

### 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.

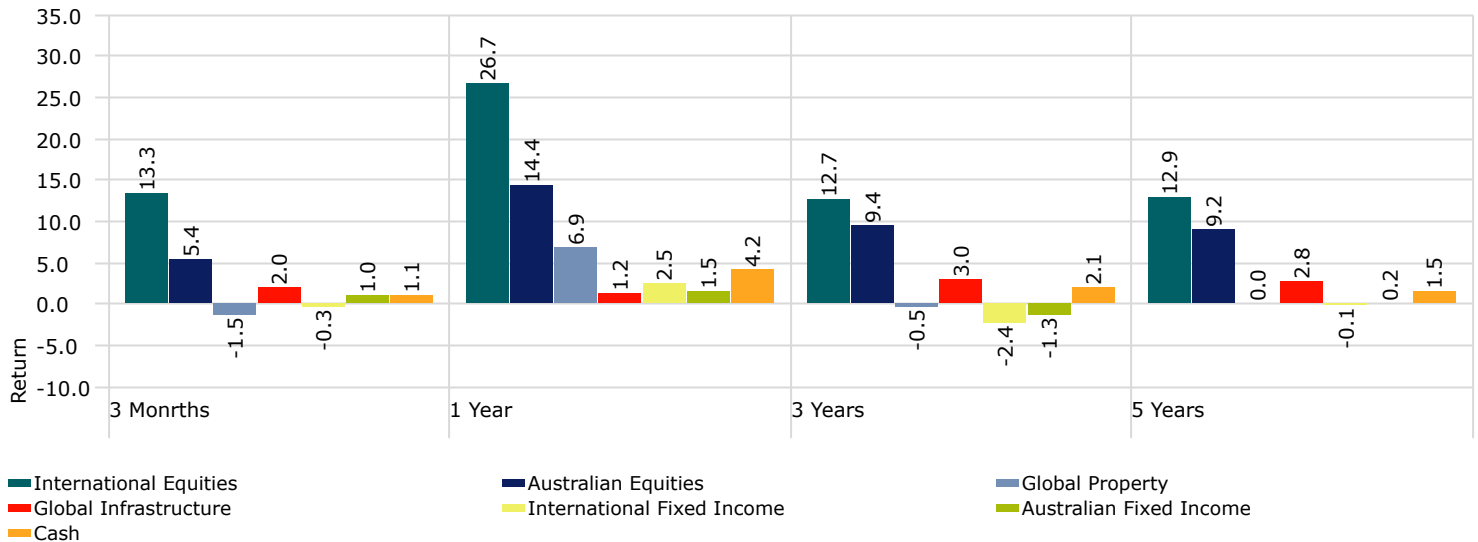
In Australia, consumer price inflation rose below expectations in Q4 2023, while retail sales declined more than forecasted. This shift led the Reserve Bank of Australia (RBA) to move from considering more hikes to believing that the rate-hiking cycle is likely over, which the market interpreted as the 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.

### 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.

### **CFS Conservative**

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, GQG global equity and Royal London Global Concentrated share were standout 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 Stewart Investors Worldwide Leaders, which underperformed the benchmark due to its investment process drifting away from mega-cap names. Colchester underperformed the benchmark by 0.85% over the quarter, mainly because of its overweight position in Mexico, where the 10-year bond yield spiked close to 100 bps YTD.

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

### **CFS Diversified**

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 underweight long duration Australian Fixed Income aided performance last quarter.

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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.

### **CFS Moderate**

The risk profile underperformed the respective SAA target over the quarter. From the asset allocation decision perspective, the underweight position in international fixed interest and real assets were the main performance drivers. 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 underweight long duration Australian Fixed Income aided the performance last quarter. Additionally, the tactical asset allocation decision to invest in Australian property rather than global property also contributed positively to performance.

Regarding manager selection, GQG global equity and Royal London Global Concentrated share were 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. Another detractor was Stewart Investors Worldwide Leaders, which underperformed the benchmark due to its investment process drifting away from mega-cap names. Colchester underperformed the benchmark by 0.85% over the quarter, mainly because of its overweight position in Mexico, where the 10-year bond yield spiked close to 100 bps YTD. Colchester underperformed the benchmark by 0.85% over the quarter, mainly because of its overweight position in Mexico, where the 10-year bond yield spiked close to 100 bps YTD.

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

### **CFS Balanced**

The risk profile underperformed the respective SAA target over the quarter. From the asset allocation decision perspective, the underweight position in international fixed interest was the main performance driver, while overweighting Australian Fixed Interest and underweight to international equities 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 Small Cap aided the 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.

### **CFS Assertive**

The risk profile underperformed the respective SAA target over the quarter. From the asset allocation decision perspective, the underweight position in fixed interest was the main performance driver, while overweighting property and underweight to international equities 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 Small Cap aided the performance.

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While the Index portfolio made similar asset allocation decisions, its underweighted position in global property lifted the portfolio's relative performance.

### **CFS Aggressive**

The risk profile underperformed the respective SAA target over the quarter. From the asset allocation decision perspective, the underweight position in infrastructure was the main performance driver. 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 Small Cap aided the performance.

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While the Index portfolio made similar asset allocation decisions, its underweight position to property had a positi...

# CFS AZ Sestante Quarterly Report Q1 2024

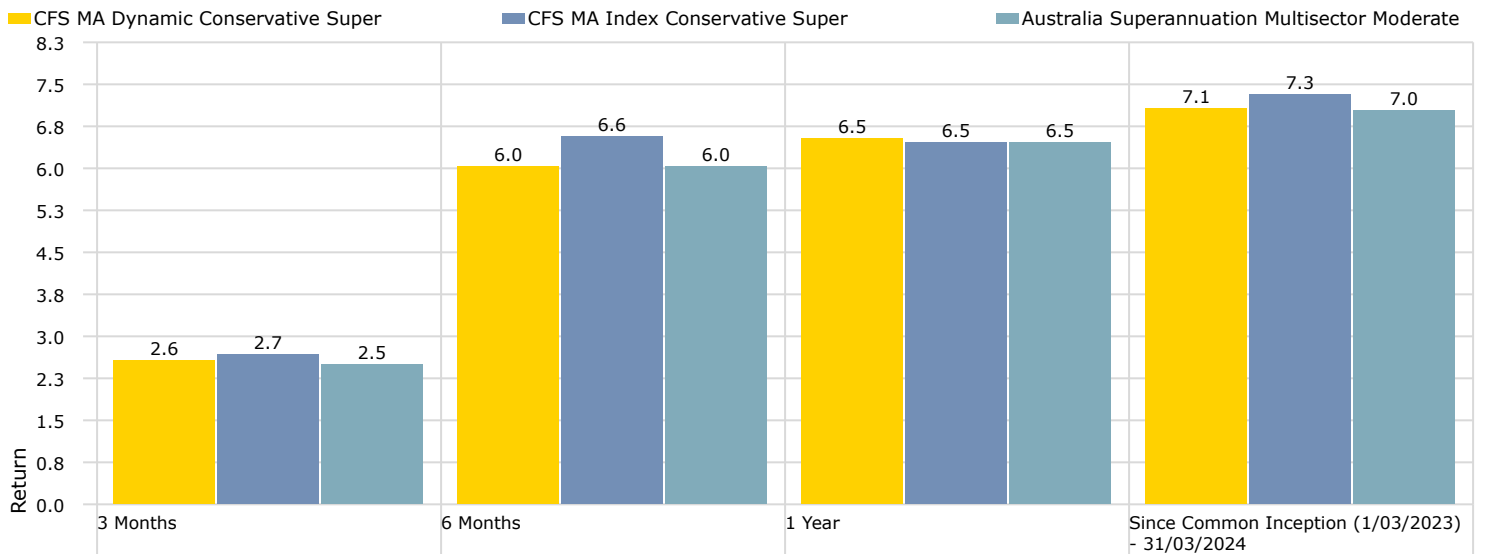
## Peer Group Returns

### Multisector Moderate Category



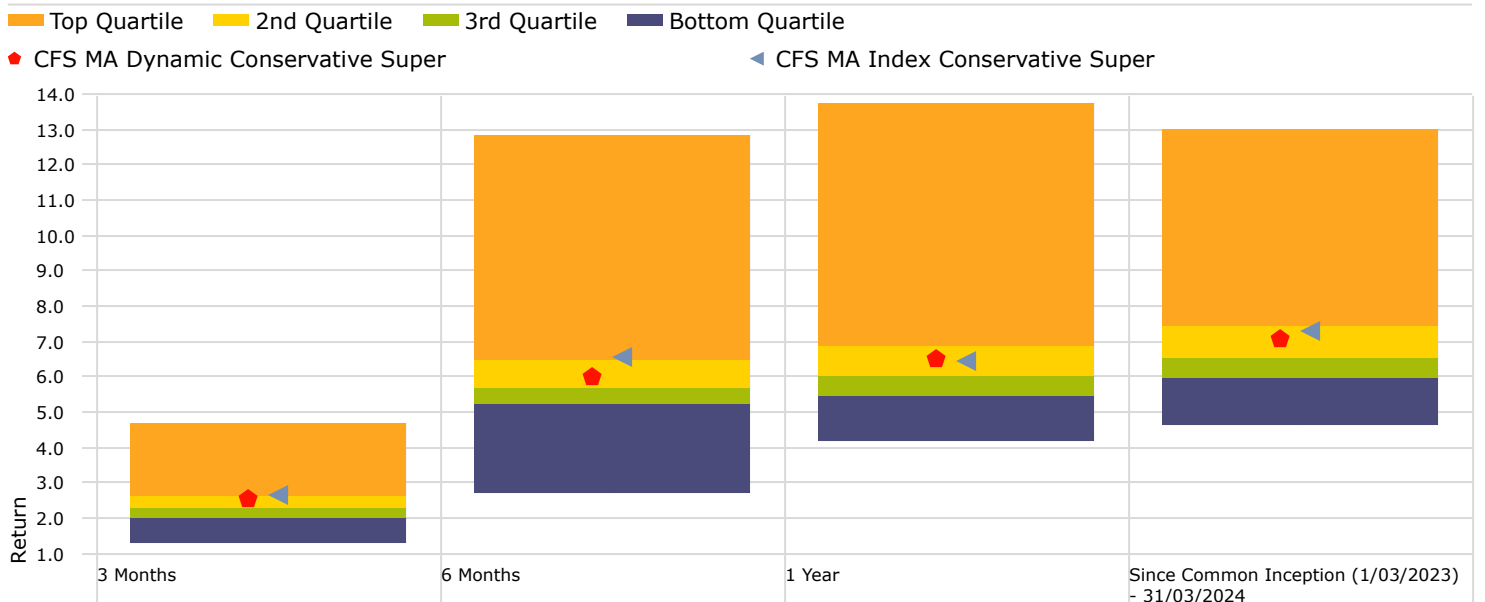
This part of the report aims provide investors an effective way to compare the CFS AZ Sestante portfolios with like options. The Multisector Moderate Category consists of funds that invest in a number of sectors and have between 21% and 40% of their investments exposed to the growth sectors.

#### Sestante Conservative Portfolios vs Morningstar Peers



#### Sestante Conservative Performance Relative to Peer Group

Peer Group (1-100%): Insurance and Pension Funds - Australia - Superannuation - Multisector Moderate



# CFS AZ Sestante Quarterly Report Q1 2024

## Peer Group Returns

### Multisector Moderate Category



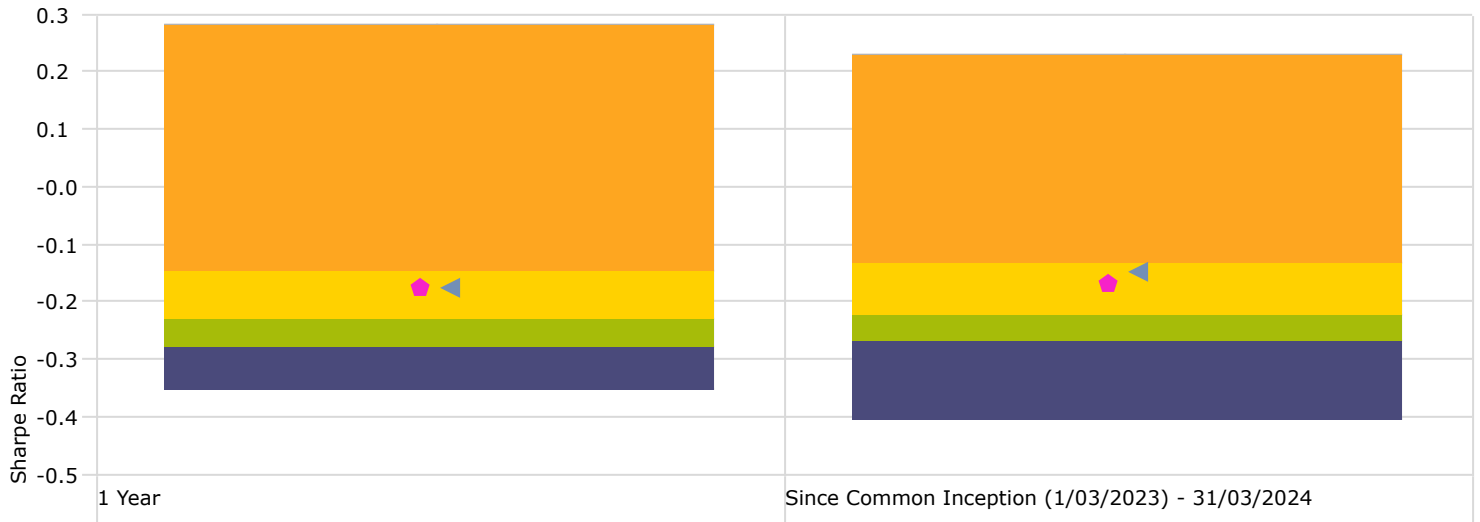
#### Sharpe Ratio Relative to Peer Group - Conservative

Peer Group (1-100%): Insurance and Pension Funds - Australia - Superannuation - Multisector Moderate

■ Top Quartile   
 ■ 2nd Quartile   
 ■ 3rd Quartile   
 ■ Bottom Quartile

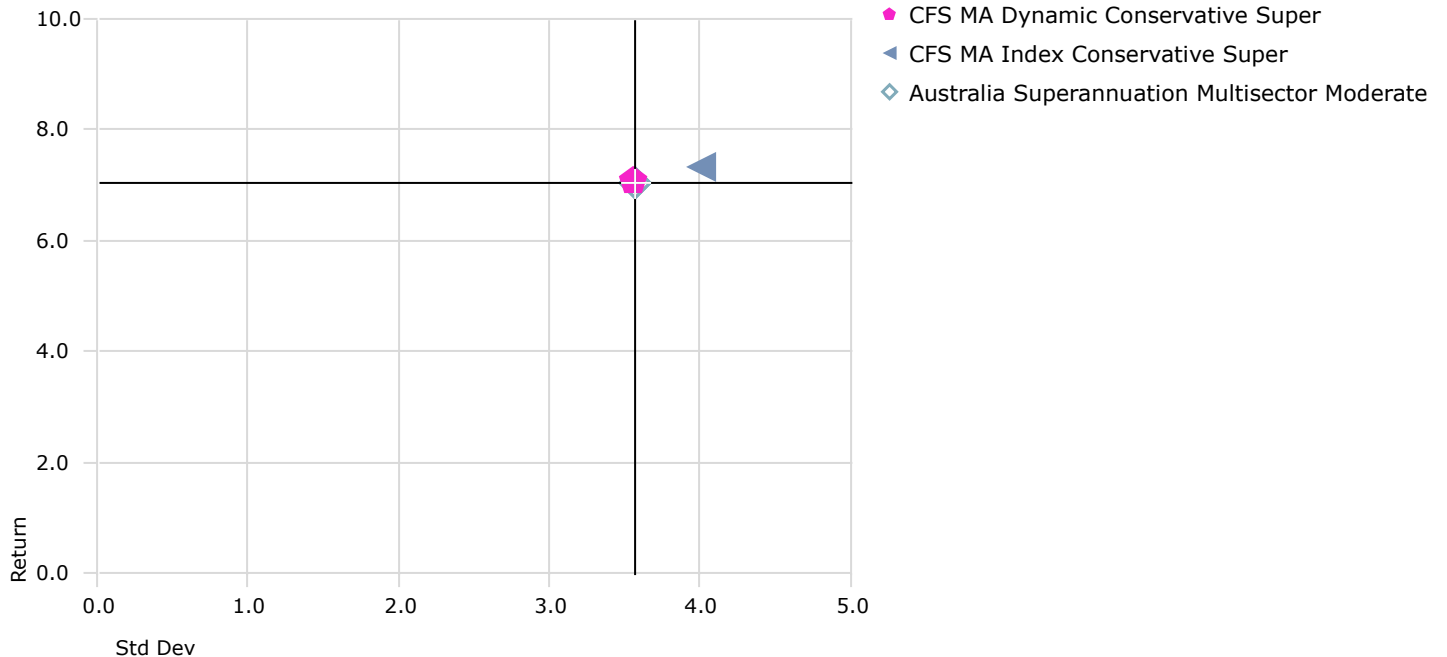
◆ CFS MA Dynamic Conservative Super

◀ CFS MA Index Conservative Super



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)



# CFS AZ Sestante Quarterly Report Q1 2024

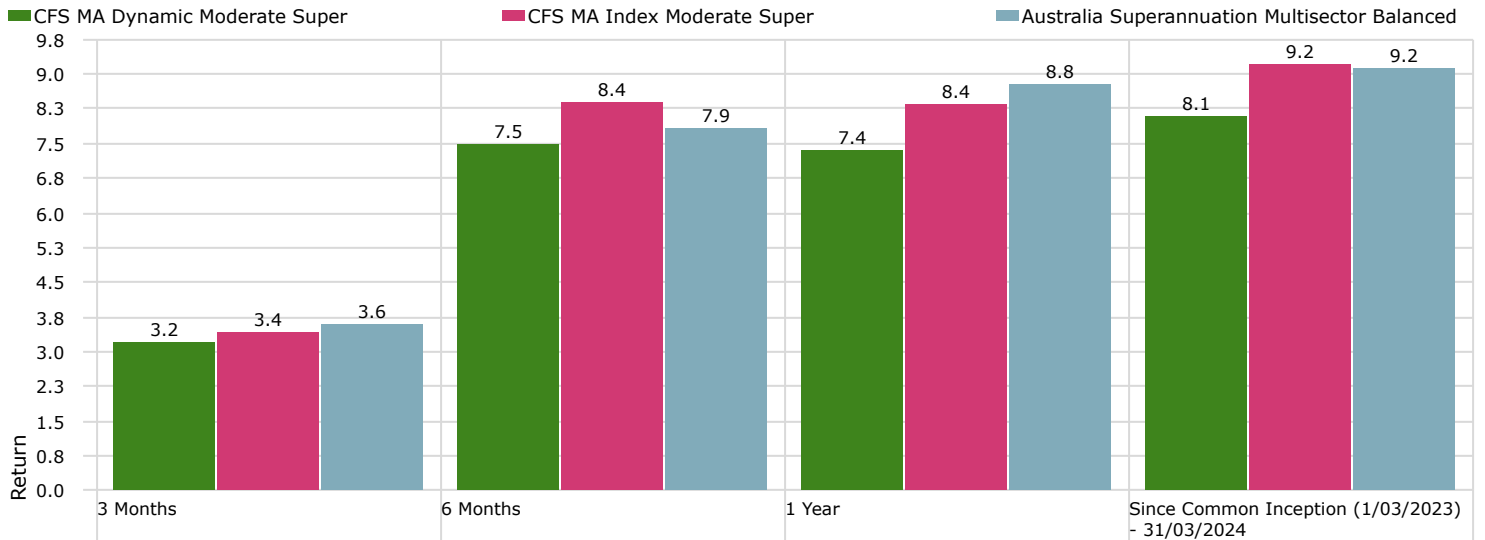
## Peer Group Returns

### Multisector Balanced Category



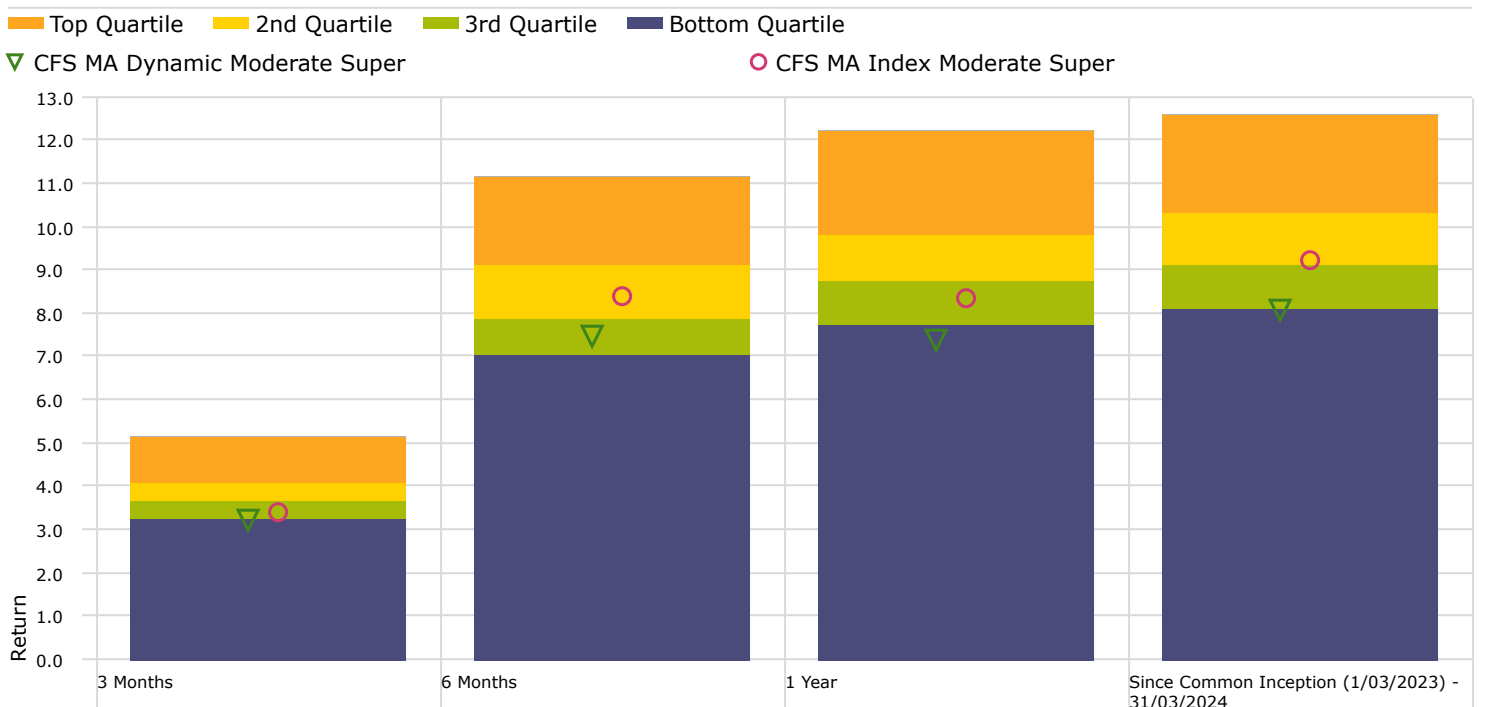
This part of the report aims provide investors an effective way to compare the CFS AZ Sestante portfolios with like options. The Multisector Balanced Category consists of funds that invest in a number of sectors and have between 41% and 60% of their investments exposed to the growth sectors.

#### Sestante Moderately Conservative Portfolios vs Morningstar Peers



#### Sestante Moderately Conservative Performance Relative to Peer Group

Peer Group (1-100%): Insurance and Pension Funds - Australia - Superannuation - Multisector Balanced



# CFS AZ Sestante Quarterly Report Q1 2024

## Peer Group Returns

### Multisector Balanced Category



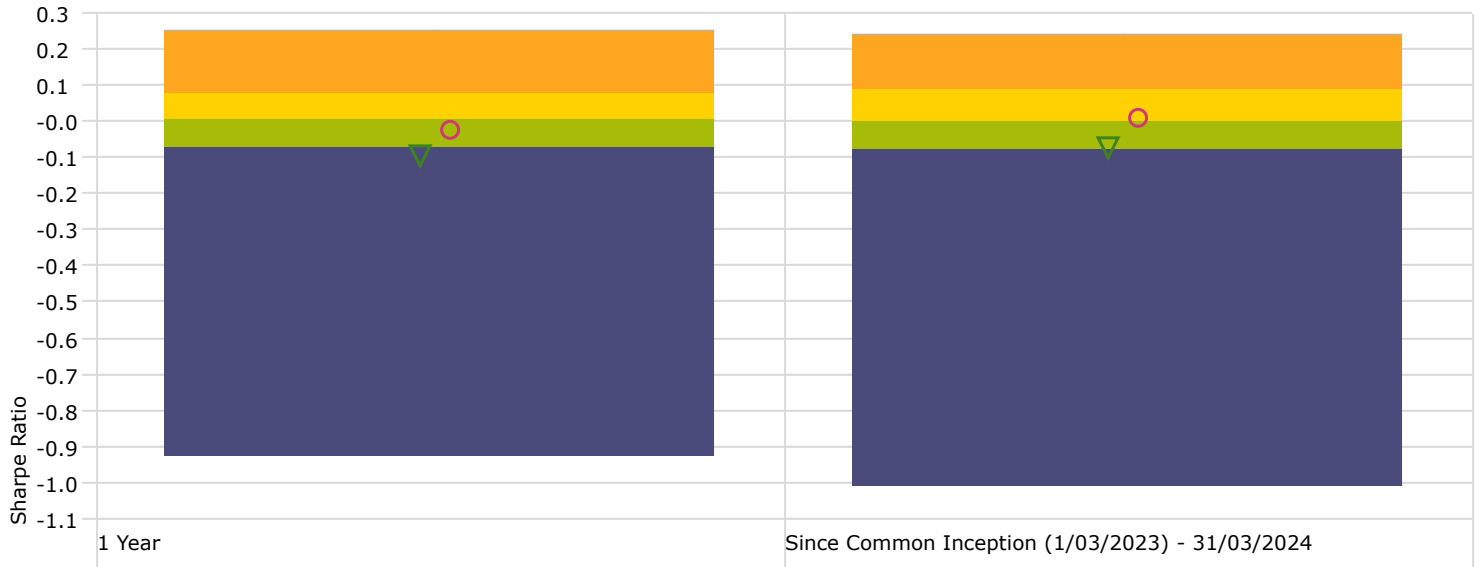
#### Sharpe Ratio Relative to Peer Group - Moderately Conservative

Peer Group (1-100%): Insurance and Pension Funds - Australia - Superannuation - Multisector Balanced

■ Top Quartile   
 ■ 2nd Quartile   
 ■ 3rd Quartile   
 ■ Bottom Quartile

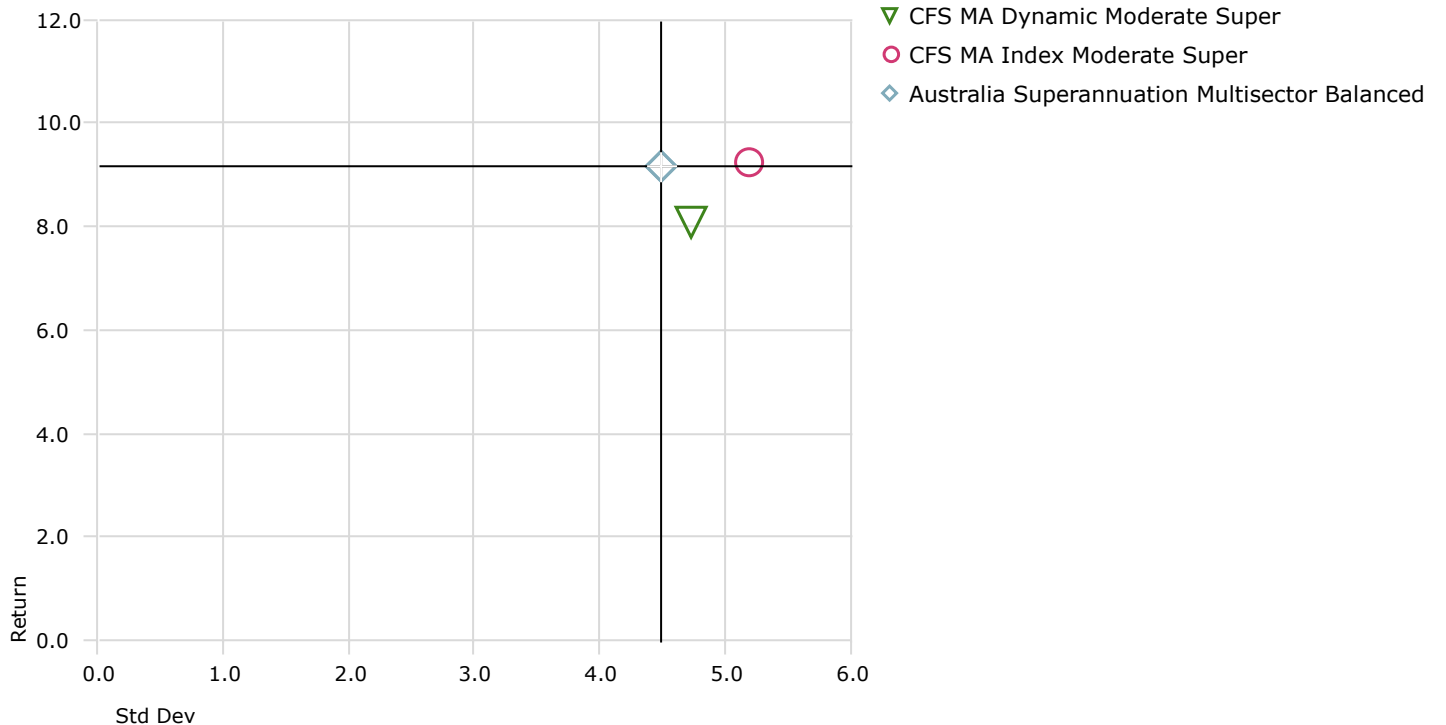
▼ CFS MA Dynamic Moderate Super

○ CFS MA Index Moderate Super



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#### Risk-Reward (Since common inception)





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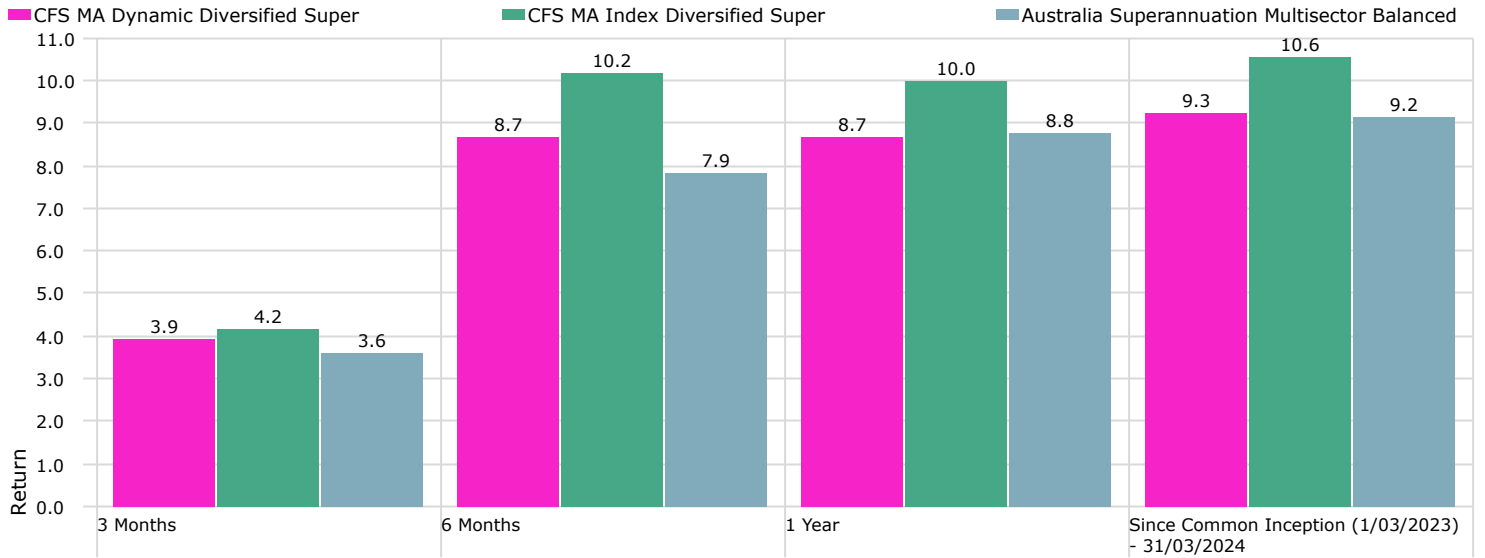
## Peer Group Returns

### Multisector Balanced Category



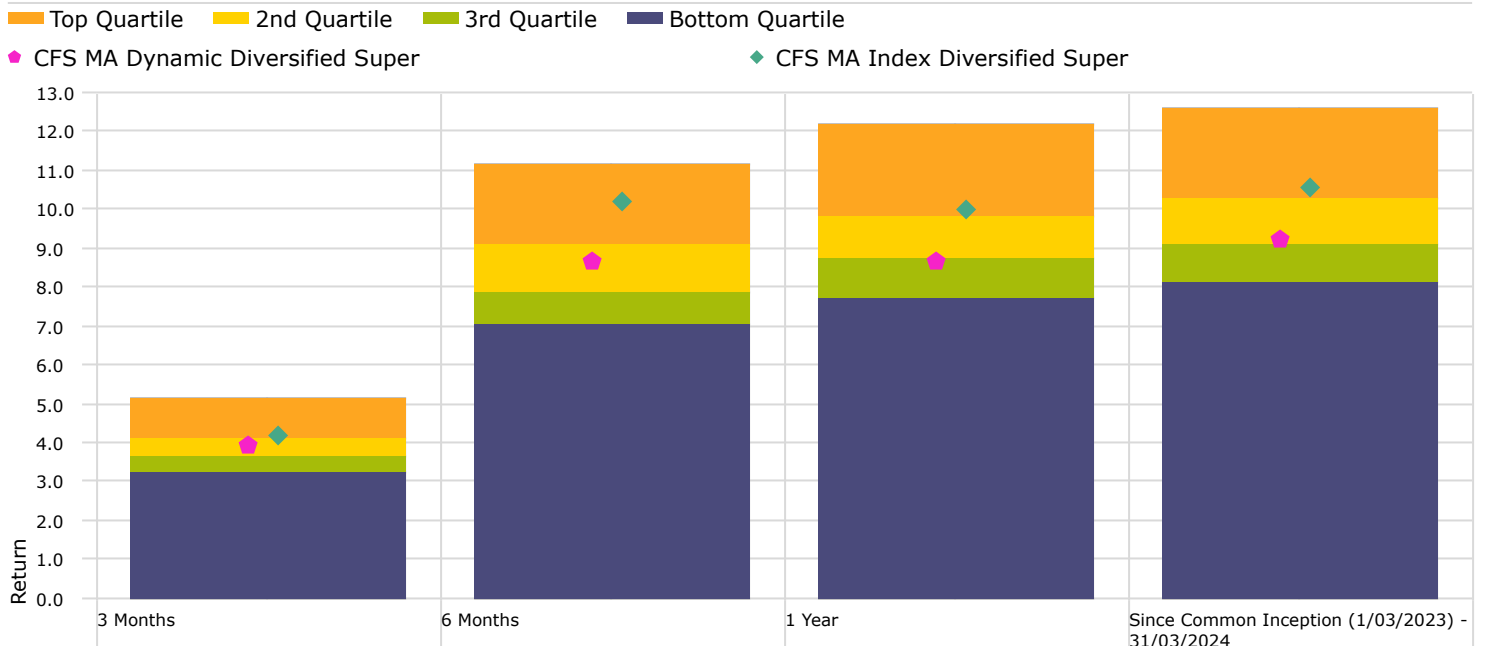
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#### Sestante Moderately Conservative Portfolios vs Morningstar Peers



#### Sestante Moderately Conservative Performance Relative to Peer Group

Peer Group (1-100%): Insurance and Pension Funds - Australia - Superannuation - Multisector Balanced



# CFS AZ Sestante Quarterly Report Q1 2024

## Peer Group Returns

### Multisector Balanced Category



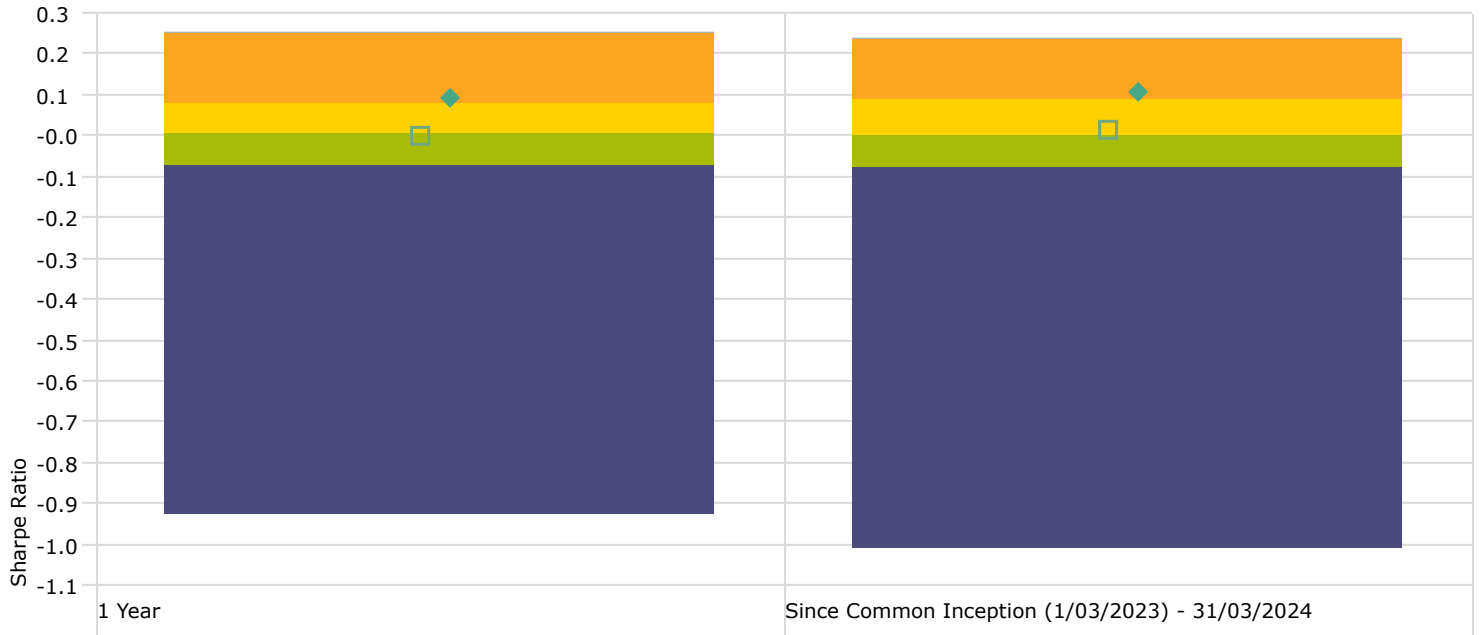
#### Sharpe Ratio Relative to Peer Group - Moderately Conservative

Peer Group (1-100%): Insurance and Pension Funds - Australia - Superannuation - Multisector Balanced

■ Top Quartile  
 ■ 2nd Quartile  
 ■ 3rd Quartile  
 ■ Bottom Quartile

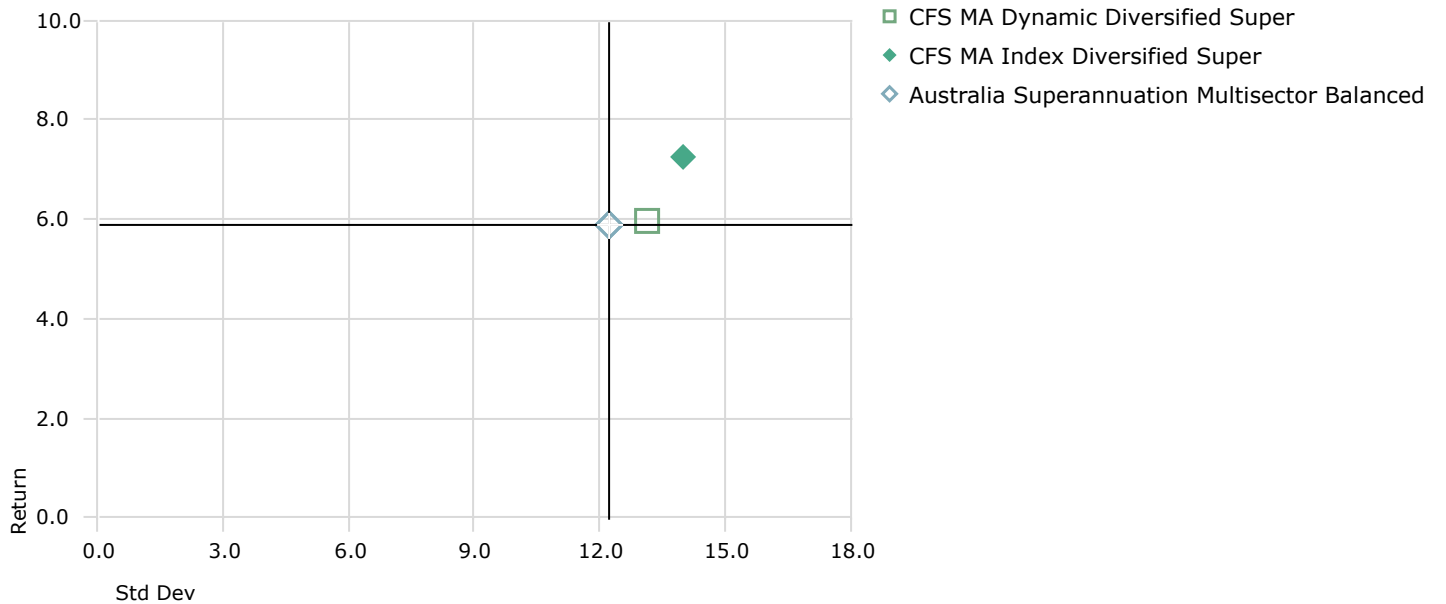
□ CFS MA Dynamic Diversified Super

◆ CFS MA Index Diversified Super



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#### Risk-Reward (Since common inception)



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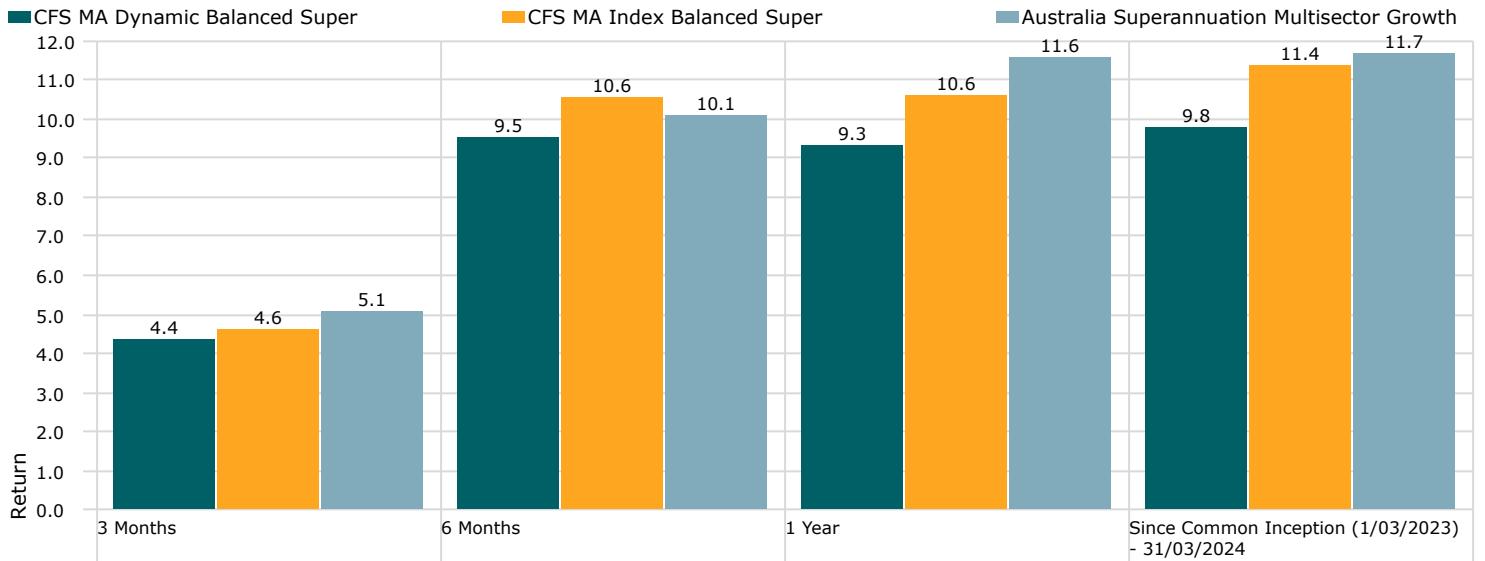
## Peer Group Returns

### Multisector Growth Category



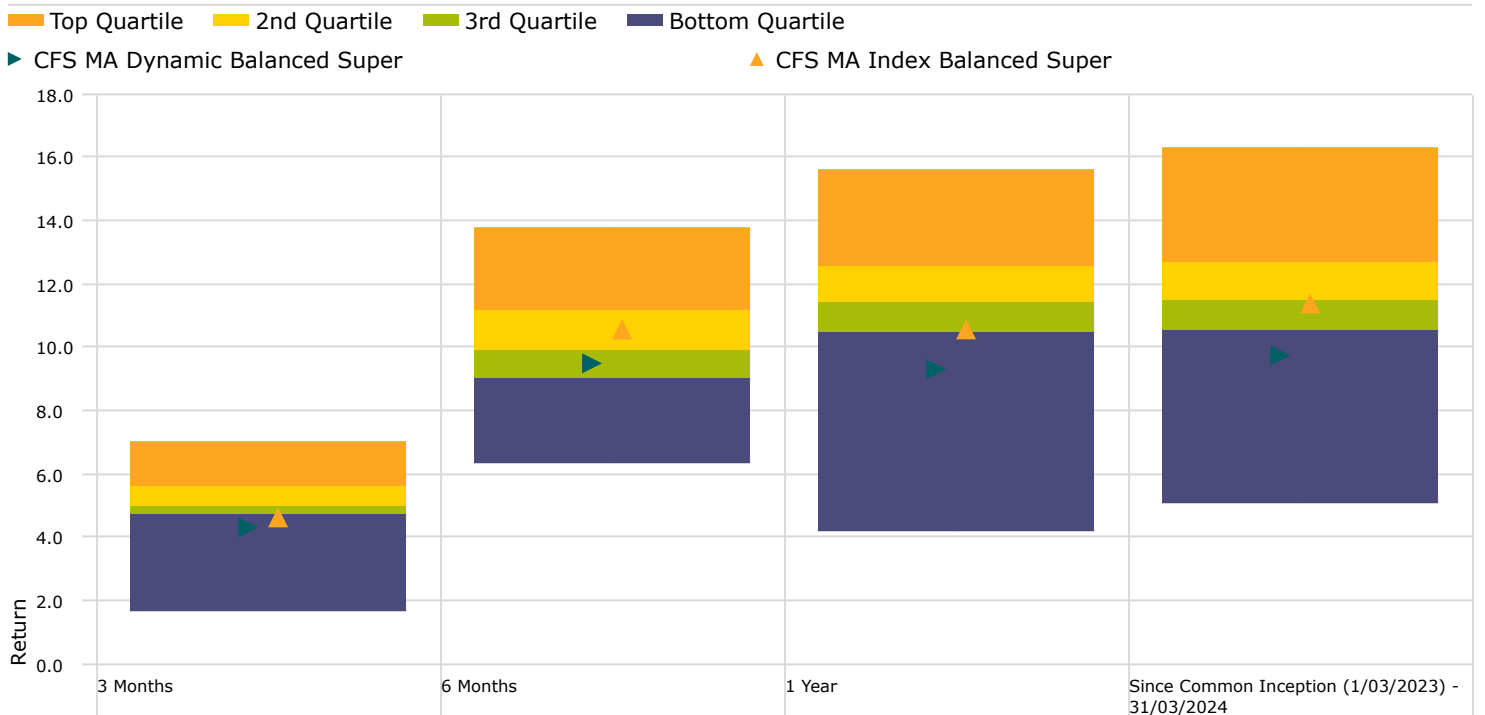
This part of the report aims provide investors an effective way to compare the CFS AZ Sestante portfolios with like options. The Multisector Growth Category consists of funds that invest in a number of sectors and have between 61% and 80% of their investments exposed to the growth sectors.

#### Sestante Balanced Portfolios vs Morningstar Peers



#### Sestante Balanced Performance Relative to Peer Group

Peer Group (1-100%): Insurance and Pension Funds - Australia - Superannuation - Multisector Growth



# CFS AZ Sestante Quarterly Report Q1 2024

## Peer Group Returns

### Multisector Growth Category



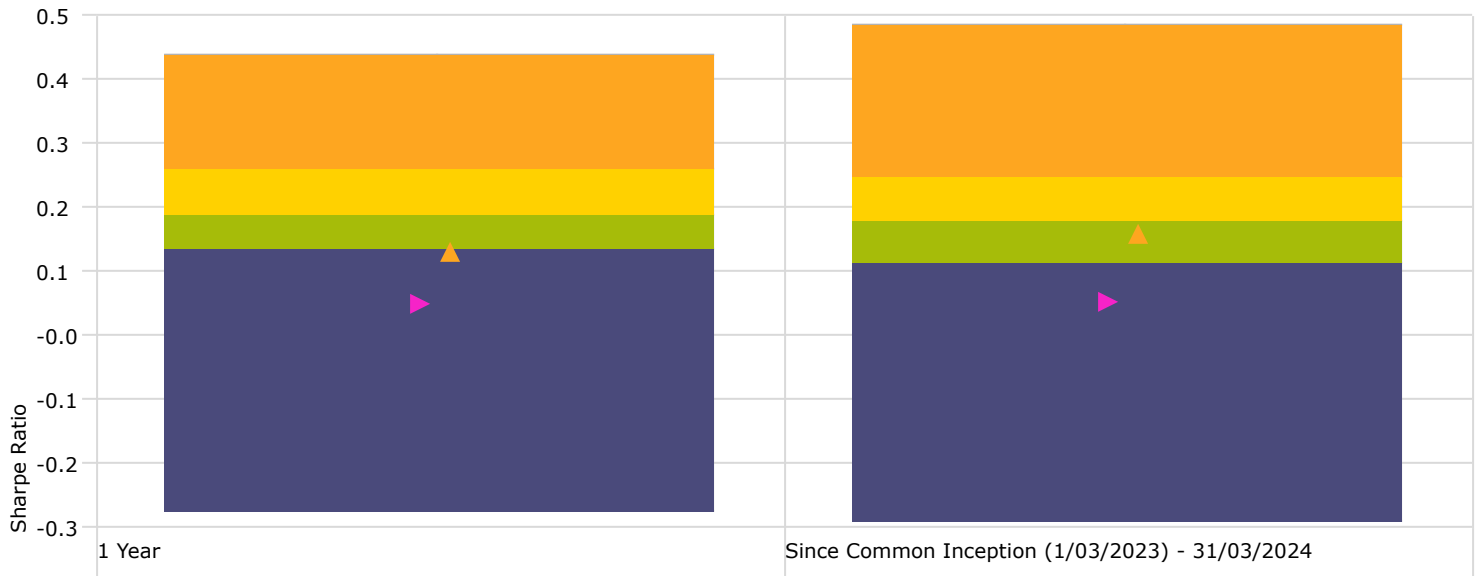
#### Sharpe Ratio Relative to Peer Group - Balanced

Peer Group (1-100%): Insurance and Pension Funds - Australia - Superannuation - Multisector Growth

■ Top Quartile  
 ■ 2nd Quartile  
 ■ 3rd Quartile  
 ■ Bottom Quartile

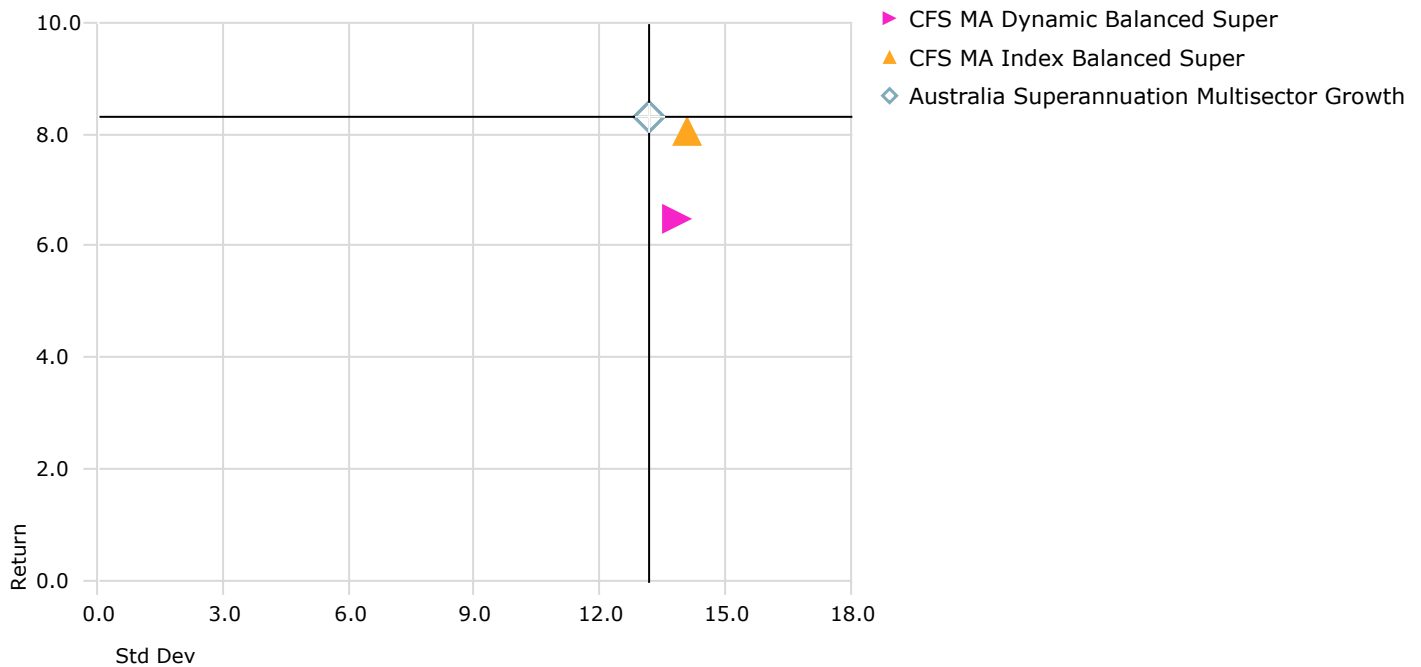
▶ CFS MA Dynamic Balanced Super

▲ CFS MA Index Balanced Super



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#### Risk-Reward (Since common inception)



# CFS AZ Sestante Quarterly Report Q1 2024

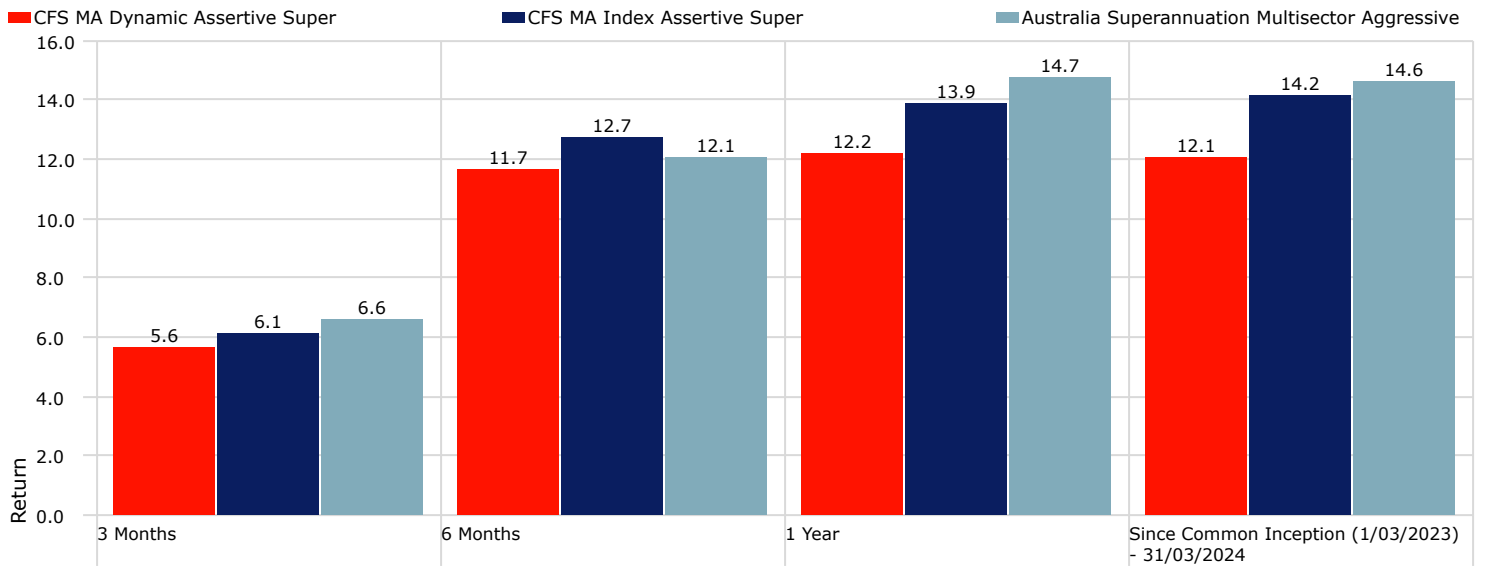
## Peer Group Returns

### Multisector Aggressive Category



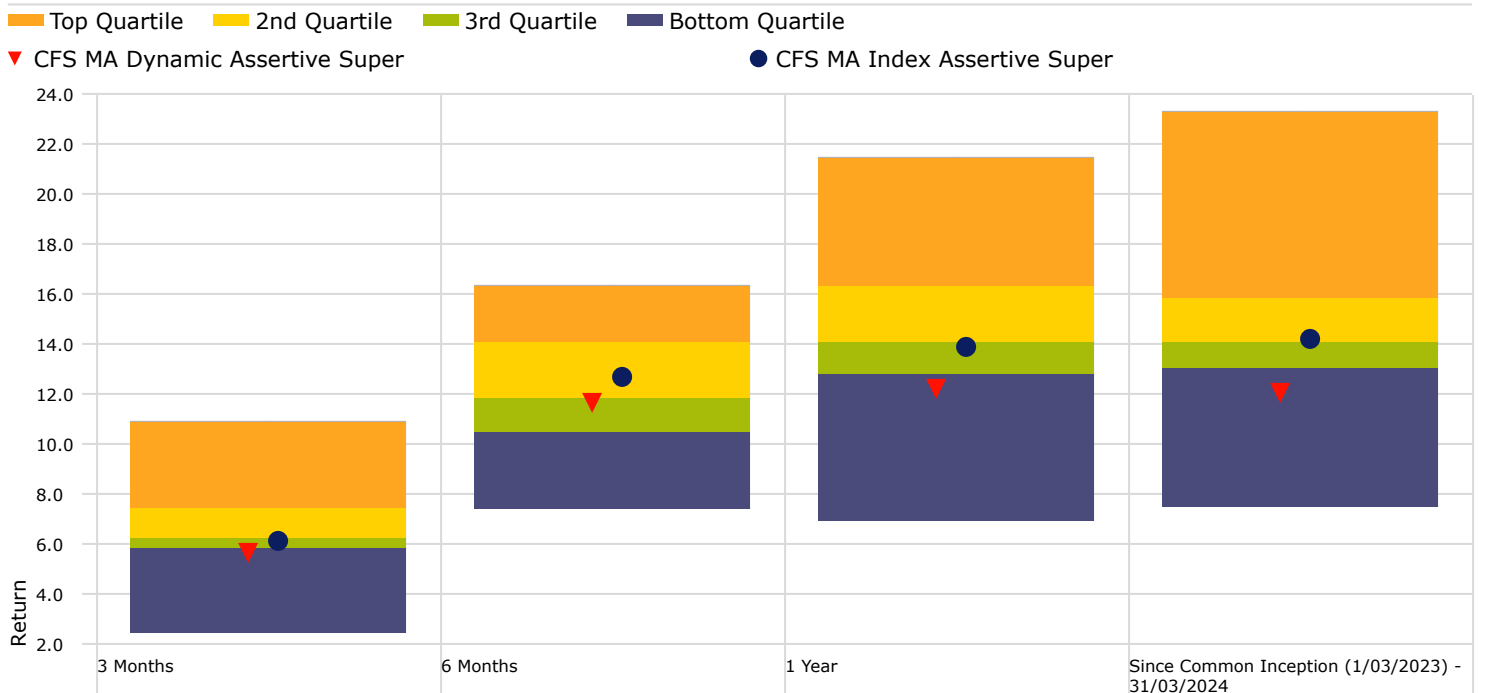
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#### Sestante Assertive Portfolios vs Morningstar Peers



#### Sestante Assertive Performance Relative to Peer Group

Peer Group (1-100%): Insurance and Pension Funds - Australia - Superannuation - Multisector Aggressive



# CFS AZ Sestante Quarterly Report Q1 2024

## Peer Group Returns

### Multisector Aggressive Category

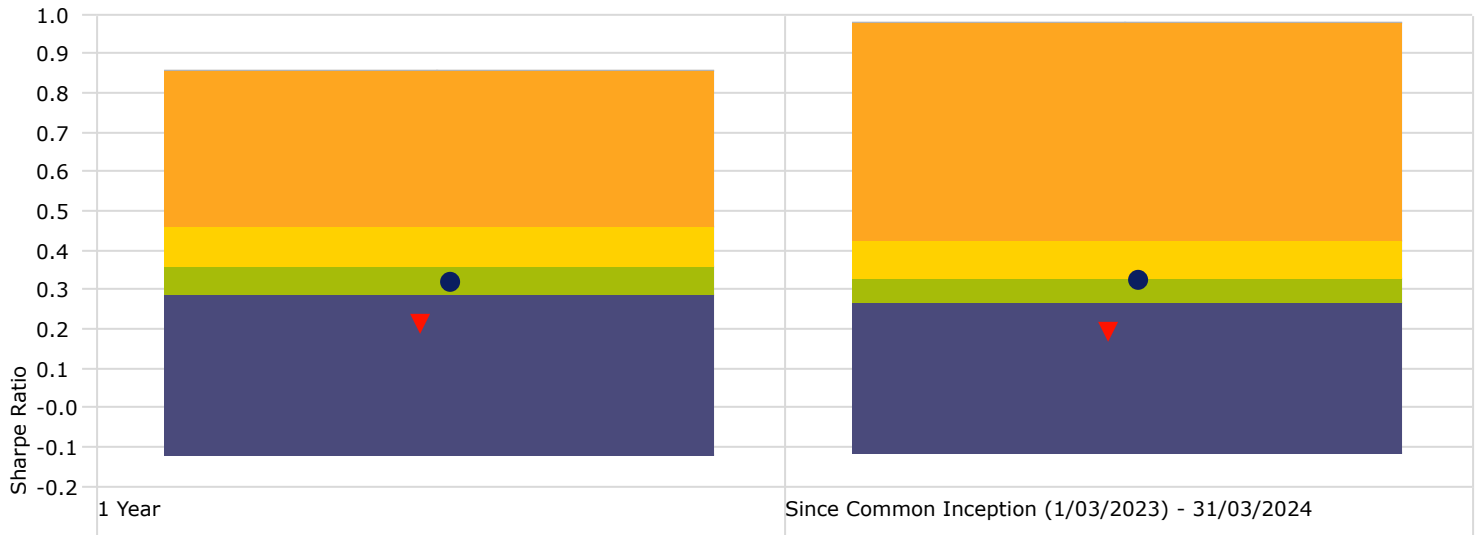


#### Sharpe Ratio Relative to Peer Group - Assertive

Peer Group (1-100%): Insurance and Pension Funds - Australia - Superannuation - Multisector Aggressive

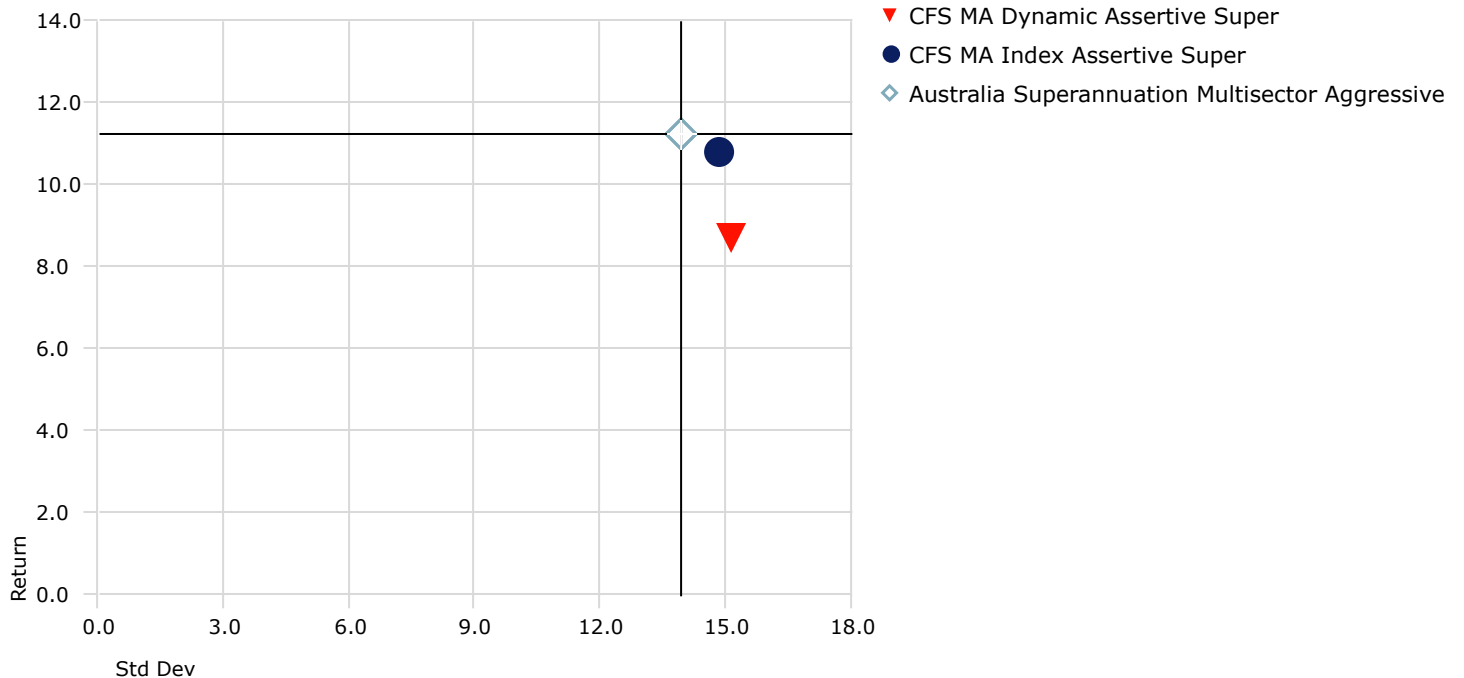
■ Top Quartile  
 ■ 2nd Quartile  
 ■ 3rd Quartile  
 ■ Bottom Quartile

▼ CFS MA Dynamic Assertive Super  
 ● CFS MA Index Assertive Super



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#### Risk-Reward (Since common inception)



# CFS AZ Sestante Quarterly Report Q1 2024

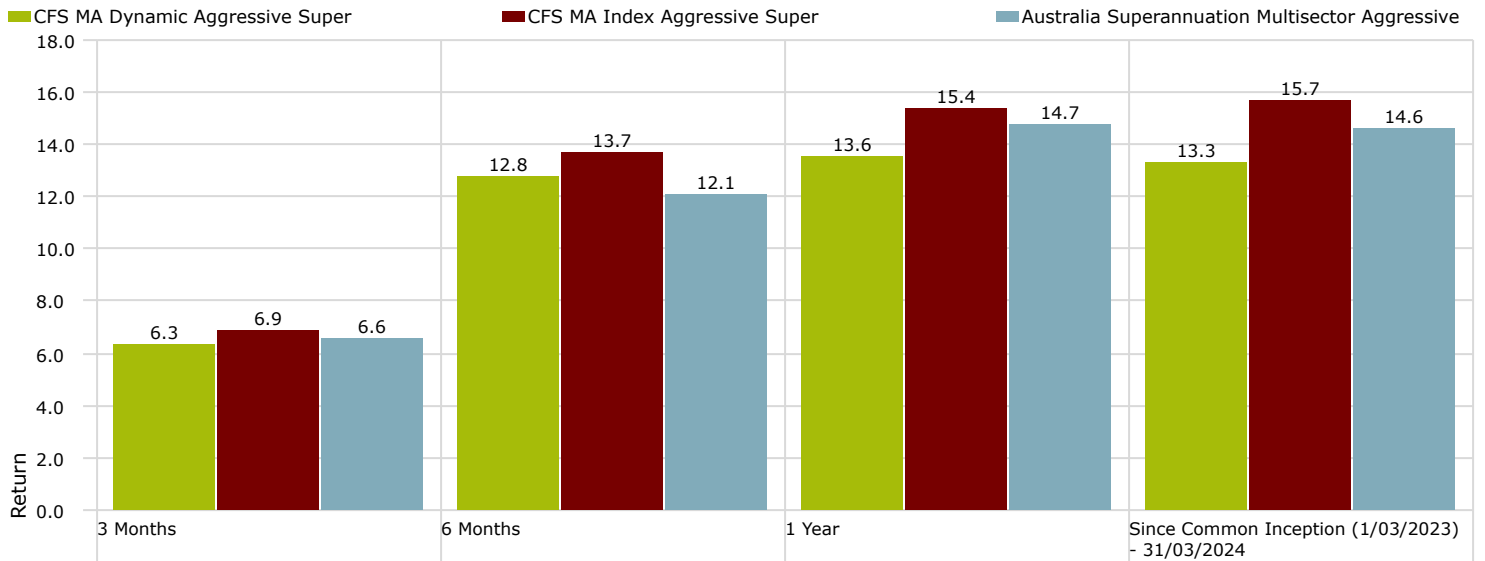
## Peer Group Returns

### Multisector Aggressive Category



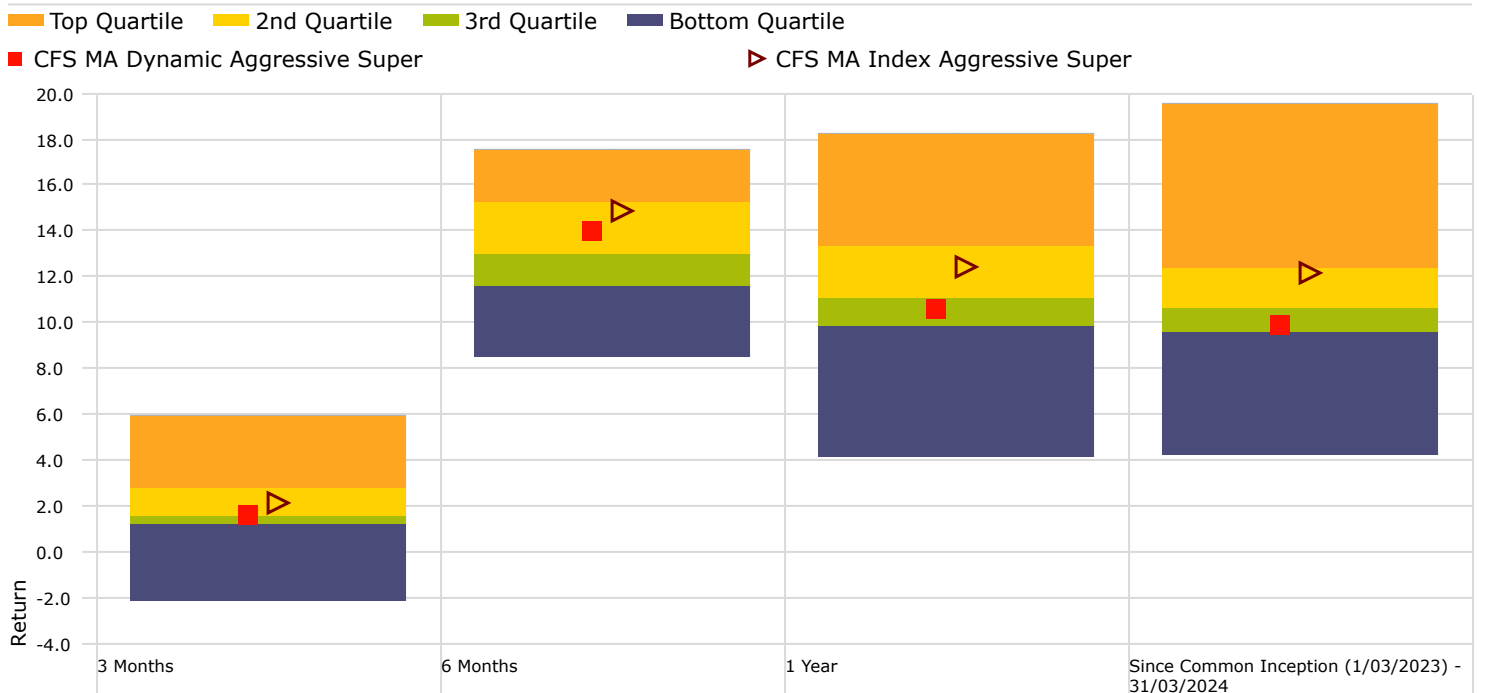
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#### Sestante Aggressive Portfolios vs Morningstar Peers



#### Sestante Aggressive Performance Relative to Peer Group

Peer Group (1-100%): Insurance and Pension Funds - Australia - Superannuation - Multisector Aggressive



# CFS AZ Sestante Quarterly Report Q1 2024

## Peer Group Returns

### Multisector Aggressive Category



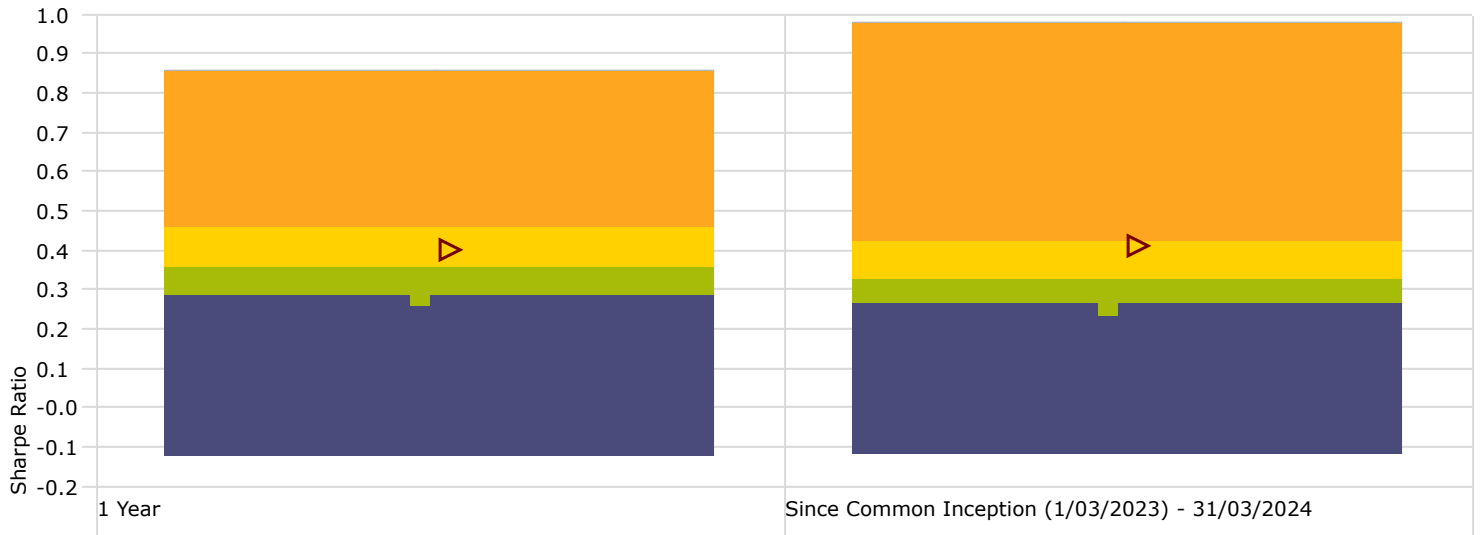
#### Sharpe Ratio Relative to Peer Group - Aggressive

Peer Group (1-100%): Insurance and Pension Funds - Australia - Superannuation - Multisector Aggressive

■ Top Quartile 
 ■ 2nd Quartile 
 ■ 3rd Quartile 
 ■ Bottom Quartile

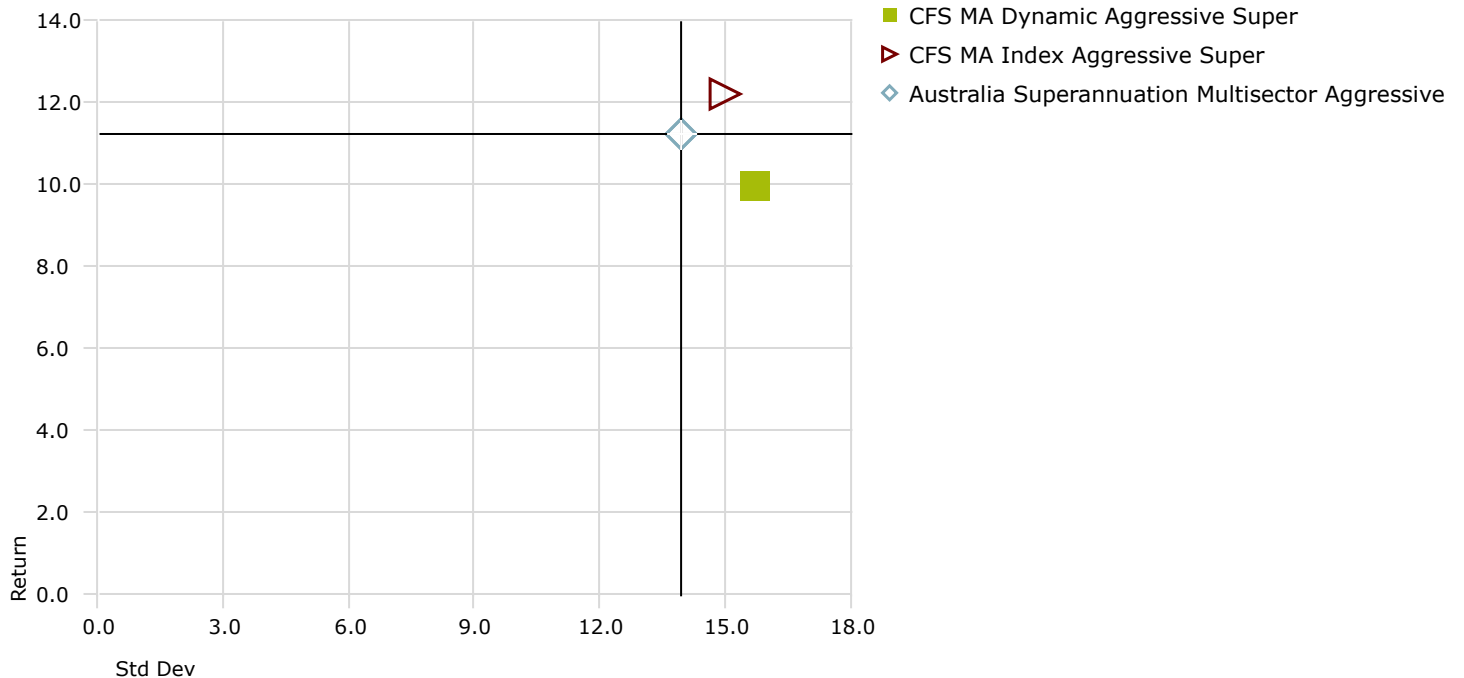
■ CFS MA Dynamic Aggressive Super

▶ CFS MA Index Aggressive Super



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#### Risk-Reward (Since common inception)





## 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](mailto:invest@azsestante.com) | [www.azsestante.com](http://www.azsestante.com)

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