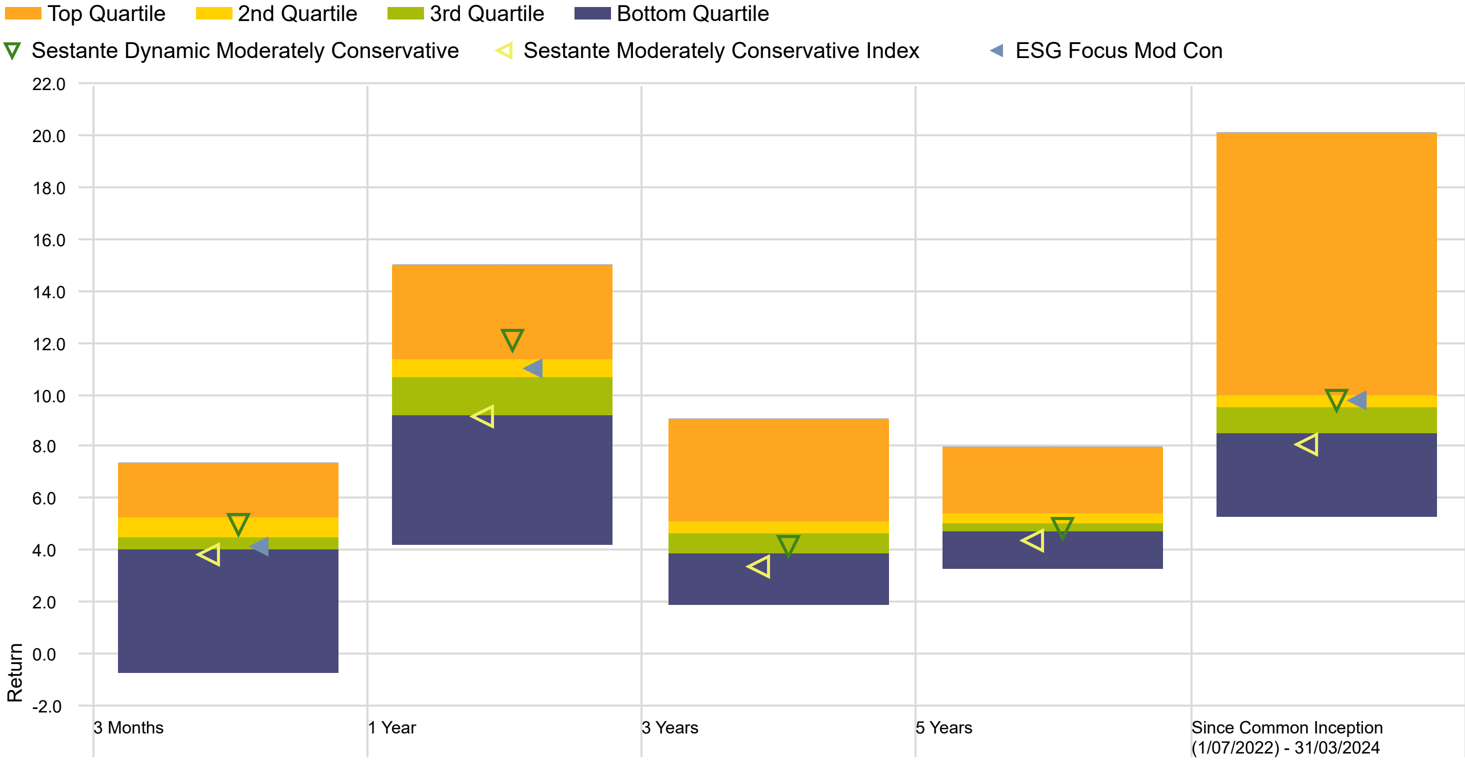
This part of the report aims provide investors an effective way to compare the AZ Sestante portfolios with like options. The Multisector Balanced Category consists of funds that invest in a number of sectors and have between 41% and 60% of their investments exposed to the growth sectors.

Sestante Moderately Conservative Portfolios vs Morningstar Peers



Sestante Moderately Conservative Performance Relative to Peer Group

Peer Group (1-100%): Funds - Australia - Multisector Balanced



Source: Morningstar Direct

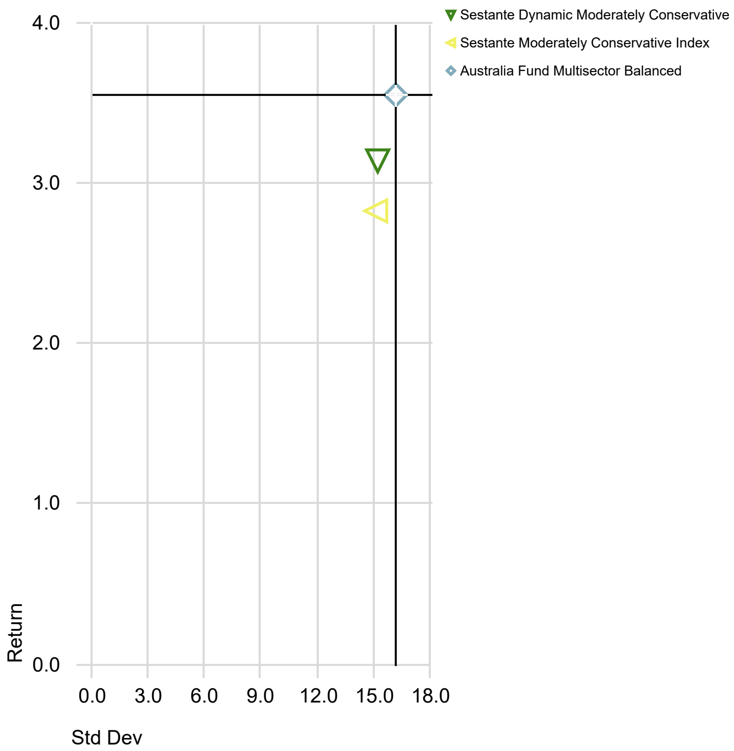
Sharpe Ratio Relative to Peer Group - Moderately Conservative

Peer Group (1-100%): Funds - Australia - Multisector Balanced

Sharpe Ratio is a risk-adjusted measure, It is calculated by using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe Ratio, the better the fund's historical risk-adjusted performance. The Sharpe Ratio can be used to compare two portfolios directly on how much risk a fund had to bear to earn an excess return over the risk-free rate.

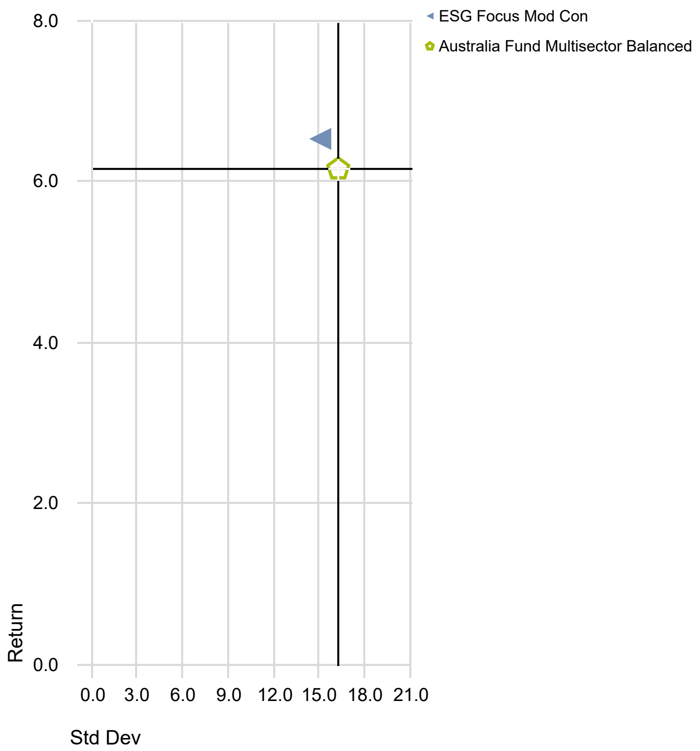
Risk-Reward (Since common inception exclude ESG)

Time Period: Since Common Inception (1/03/2019) to 31/03/2024



Risk-Reward (Since common inception ESG)

Time Period: Since Common Inception (1/07/2022) to 31/03/2024



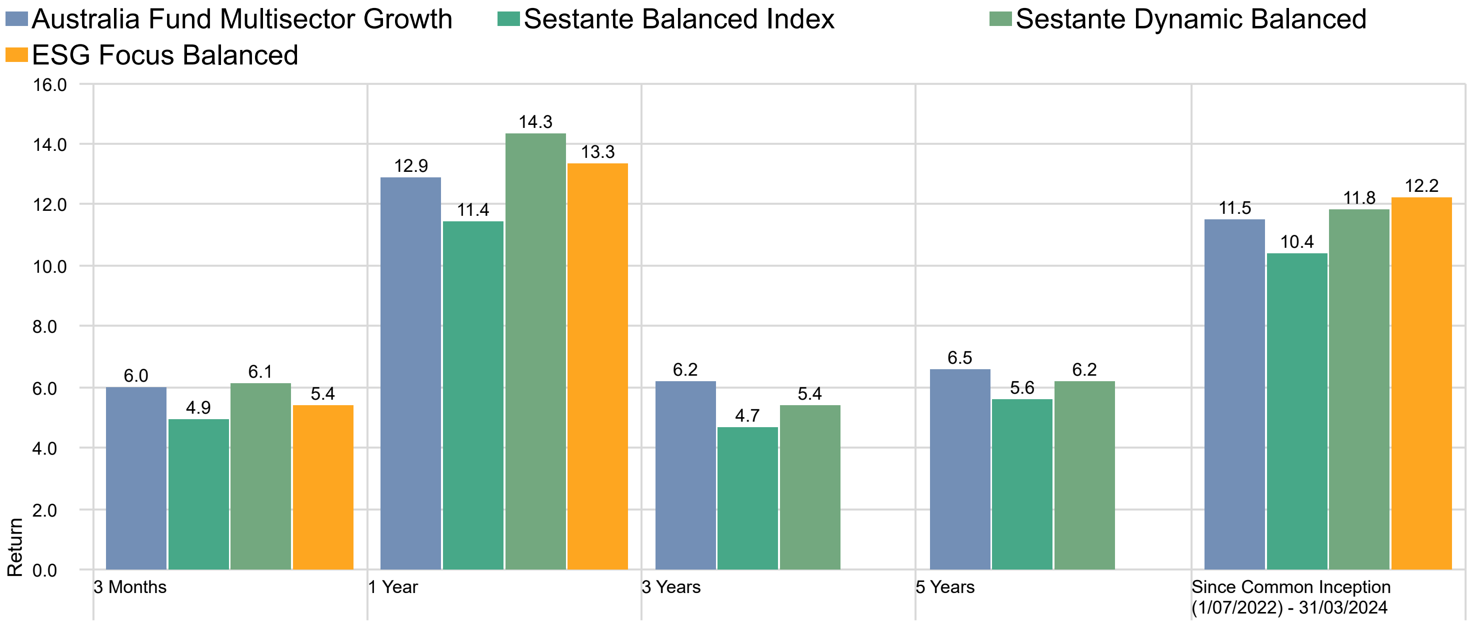
Source: Morningstar Direct

AZ Sestante Quarterly Report Q1 2024

Peer Group Returns
Multisector Growth Category

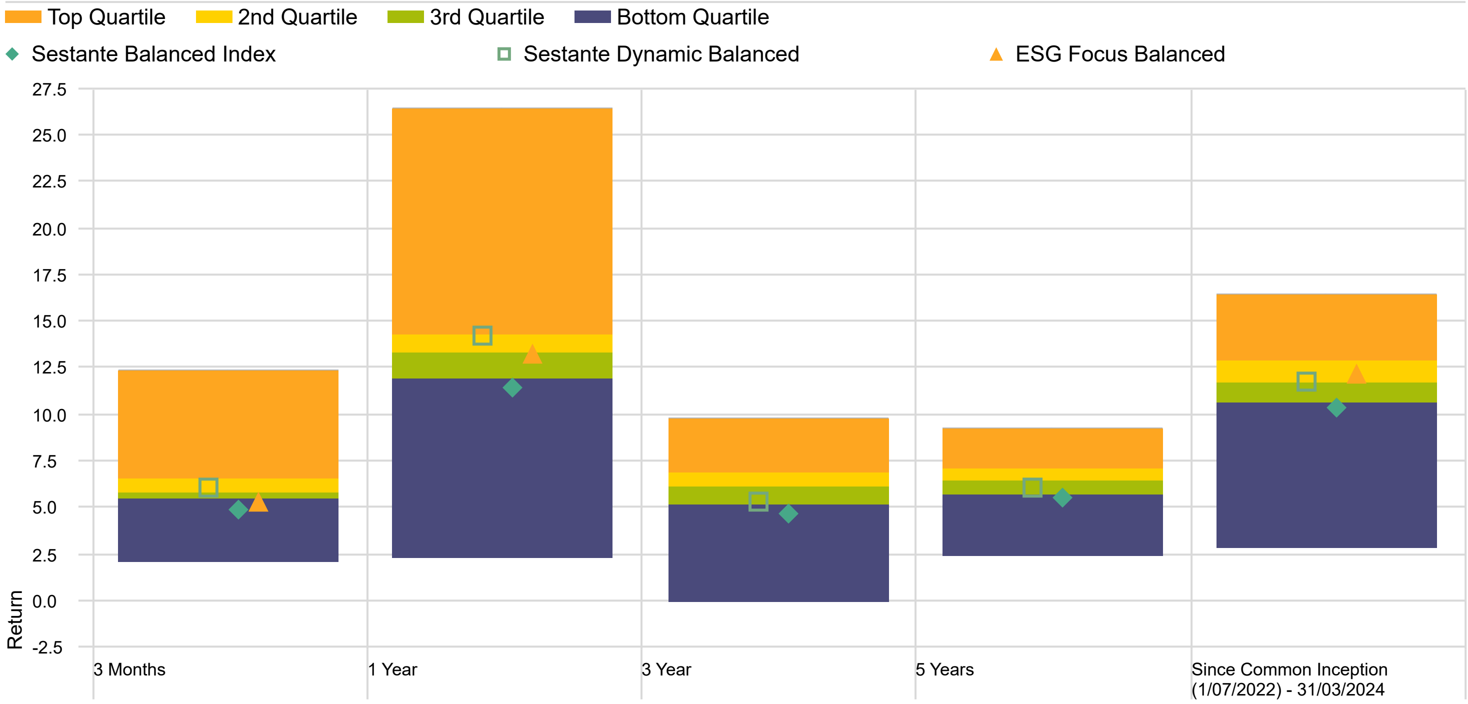
This part of the report aims provide investors an effective way to compare the AZ Sestante portfolios with like options. The Multisector Growth Category consists of funds that invest in a number of sectors and have between 61% and 80% of their investments exposed to the growth sectors.

Sestante Balanced Portfolios vs Morningstar Peers



Sestante Balanced Performance Relative to Peer Group

Peer Group (1-100%): Funds - Australia - Multisector Growth

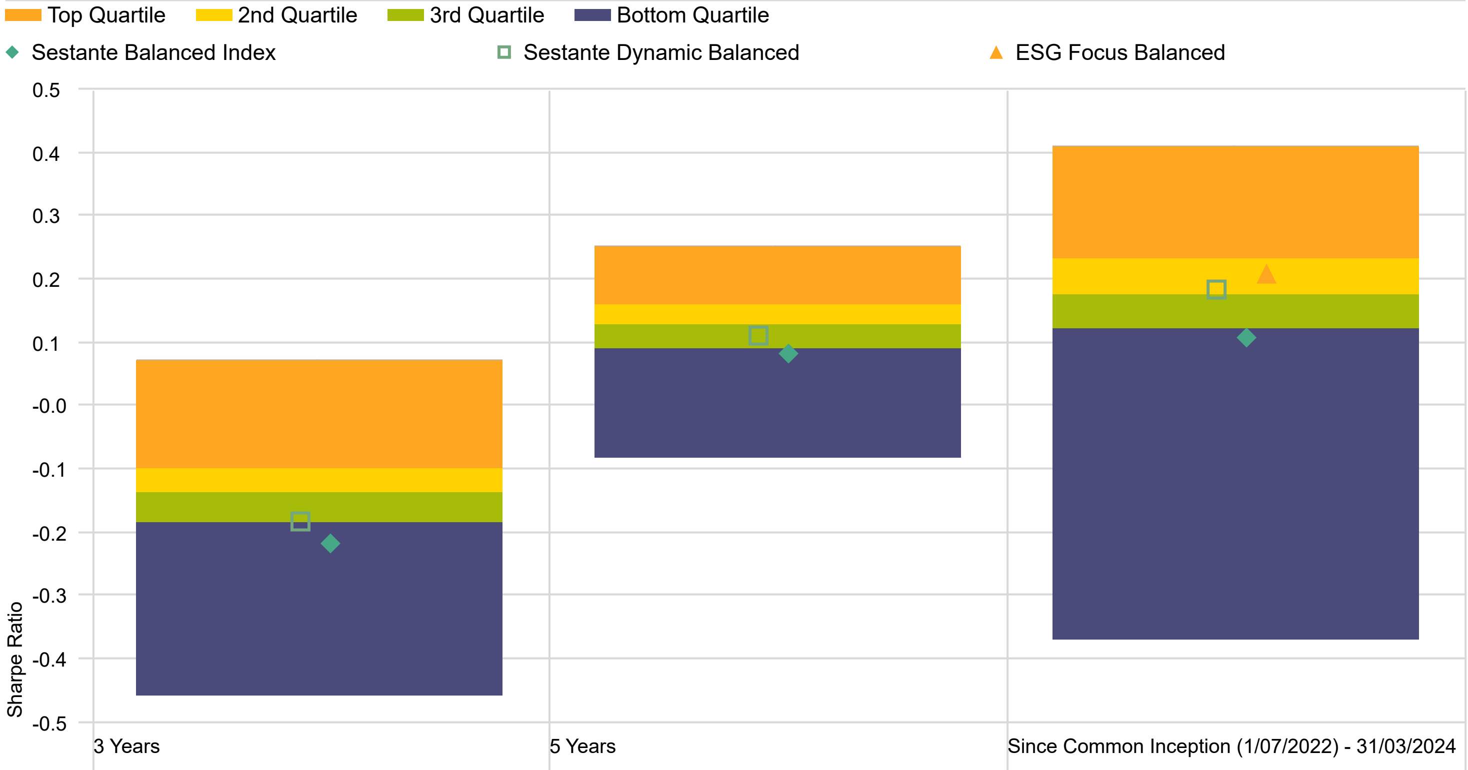


Source: Morningstar Direct

AZ Sestante Quarterly Report Q1 2024
Peer Group Returns
Multisector Growth Category

Sharpe Ratio Relative to Peer Group - Balanced

Peer Group (1-100%): Funds - Australia - Multisector Growth



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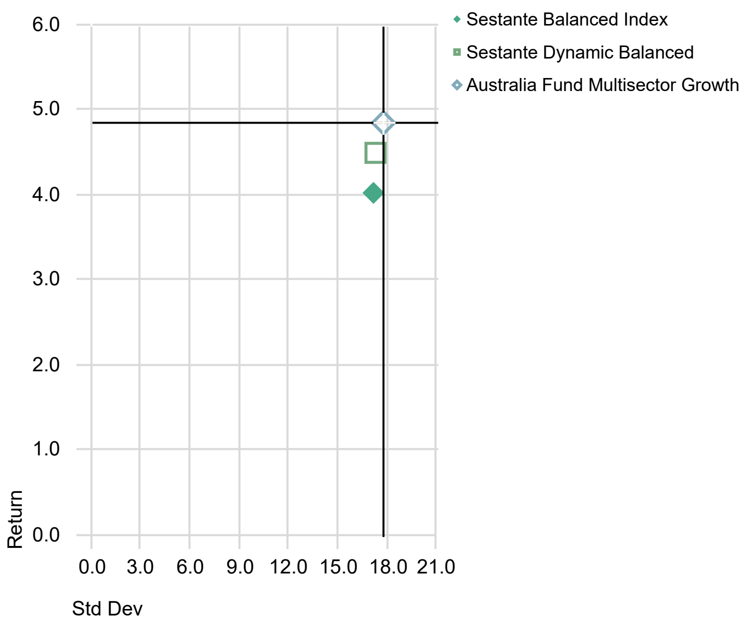
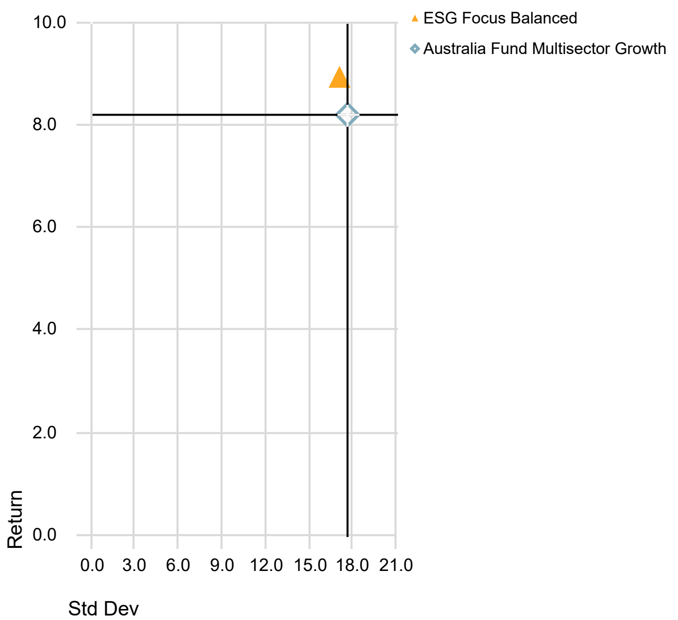
Risk-Reward (Since common inception exclude ESG)

Time Period: Since Common Inception (1/03/2019) to 31/03/2024



Risk-Reward (Since common inception ESG)

Time Period: Since Common Inception (1/07/2022) to 31/03/2024

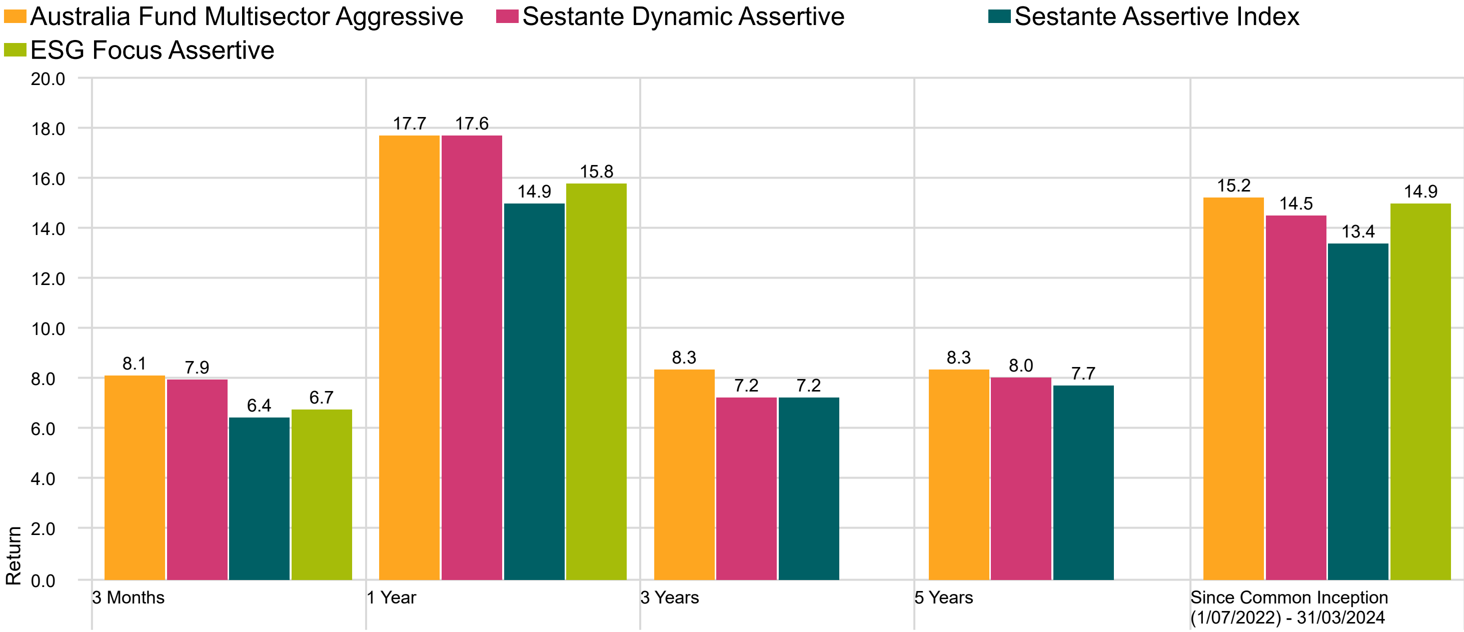


Source: Morningstar Direct

AZ Sestante Quarterly Report Q1 2024
Peer Group Returns
Multisector Aggressive Category

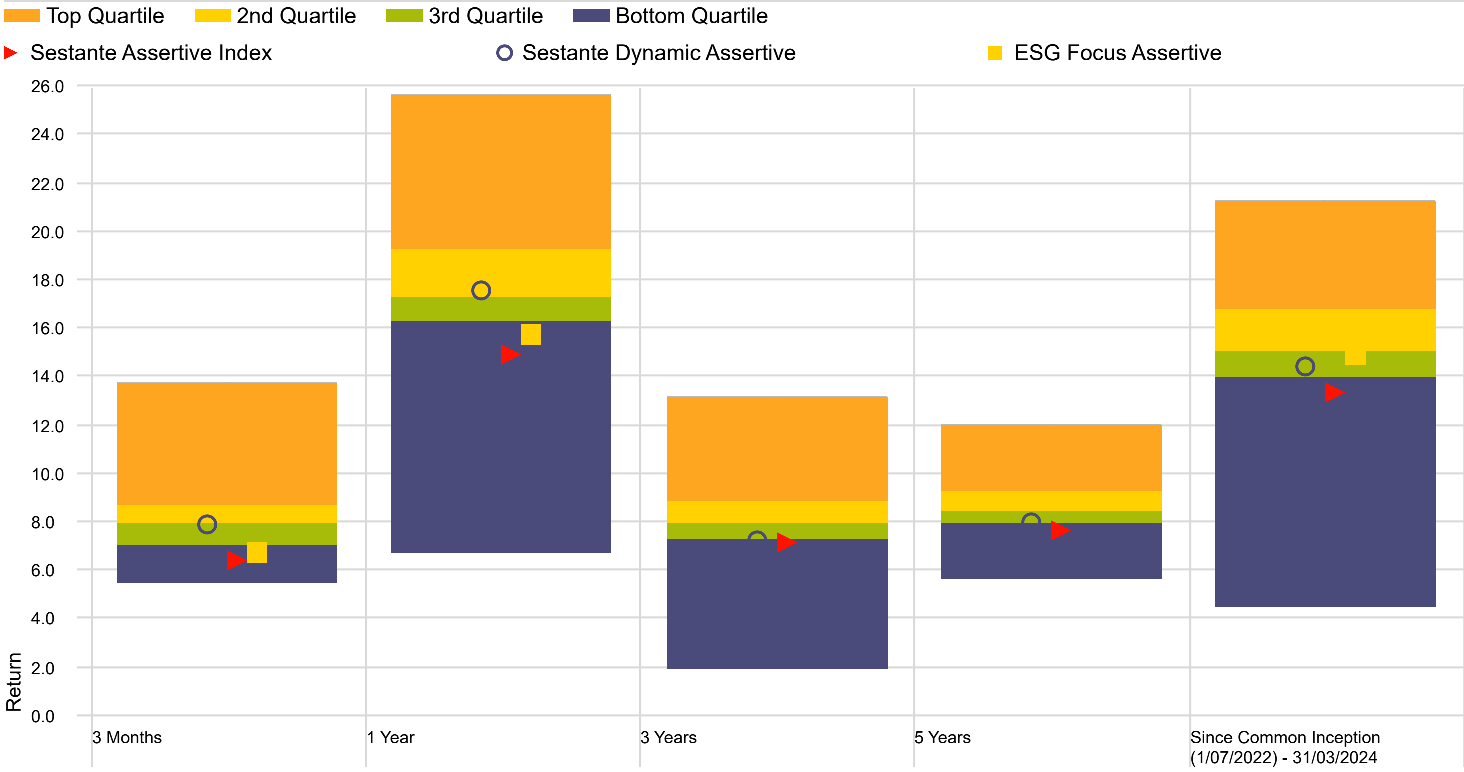
This part of the report aims provide investors an effective way to compare the AZ Sestante portfolios with like options. Multisector Aggressive funds invest in a number of sectors and have over 80% of their assets in growth sectors.

Sestante Assertive Portfolios vs Morningstar Peers



Sestante Assertive Performance Relative to Peer Group

Peer Group (1-100%): Funds - Australia - Multisector Aggressive

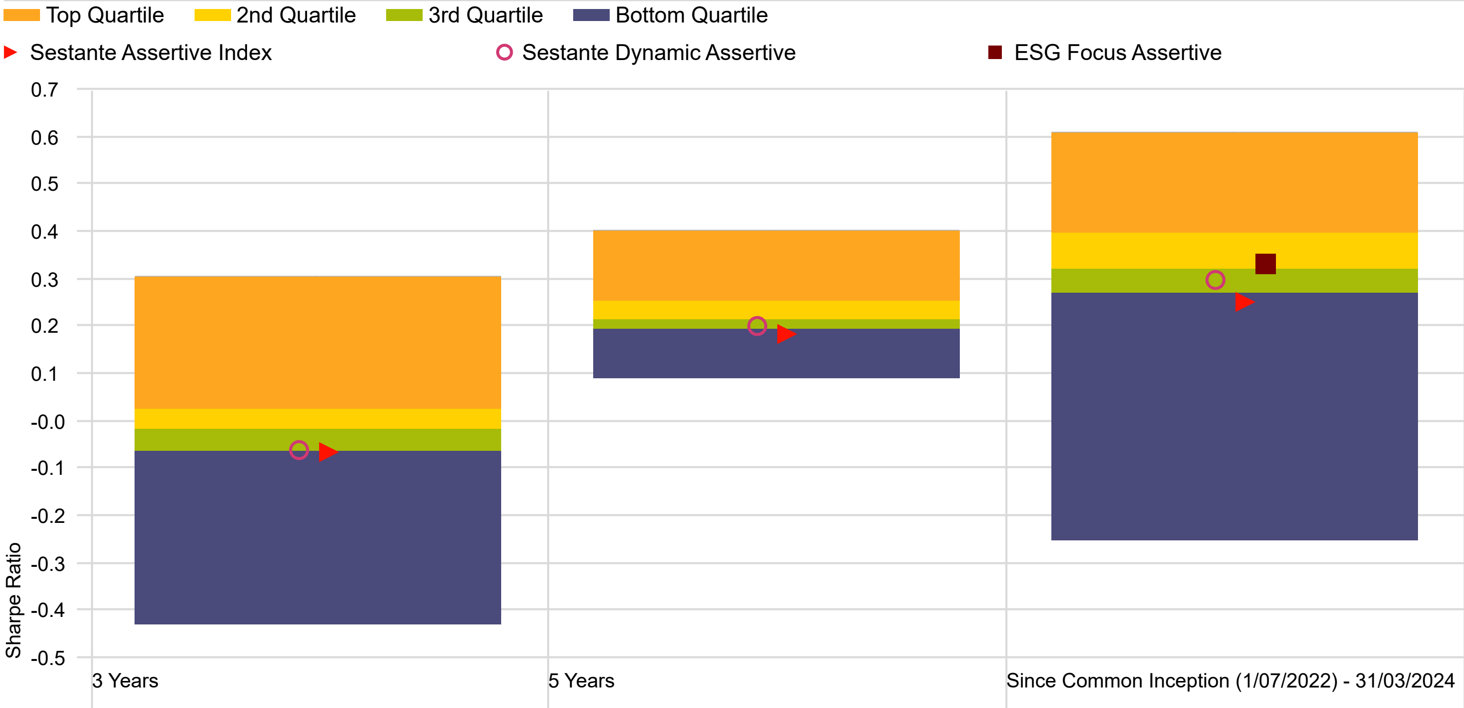


Source: Morningstar Direct

AZ Sestante Quarterly Report Q1 2024
Peer Group Returns
Multisector Aggressive Category

Sharpe Ratio Relative to Peer Group - Assertive

Peer Group (1-100%): Funds - Australia - Multisector Aggressive



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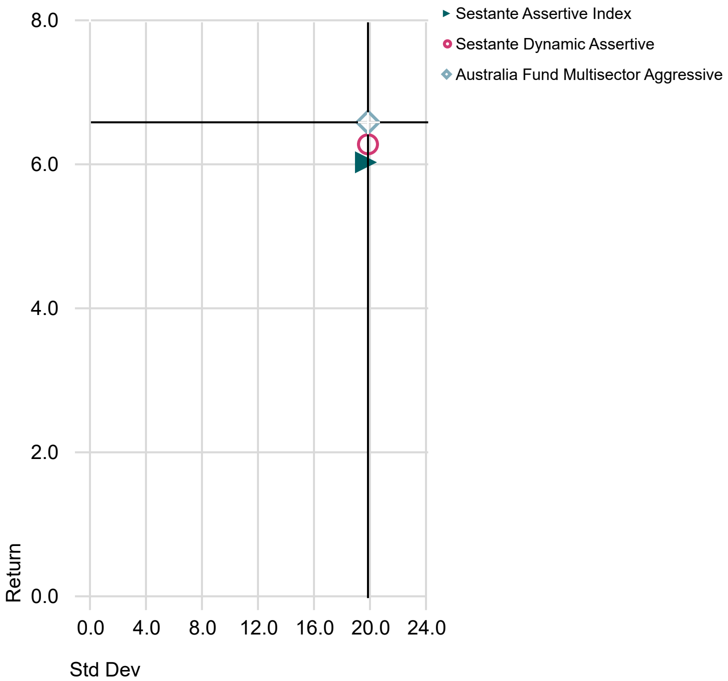
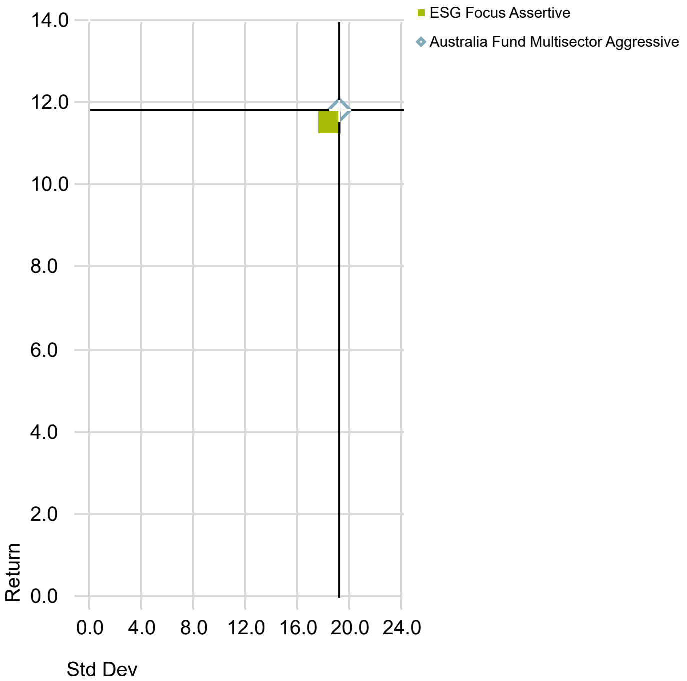
Risk-Reward (Since common inception exclude ESG)

Time Period: Since Common Inception (1/03/2019) to 31/03/2024



Risk-Reward (Since common inception ESG)

Time Period: Since Common Inception (1/07/2022) to 31/03/2024



Source: Morningstar Direct

AZ Sestante Quarterly Report Q1 2024
Peer Group Returns
Multisector Aggressive Category

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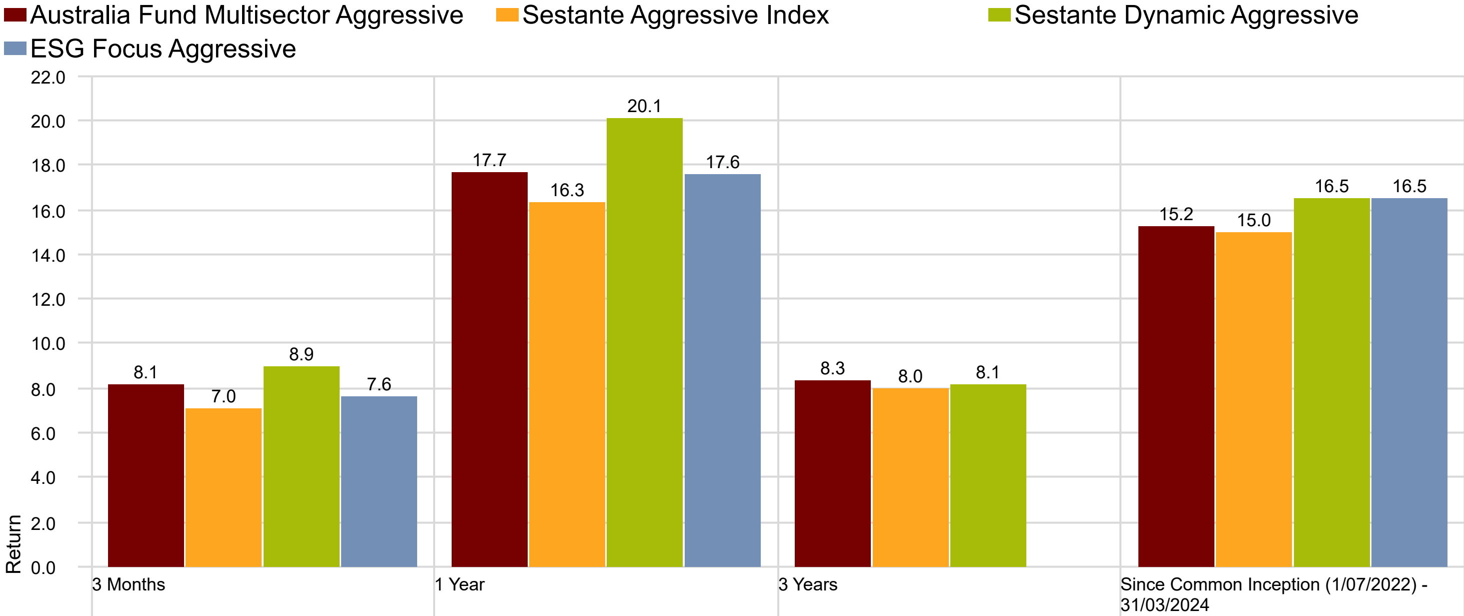
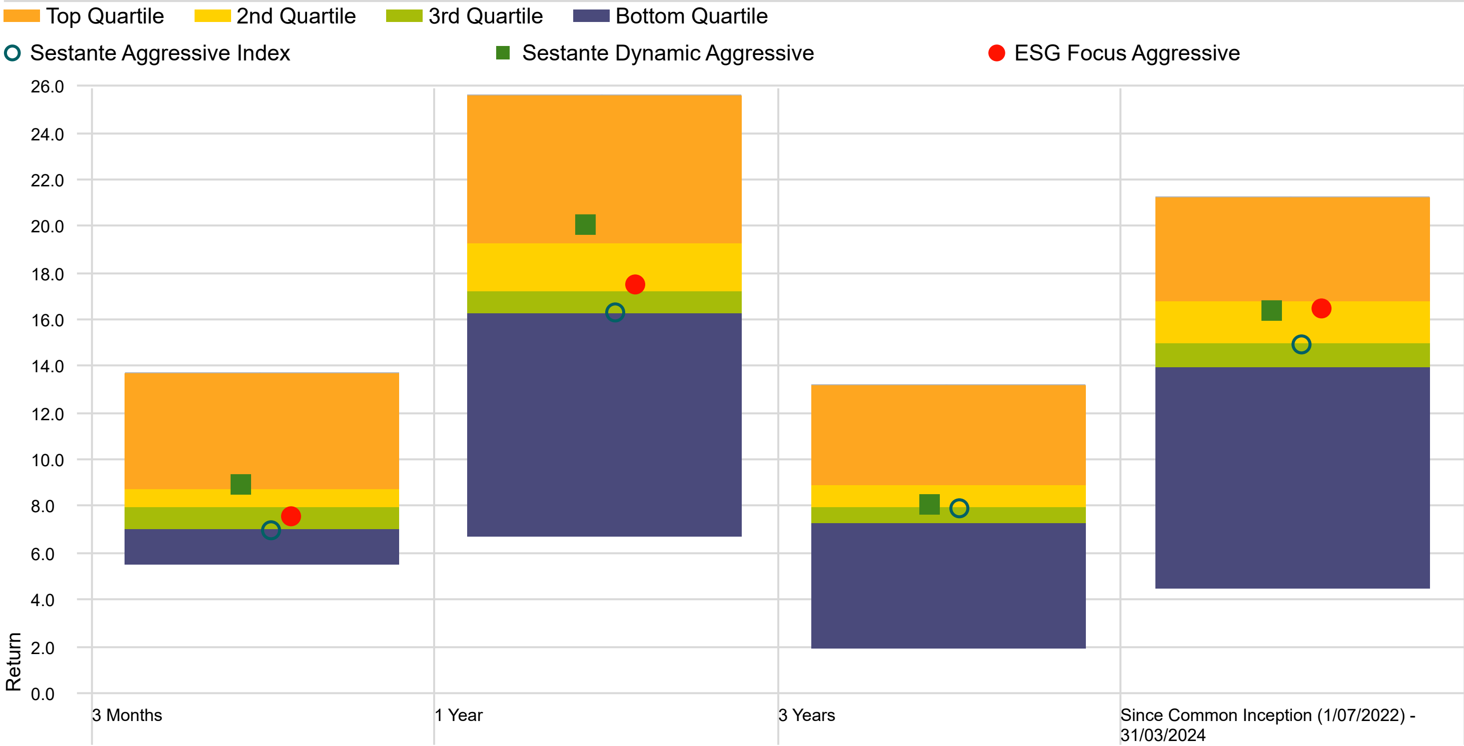
Sestante Aggressive Portfolios vs Morningstar Peers



Sestante Aggressive Performance Relative to Peer Group

Peer Group (1-100%): Funds - Australia - Multisector Aggressive

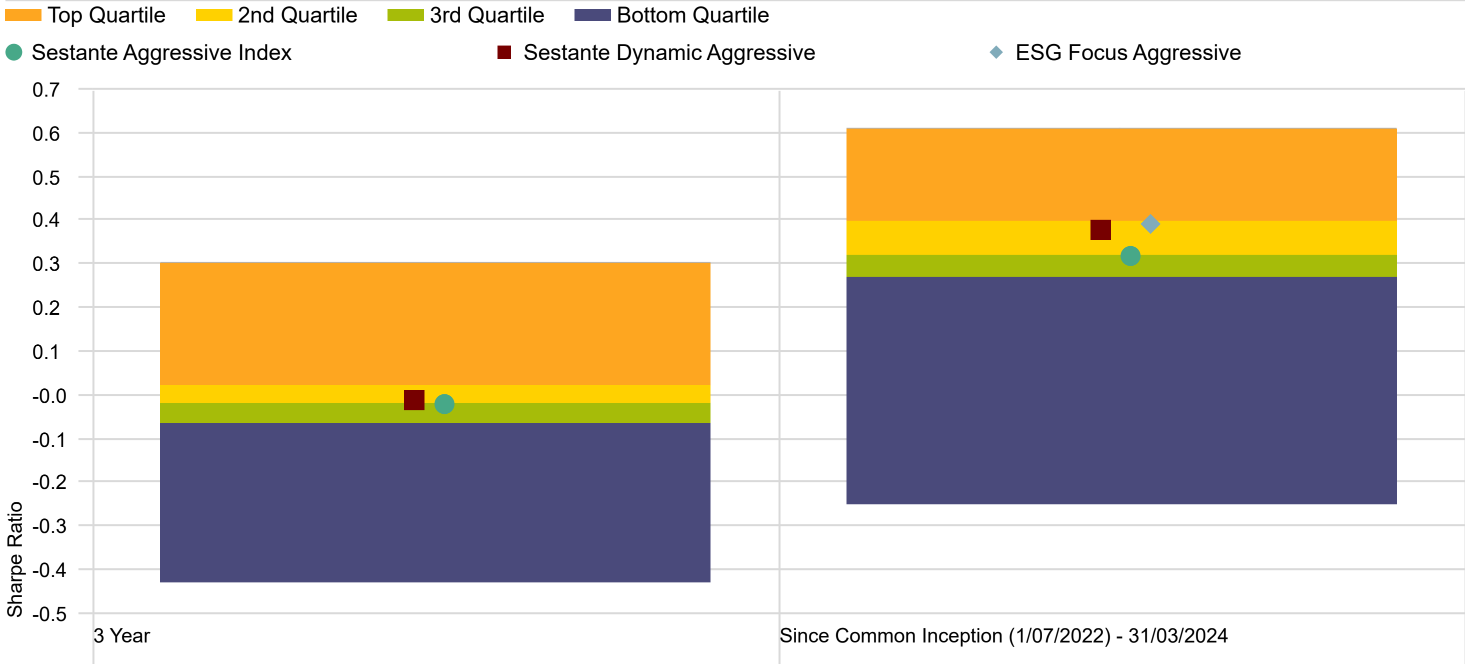


Source: Morningstar Direct

AZ Sestante Quarterly Report Q1 2024
Peer Group Returns
Multisector Aggressive Category

Sharpe Ratio Relative to Peer Group - Aggressive

Peer Group (1-100%): Funds - Australia - Multisector Aggressive



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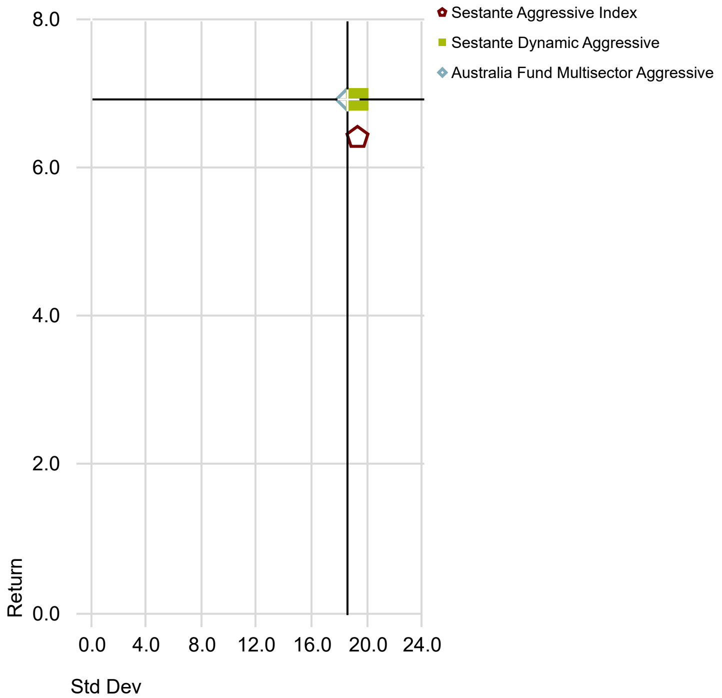
Risk-Reward (Since common inception exclude ESG)

Time Period: Since Common Inception (1/09/2020) to 31/03/2024



Risk-Reward (Since common inception ESG)

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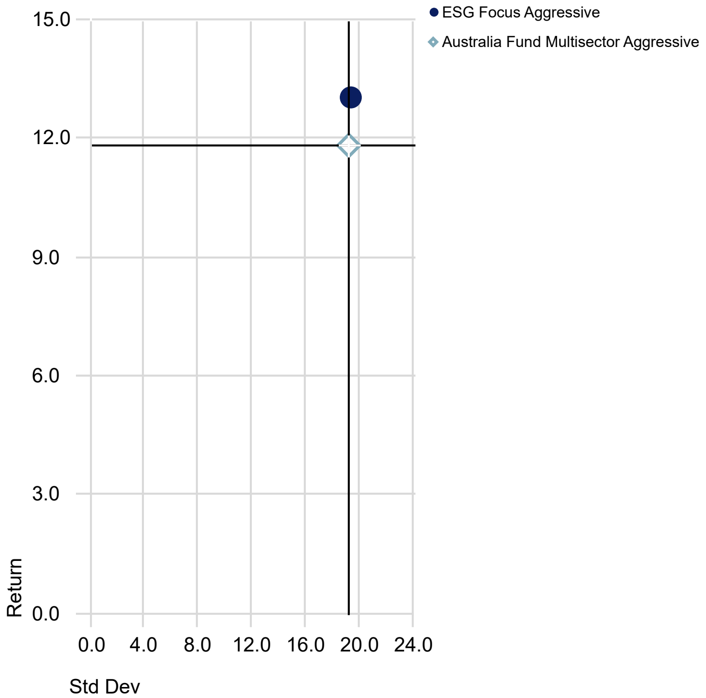

Source: Morningstar Direct

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