

CFS AZ Sestante Quarterly Report

As of 30/09/2024

Market Review



Market Review

The third quarter of 2024 saw significant macroeconomic developments and subsequent market reactions. In July, inflation data in both the US and Australia came in softer than expected, leading to investor optimism that central banks might soon shift to rate cuts. Federal Reserve Chair Jerome Powell's dovish comments reinforced these expectations, contributing to a rotation out of mega-cap technology stocks and into interest-rate-sensitive sectors. US inflation eased, with core CPI slightly below consensus, while Australian inflation also came in softer, prompting market participants to unwind expectations of further rate hikes. Bond yields fell globally, benefiting fixed income markets, while Australian equities reached record highs, driven by strength in sectors sensitive to interest rates, like consumer discretionary and financials.

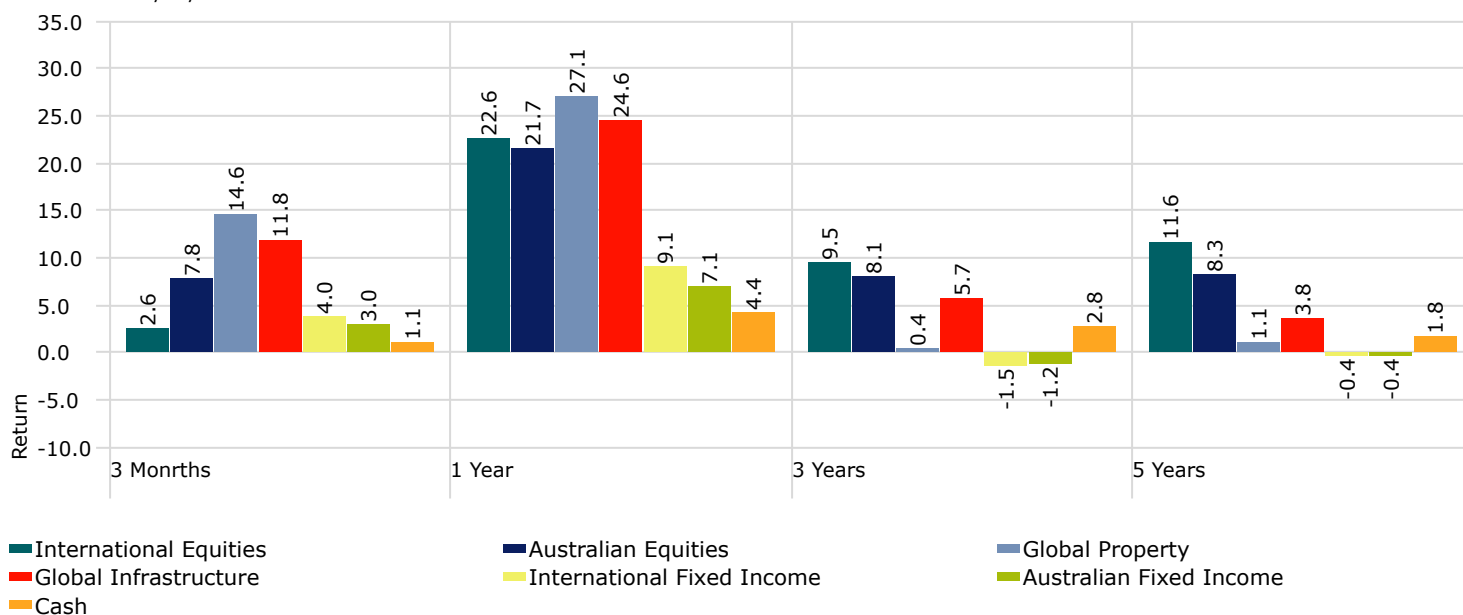
August, however, introduced heightened volatility, especially as Japan's Nikkei 225 plummeted by over 20%, causing global market turbulence. Recession fears were sparked by weak US nonfarm payroll data, and volatility soared. Despite these concerns, the US economy showed resilience with upward revisions to GDP, while inflation continued to cool. Global equity markets saw mixed results, with the US 10-year yield declining further as recession concerns grew. Australian equities experienced modest gains as earnings reports highlighted challenges in the resource sector, although certain growth stocks like Brambles and WiseTech posted strong performances.

September was a pivotal month for monetary policy. The US Federal Reserve cut rates by 50 basis points, signalling a shift from focusing on inflation control to supporting economic growth. Despite this, US equity markets remained flat as concerns about economic weakness persisted. In contrast, China's monetary easing measures, aimed at stabilising its economy, drove a strong rally in Chinese equities, with the CSI 300 gaining nearly 20%. Commodity markets, particularly iron ore, surged, boosting Australian equities. Real assets continued to perform well, supported by the Fed's rate cut and ongoing demand for infrastructure and property assets.

All asset classes returned positive in Q3 2024, global property delivered a stellar return of 14.6%, driven by falling bond yields and strong demand for sectors like healthcare and data centres. Global infrastructure gained 11.8%, supported by strength in regulated utilities, benefiting from rate cuts. Australian equities rose 7.8%, fuelled by a surge in commodity prices, particularly iron ore, due to China's stimulus efforts. International equities returned 2.6%, tempered by the US economic concerns despite gains in Chinese markets. International fixed income rose 4.0%, as global bond yields fell following the Fed's rate cut, while Australian fixed income delivered a solid 3.0%, aided by lower inflation and stable RBA policy.

Returns

As of Date: 30/09/2024



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

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CFS Conservative (Super)

The Dynamic portfolio posted a solid return of 2.68% for the quarter, comfortably outperforming its investment objective. Australian Fixed Income was the standout contributor at the asset class level, despite being categorised within the portfolio's defensive sectors. Likewise, Australian Equities played a significant role, driven by strong performance in the materials sector, which is expected to benefit from Chinese stimulus efforts. On the tactical asset allocation front, the currency hedging strategy added value as the Australian dollar strengthened against the US dollar, thanks to the widening interest rate differential between the two countries and China's economic stimulus.

Among the individual funds, the Franklin Australian Absolute Bond Fund led the way, outperforming its benchmark of 50% Australian Fixed Income and 50% Cash by 48 basis points due to its favourable duration positioning. Conversely, the GQG Partners Global Equity Fund underperformed, largely because of its overweight positions in Eli Lilly and Novo Nordisk. These stocks were negatively impacted by market concerns over increased competition in the GLP-1 obesity and diabetes drug space.

The **Index portfolio** achieved a quarterly return of 3.06%, significantly surpassing its cash + 1.5% (annual) target. Australian equities delivered the strongest performance, driven by gains in the materials sector, a key beneficiary of potential Chinese stimulus. Australian Fixed Income also contributed, thanks to long-term government bond gains and solid performance in credit. Tactical currency hedging provided additional value as the Australian dollar appreciated against the US dollar.

CFS Moderate (Super)

The Dynamic portfolio recorded a robust 3.71% return for the quarter, well above its investment objective. Australian equities led the performance, accounting for more than half of the return, driven by strength in the materials sector linked to potential Chinese economic stimulus. Tactical currency hedging enhanced returns as the Australian dollar appreciated, supported by a widening interest rate spread between the US and Australia and the Chinese stimulus impact.

The Fidelity Asia Fund was the best-performing fund, outperforming the Morningstar APAC ex-Japan benchmark by 288 basis points. Despite reallocating some of its China exposure to India in Q2, the fund's continued commitment to China contributed positively. Conversely, the GQG Partners Global Equity Fund lagged behind its global equity benchmark, with its overweight positions in Eli Lilly and Novo Nordisk weighing on performance.

The **Index portfolio** delivered a quarterly return of 4.09%, surpassing its cash + 2% (annual) target. Australian equities were the top contributors, followed by Global Infrastructure, which benefited from the anticipated onset of a rate easing cycle. Tactical currency hedging added value as the Australian dollar strengthened against the US dollar.

CFS Diversified (Super)

The Dynamic portfolio posted a 3.98% return for the quarter, exceeding its target. Australian equities were the primary performance driver, contributing over half of the portfolio's return, thanks to strong gains in the materials sector. Global Infrastructure and Property also delivered strong returns, supported by expectations of an interest rate easing cycle. Currency hedging strategies added value as the Australian dollar appreciated against the US dollar.

The Fidelity Australian Equities Fund outperformed its benchmark by 69 basis points, aided by strong sector allocation, particularly in financials and materials. Stock selection in IT, materials, and financials added to performance. On the downside, the GQG Partners Global Equity Fund underperformed due to its overweight positions in Eli Lilly and Novo Nordisk, which were hit by concerns over competition in the GLP-1 market.

The **Index portfolio** returned 4.79% for the quarter, surpassing its cash + 2.5% (annual) target. Australian equities were the largest contributors, followed by Global Infrastructure, which benefited from expectations of a rate easing cycle. The portfolio also gained from tactical currency hedging, as the Australian dollar appreciated against the US dollar.

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CFS Balanced (Super)

The Dynamic portfolio generated a 4.47% return for the quarter, comfortably beating its investment target. Australian equities were the biggest contributor, followed by Global Infrastructure and Property, both of which performed well in anticipation of a rate easing cycle. Tactical currency hedging also boosted returns as the Australian dollar appreciated.

The Fidelity Australian Equities Fund was the top performer, beating the benchmark by 69 basis points, with strong stock selection in IT, materials, and financials. The Fidelity Asia Fund also performed strongly, outperforming the Morningstar APAC ex-Japan benchmark by 288 basis points. On the flip side, the GQG Partners Global Equity Fund underperformed due to overweight positions in Eli Lilly and Novo Nordisk.

The **Index portfolio** delivered an impressive 5.21% return, exceeding its cash + 2.5% (annual) target. Australian equities were the top contributors, supported by Global Infrastructure, which benefited from the anticipated rate easing cycle. Currency hedging also added value as the Australian dollar appreciated against the US dollar.

CFS Assertive (Super)

The Dynamic portfolio returned 5.05% for the quarter, outperforming its objective. Australian equities were the primary driver, bolstered by strong performance in the materials sector, which is expected to benefit from Chinese stimulus. Global Infrastructure and Property also delivered solid returns, supported by expectations of interest rate cuts. Currency hedging provided additional gains as the Australian dollar appreciated.

The Fidelity Australian Equities Fund was the best performer, surpassing its benchmark by 69 basis points, driven by strong stock selection in IT, materials, and financials. The Fidelity Asia Fund also performed well, outpacing its benchmark by 288 basis points. The GQG Partners Global Equity Fund lagged due to its overweight in Eli Lilly and Novo Nordisk.

The **Index portfolio** returned 5.71%, beating its cash + 4% (annual) target. Australian equities led the performance, with Global Infrastructure also contributing positively. The portfolio benefited from currency hedging as the Australian dollar strengthened against the US dollar.

CFS Aggressive (Super)

The Dynamic portfolio delivered a strong 5.05% return for the quarter, comfortably exceeding its investment objective. Australian equities were the largest contributor, followed by Global Infrastructure and Property, which benefited from expectations of a rate easing cycle. Currency hedging added value as the Australian dollar strengthened.

The Fidelity Australian Equities Fund was the top performer, outperforming its benchmark by 69 basis points, with contributions from IT, materials, and financials. The Fidelity Asia Fund also performed well, beating its benchmark by 288 basis points. The GQG Partners Global Equity Fund was the worst performer, impacted by its overweight positions in Eli Lilly and Novo Nordisk.

The **Index portfolio** returned 5.56%, comfortably exceeding its cash + 4.5% (annual) target. Australian equities were the largest contributors, with Global Infrastructure adding to performance. Currency hedging further boosted returns as the Australian dollar appreciated against the US dollar.

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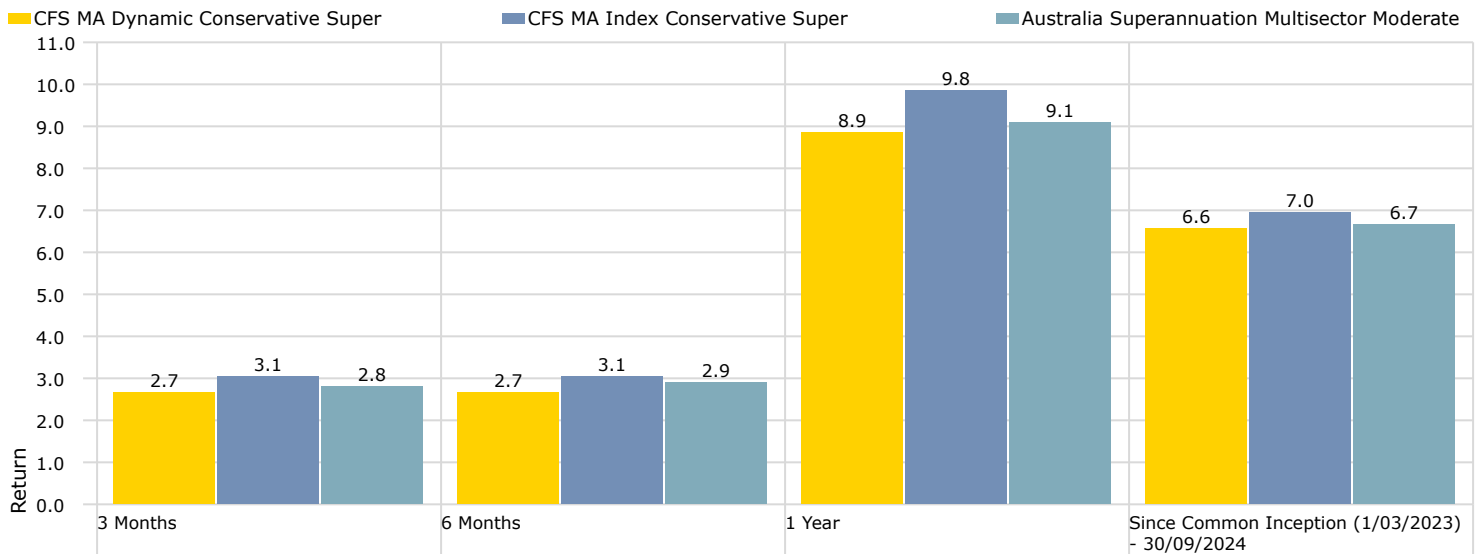
Peer Group Returns

Multisector Moderate Category



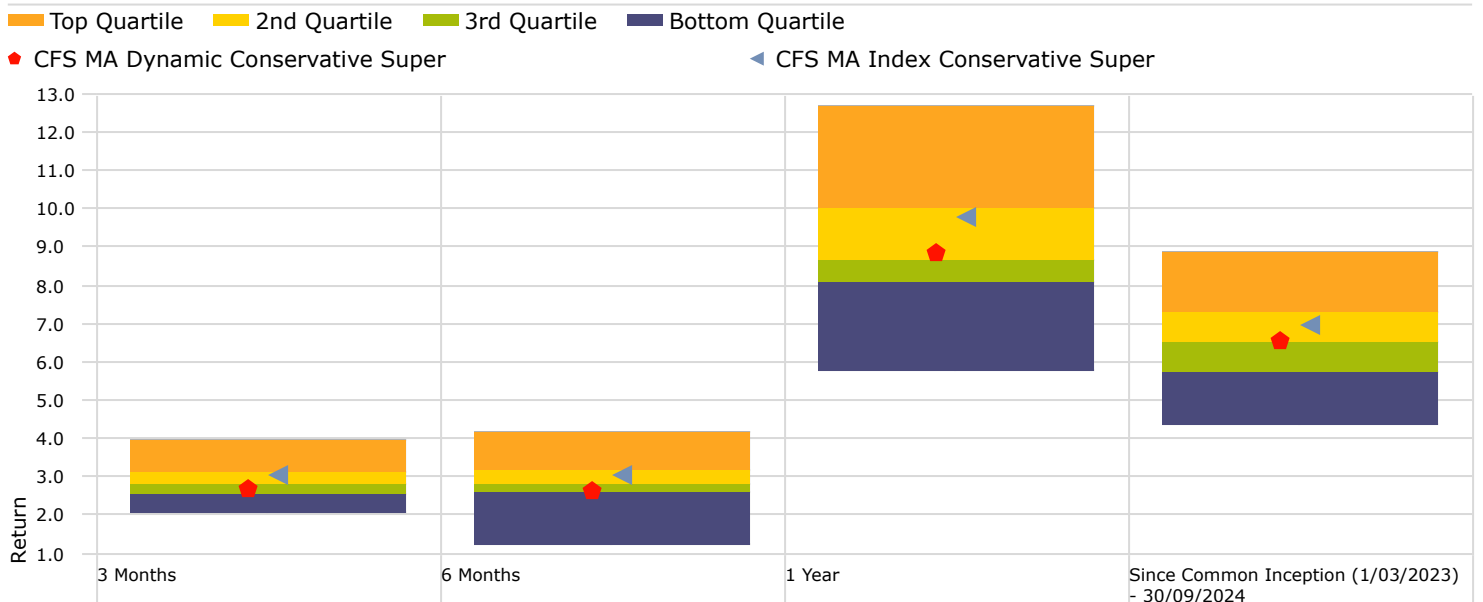
This part of the report aims provide investors an effective way to compare the CFS AZ Sestante portfolios with like options. The Multisector Moderate Category consists of funds that invest in a number of sectors and have between 21% and 40% of their investments exposed to the growth sectors.

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

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Peer Group Returns

Multisector Moderate Category



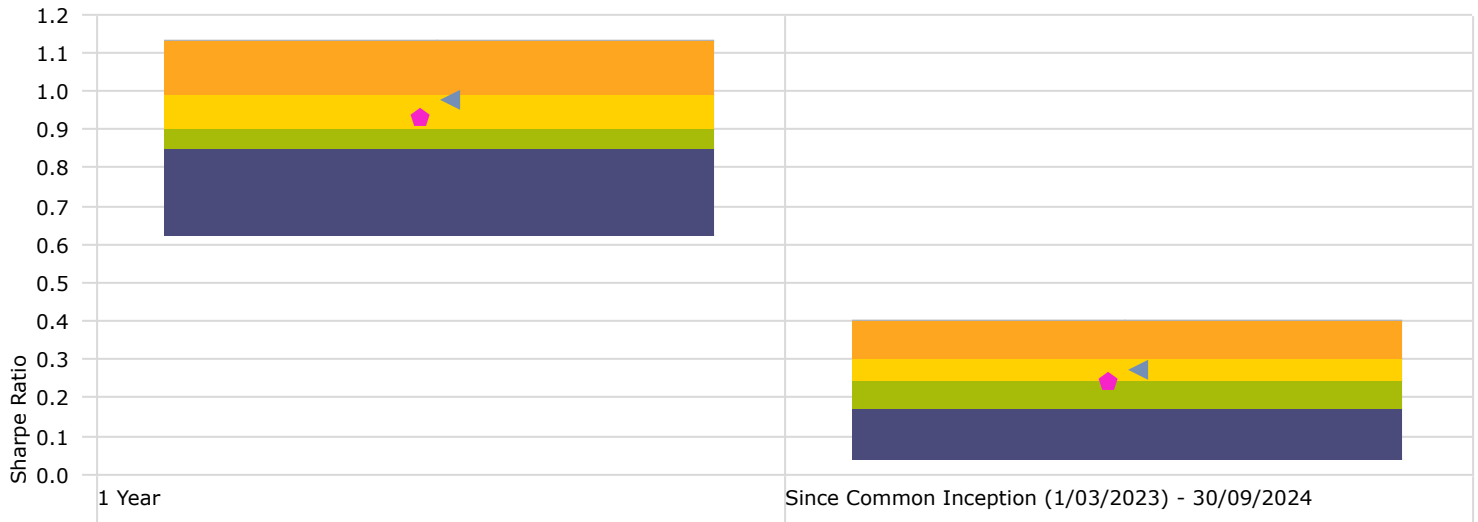
Sharpe Ratio Relative to Peer Group - Conservative

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

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

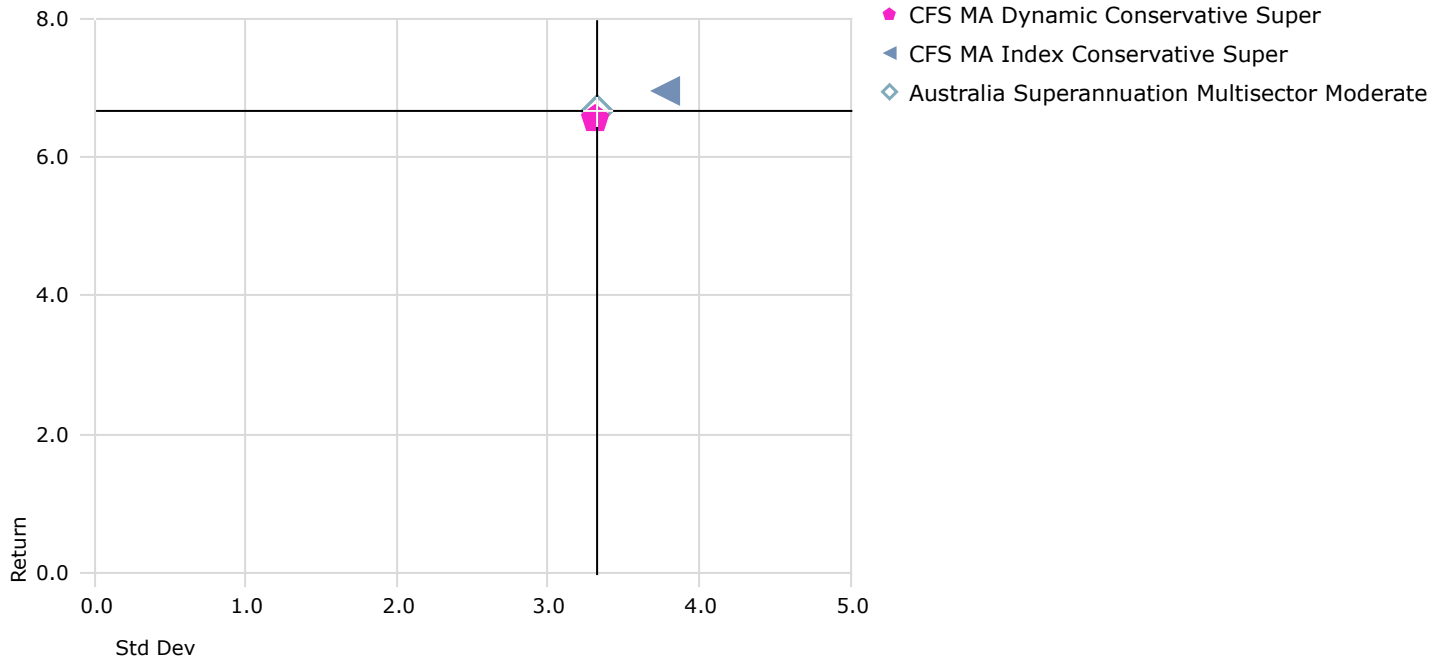
◆ CFS MA Dynamic Conservative Super

◀ 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

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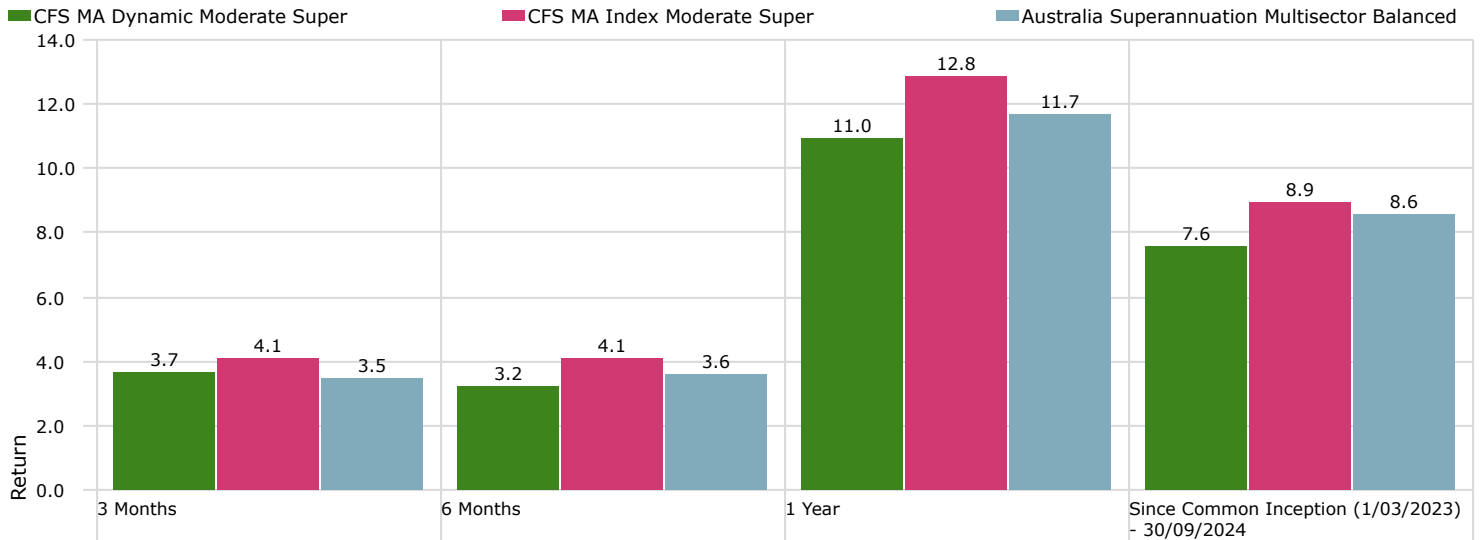
Peer Group Returns

Multisector Balanced Category



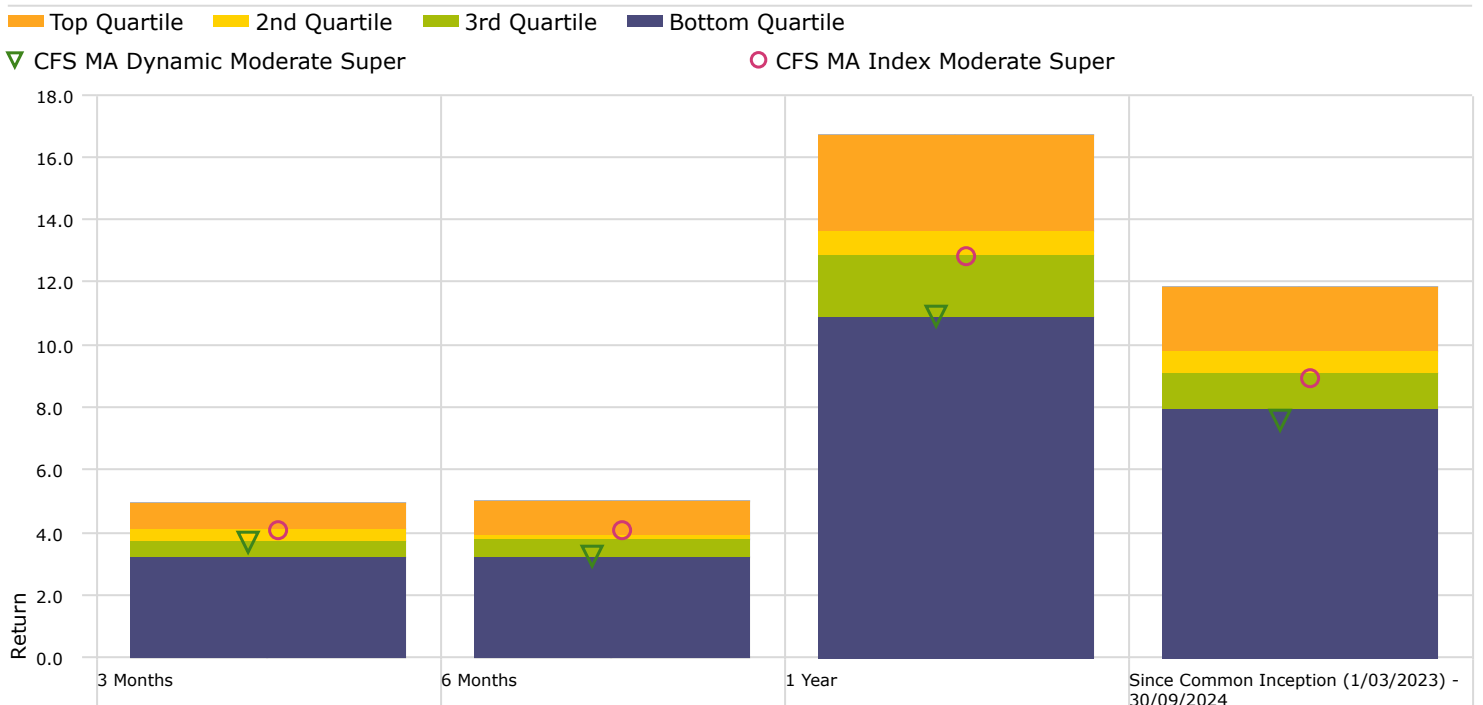
This part of the report aims provide investors an effective way to compare the CFS AZ Sestante portfolios with like options. The Multisector Balanced Category consists of funds that invest in a number of sectors and have between 41% and 60% of their investments exposed to the growth sectors.

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

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Peer Group Returns

Multisector Balanced Category



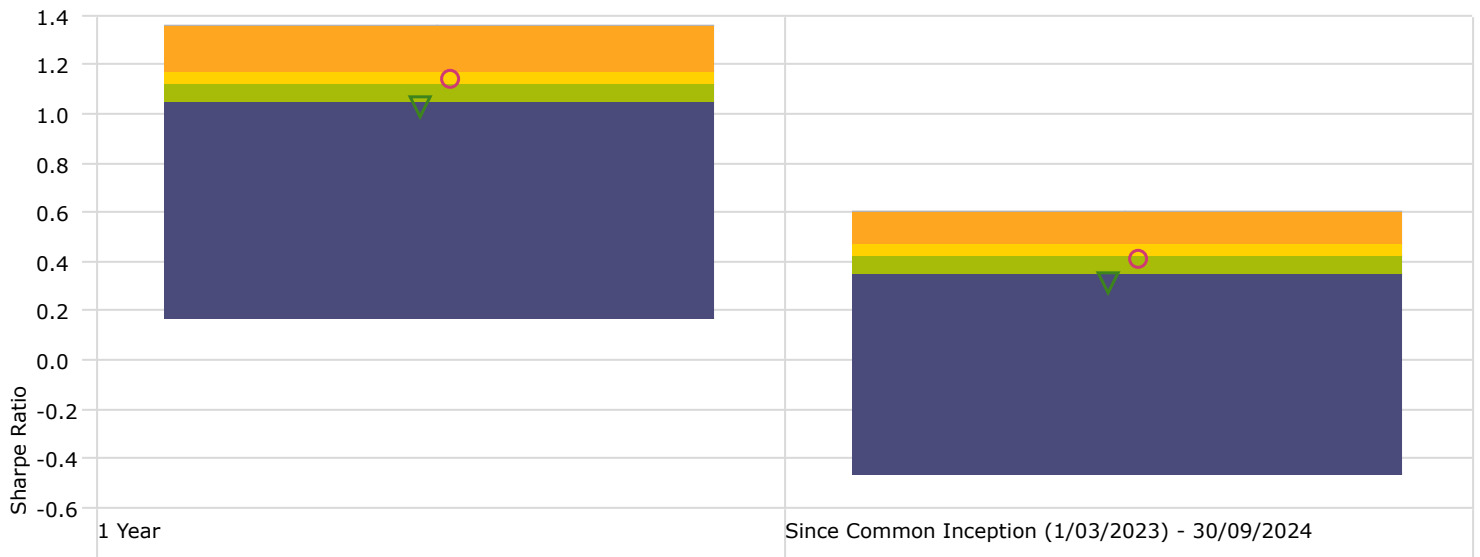
Sharpe Ratio Relative to Peer Group - Moderately Conservative

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

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

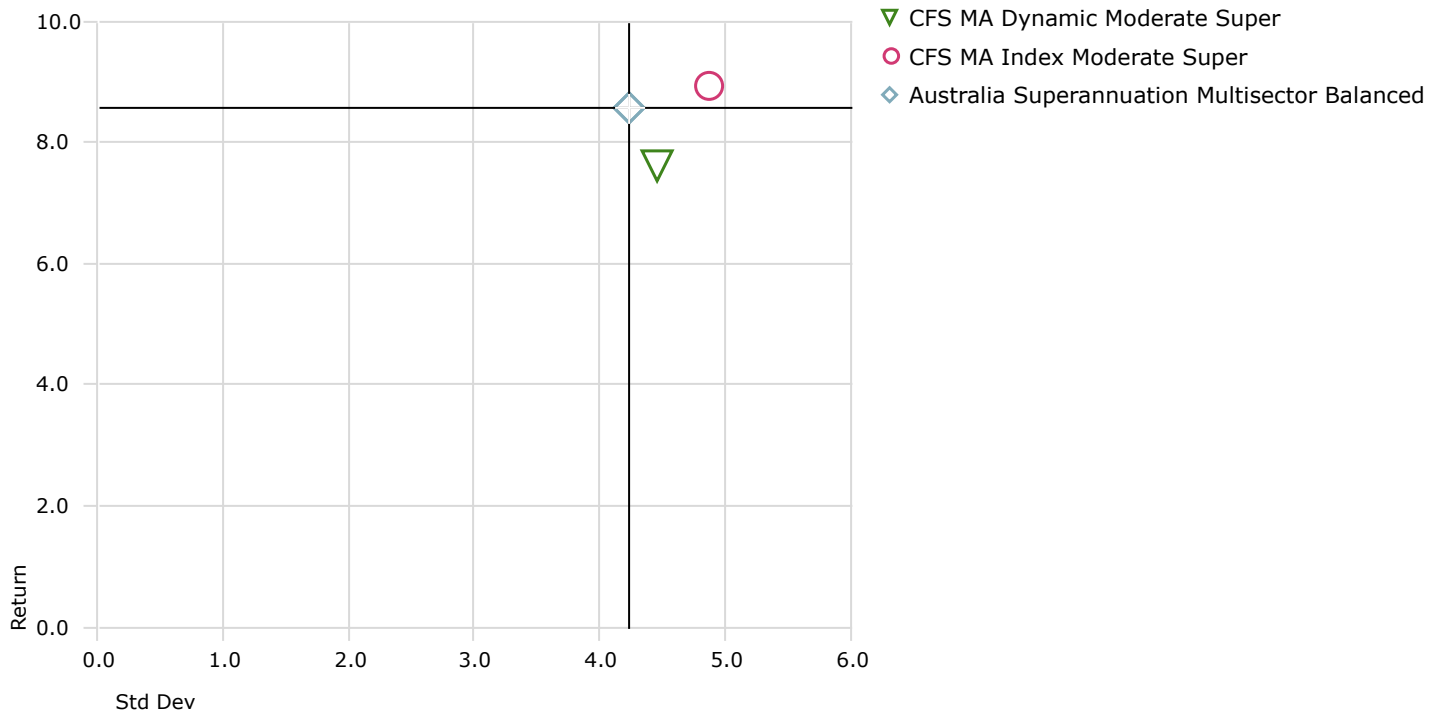
▼ CFS MA Dynamic Moderate Super

○ CFS MA Index Moderate Super



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Risk-Reward (Since common inception)



CFS AZ Sestante Quarterly Report

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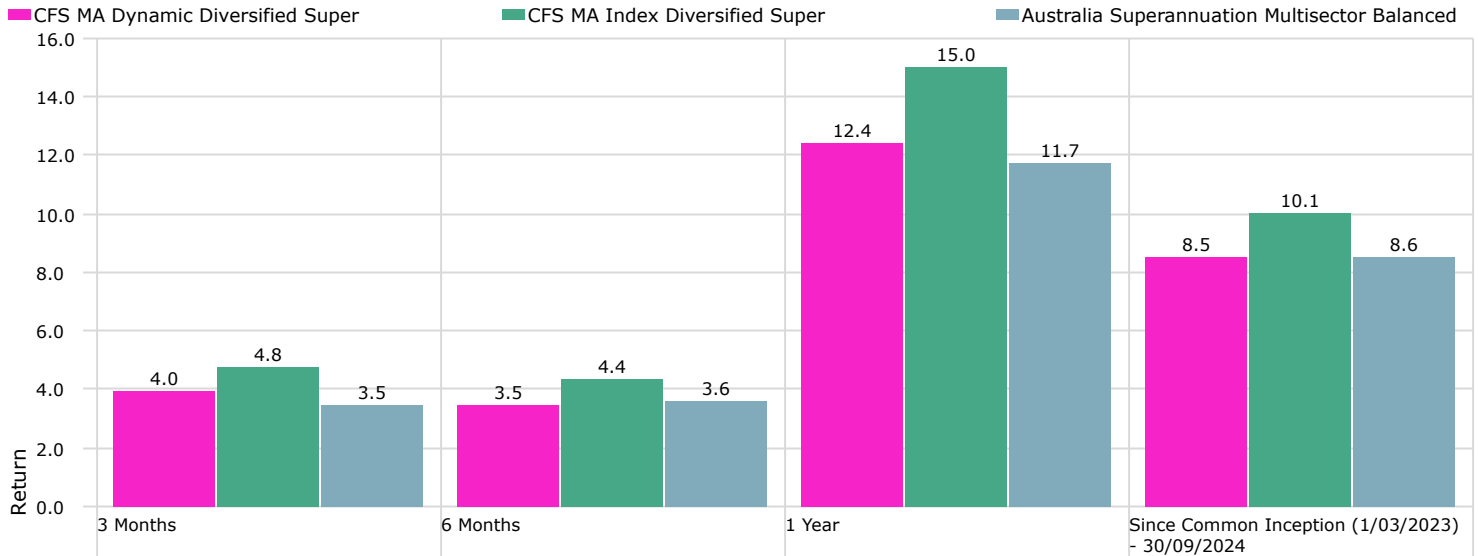
Peer Group Returns

Multisector Balanced Category



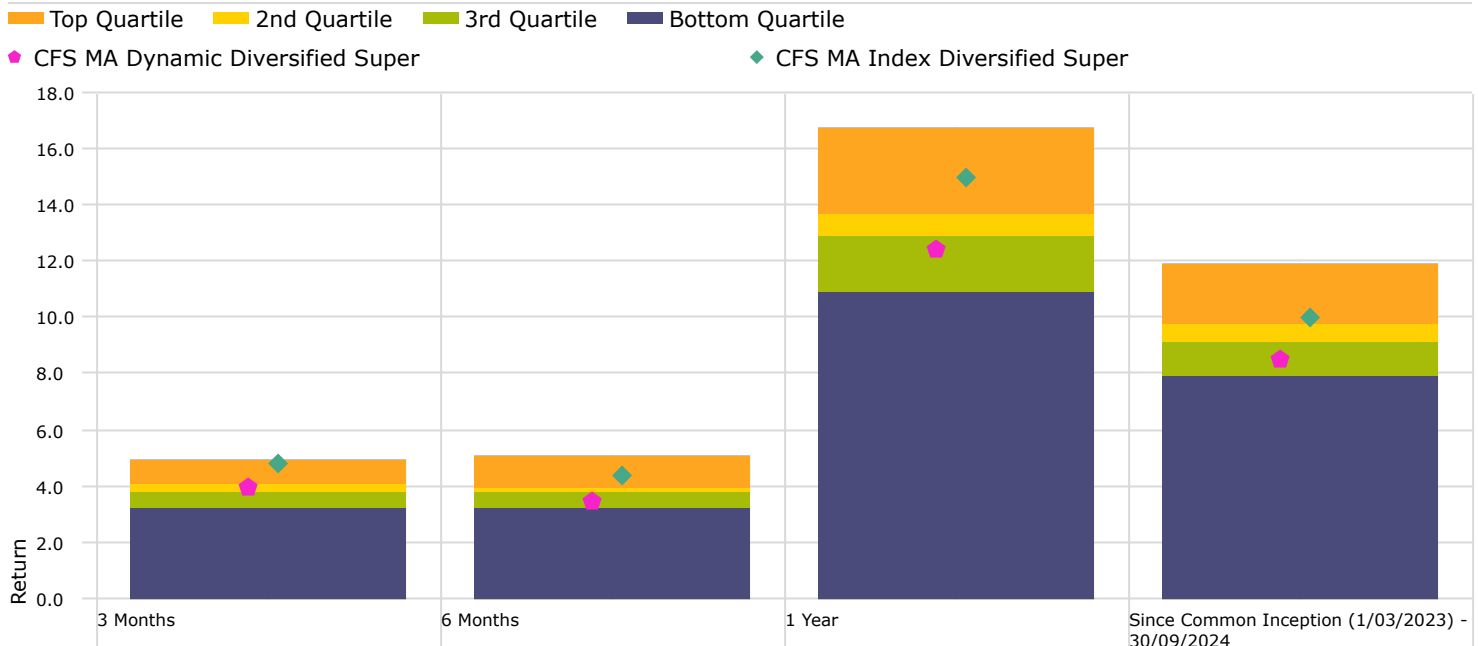
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Sestante Moderately Conservative Portfolios vs Morningstar Peers



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

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Peer Group Returns

Multisector Balanced Category



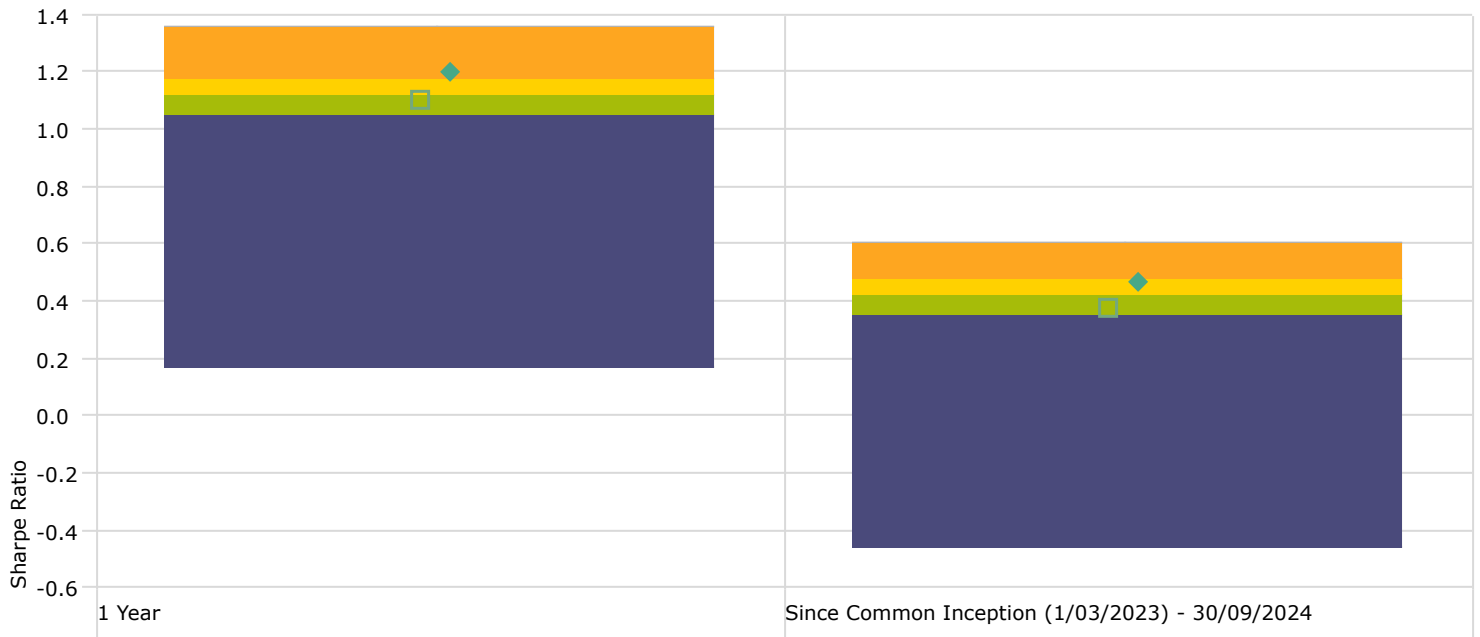
Sharpe Ratio Relative to Peer Group - Moderately Conservative

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

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

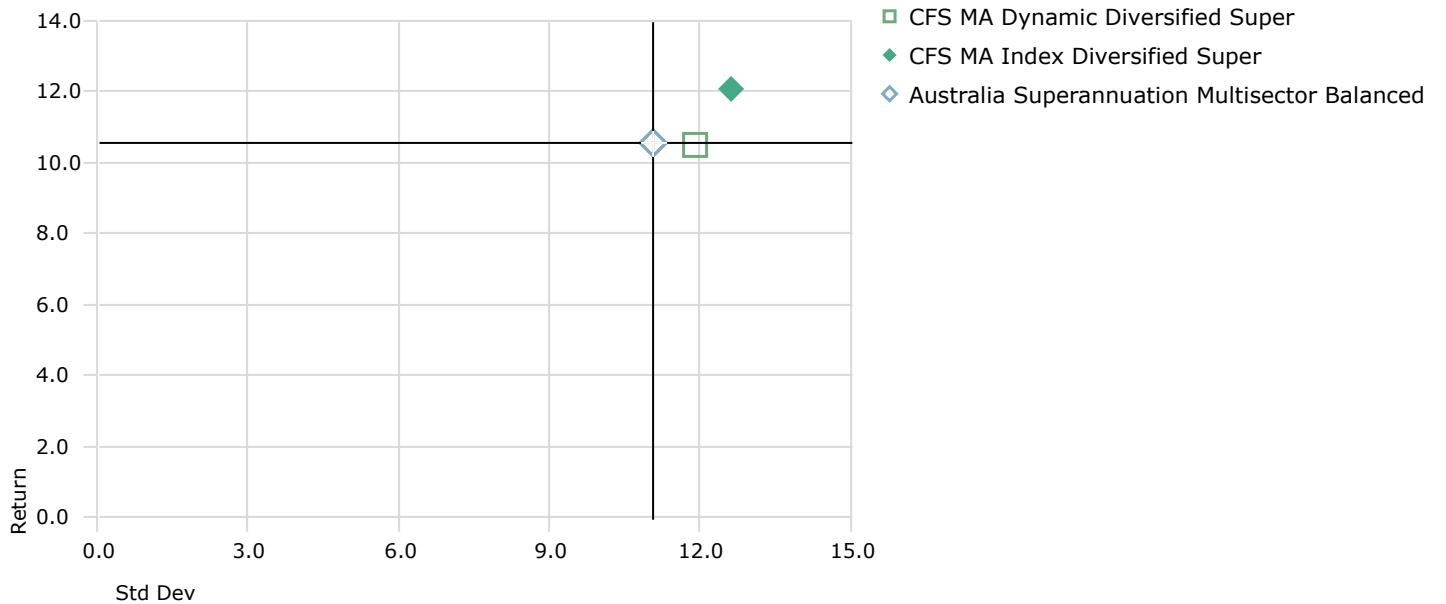
□ CFS MA Dynamic Diversified Super

◆ CFS MA Index Diversified Super



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Risk-Reward (Since common inception)



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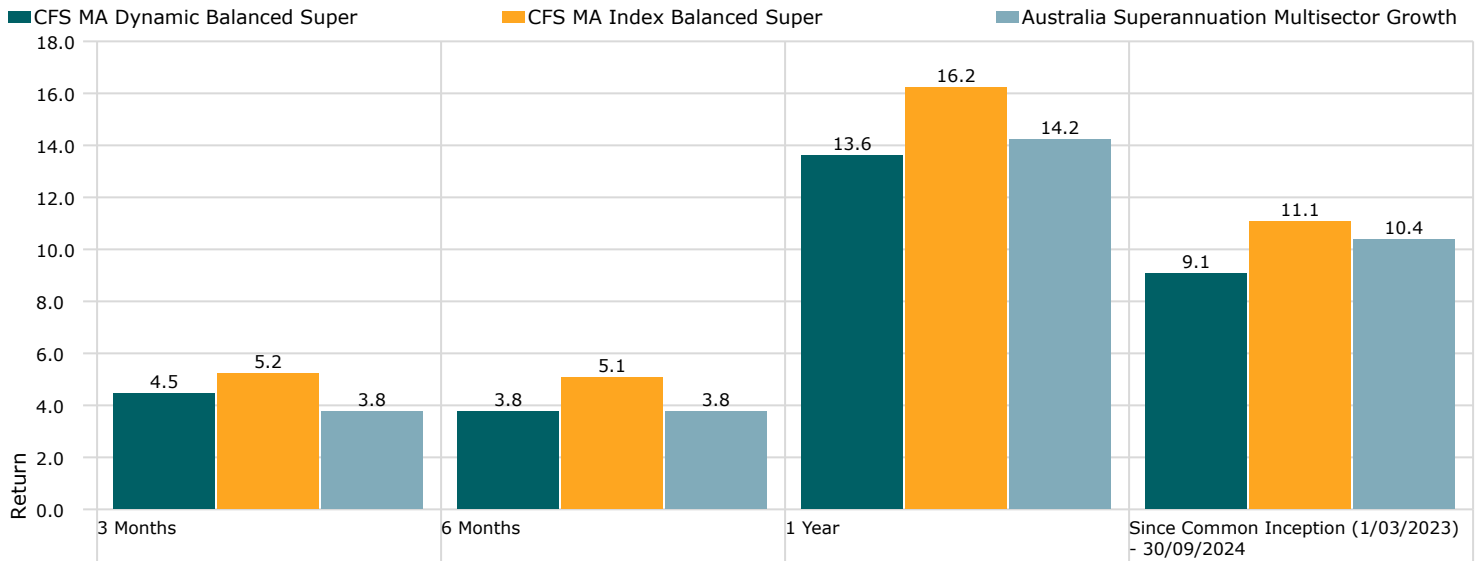
Peer Group Returns

Multisector Growth Category



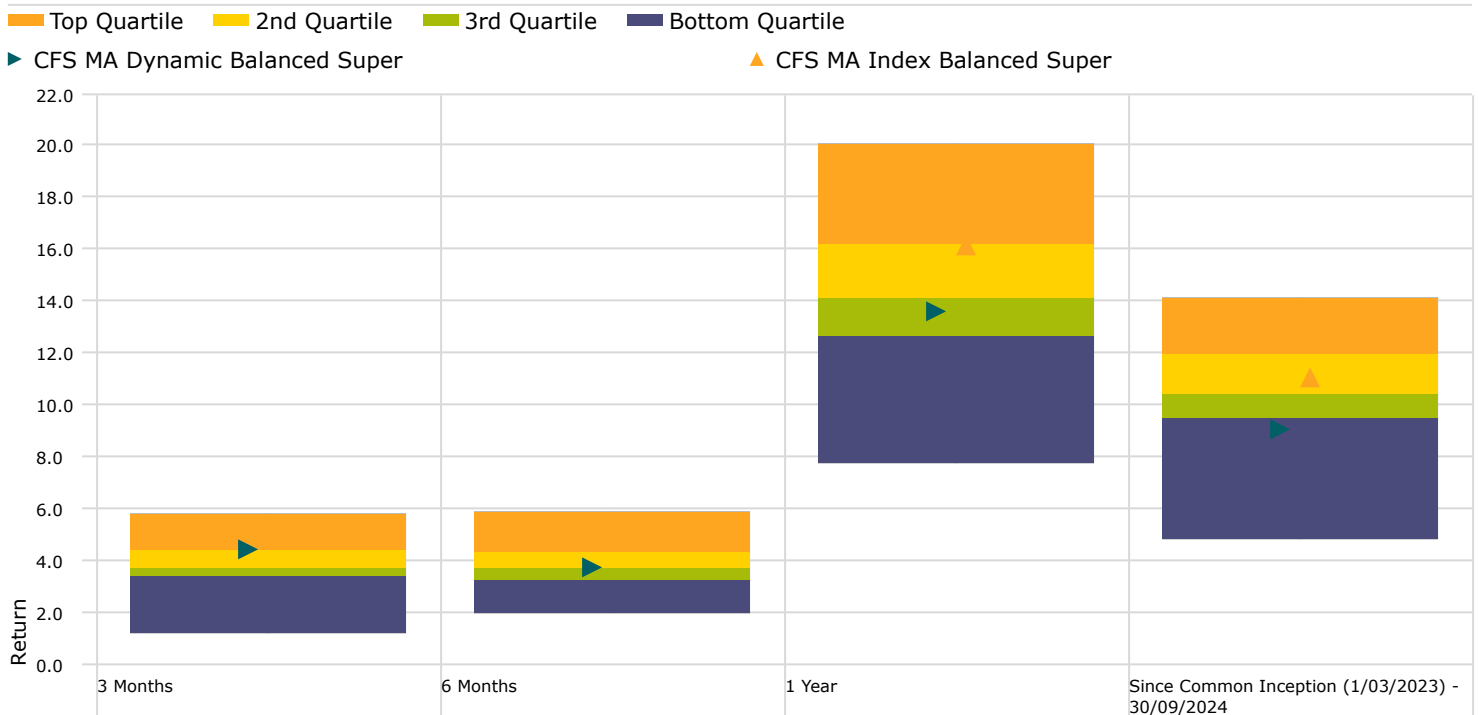
This part of the report aims provide investors an effective way to compare the CFS AZ Sestante portfolios with like options. The Multisector Growth Category consists of funds that invest in a number of sectors and have between 61% and 80% of their investments exposed to the growth sectors.

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

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Peer Group Returns

Multisector Growth Category



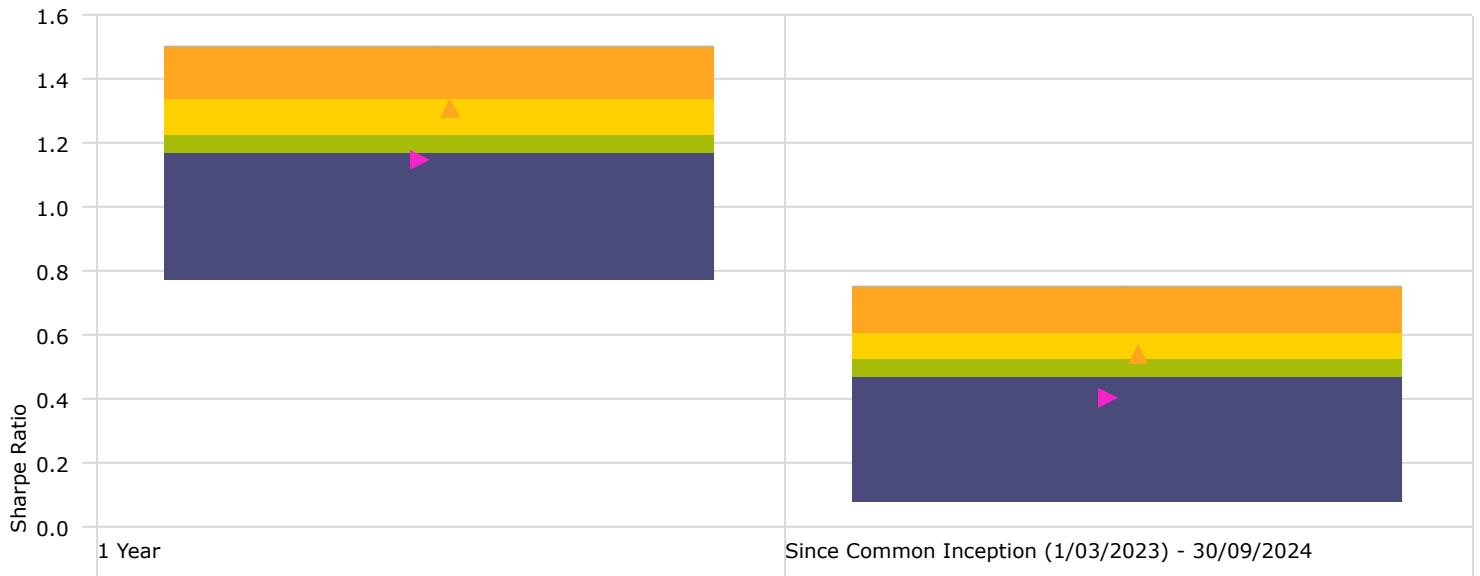
Sharpe Ratio Relative to Peer Group - Balanced

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

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

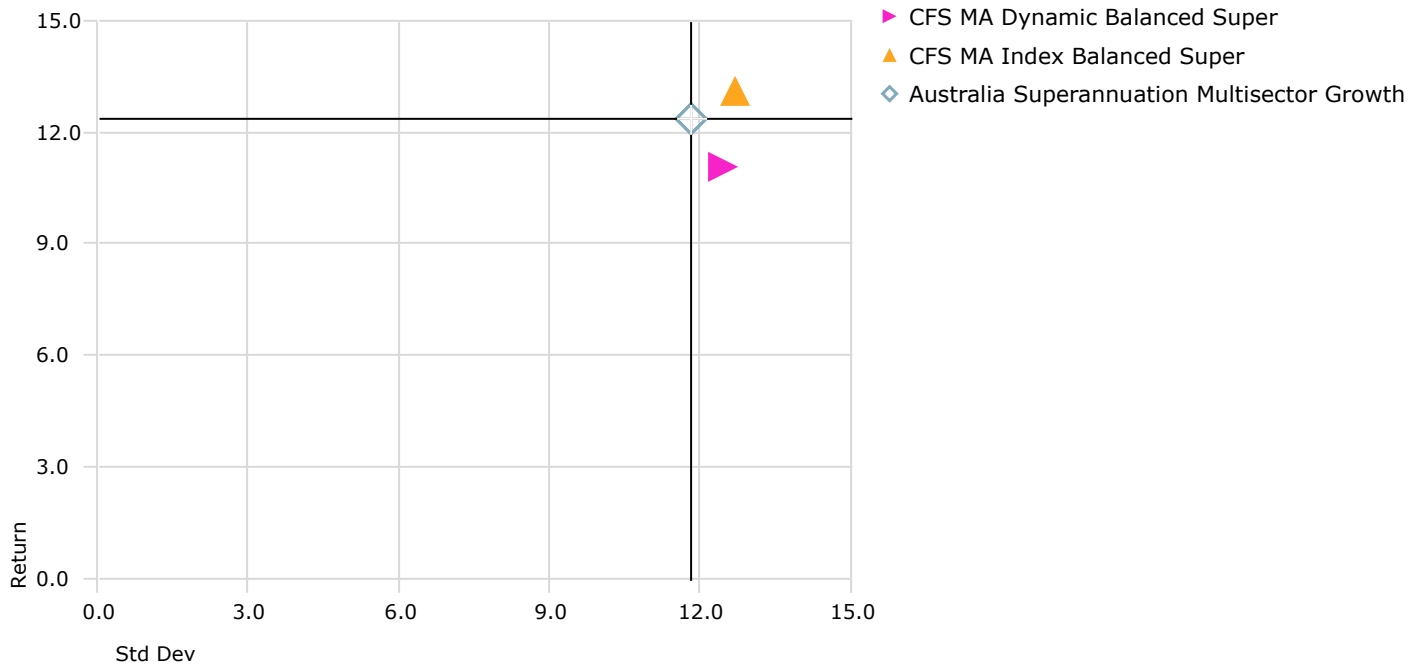
▶ CFS MA Dynamic Balanced Super

▲ CFS MA Index Balanced Super



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Risk-Reward (Since common inception)



CFS AZ Sestante Quarterly Report

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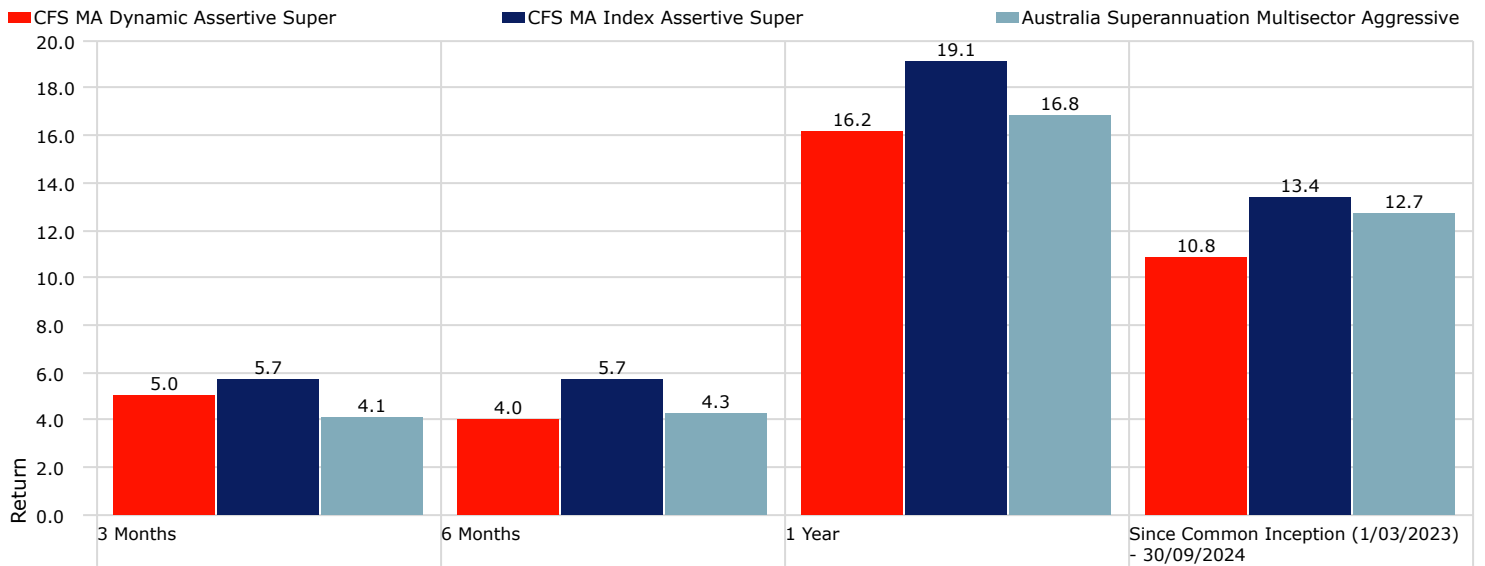
Peer Group Returns

Multisector Aggressive Category



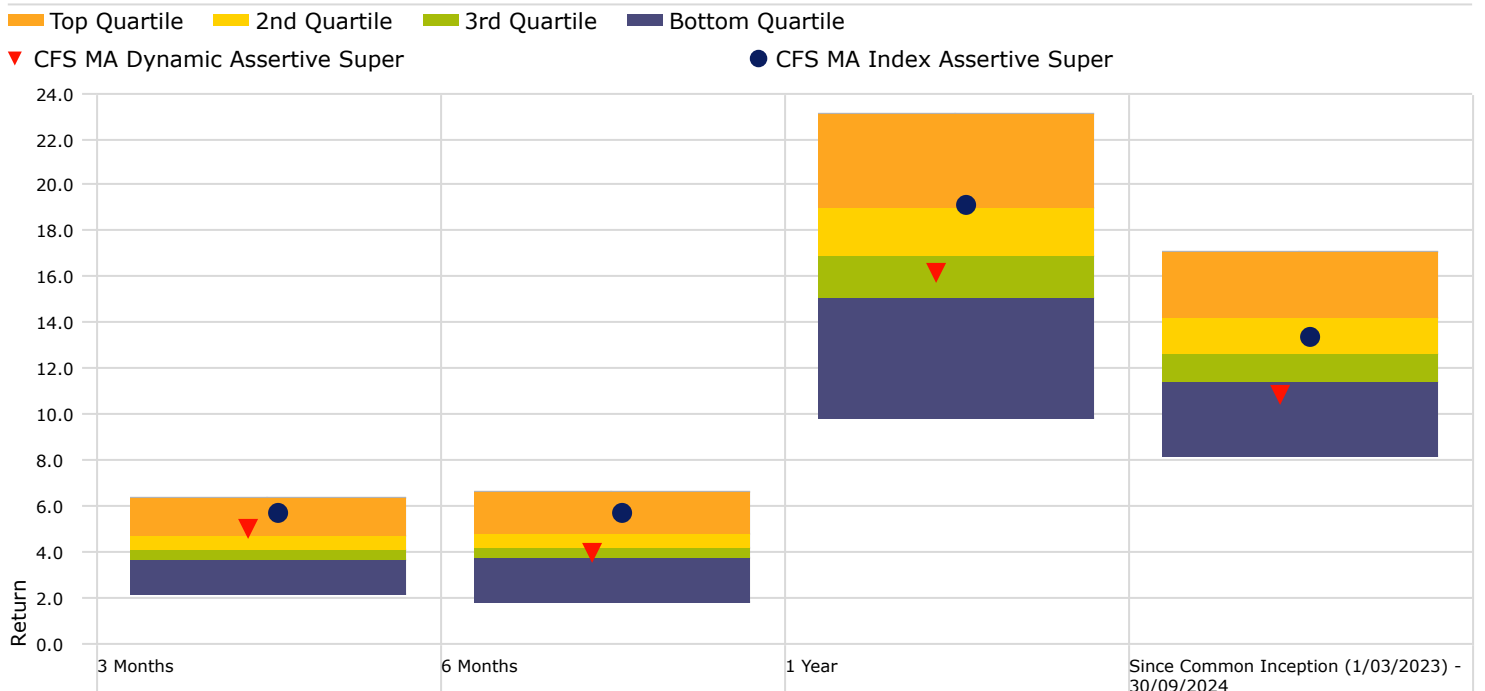
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Sestante Assertive Portfolios vs Morningstar Peers



Sestante Assertive Performance Relative to Peer Group

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



CFS AZ Sestante Quarterly Report

As of 30/09/2024

Peer Group Returns

Multisector Aggressive Category



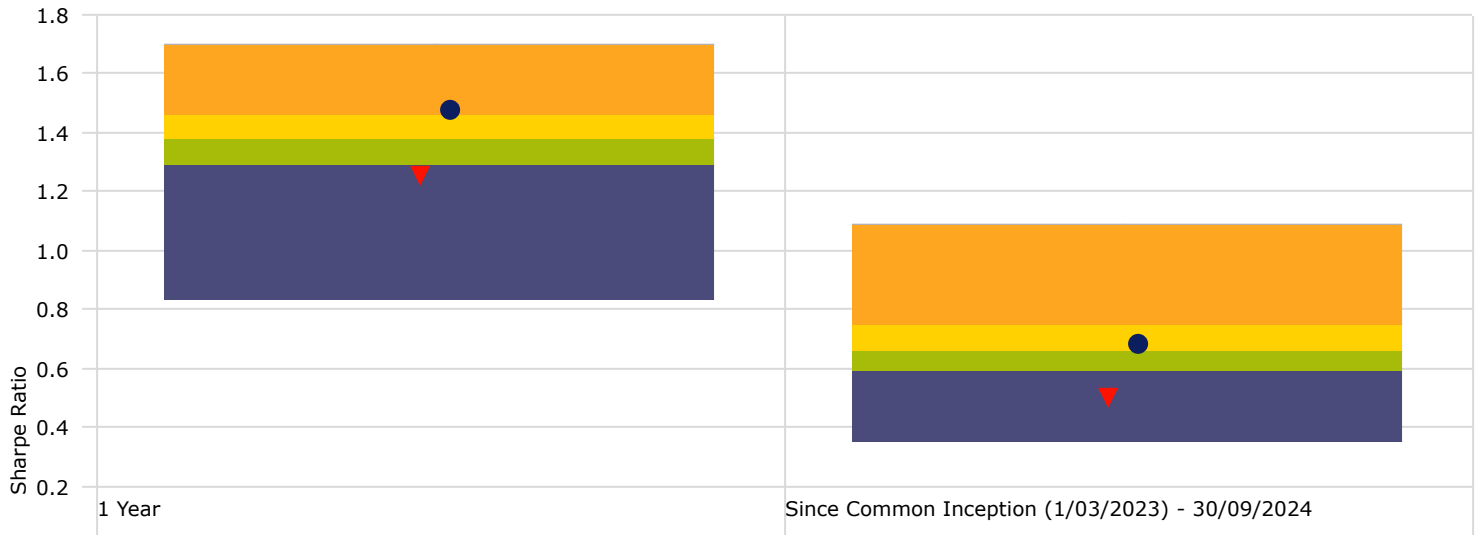
Sharpe Ratio Relative to Peer Group - Assertive

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

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

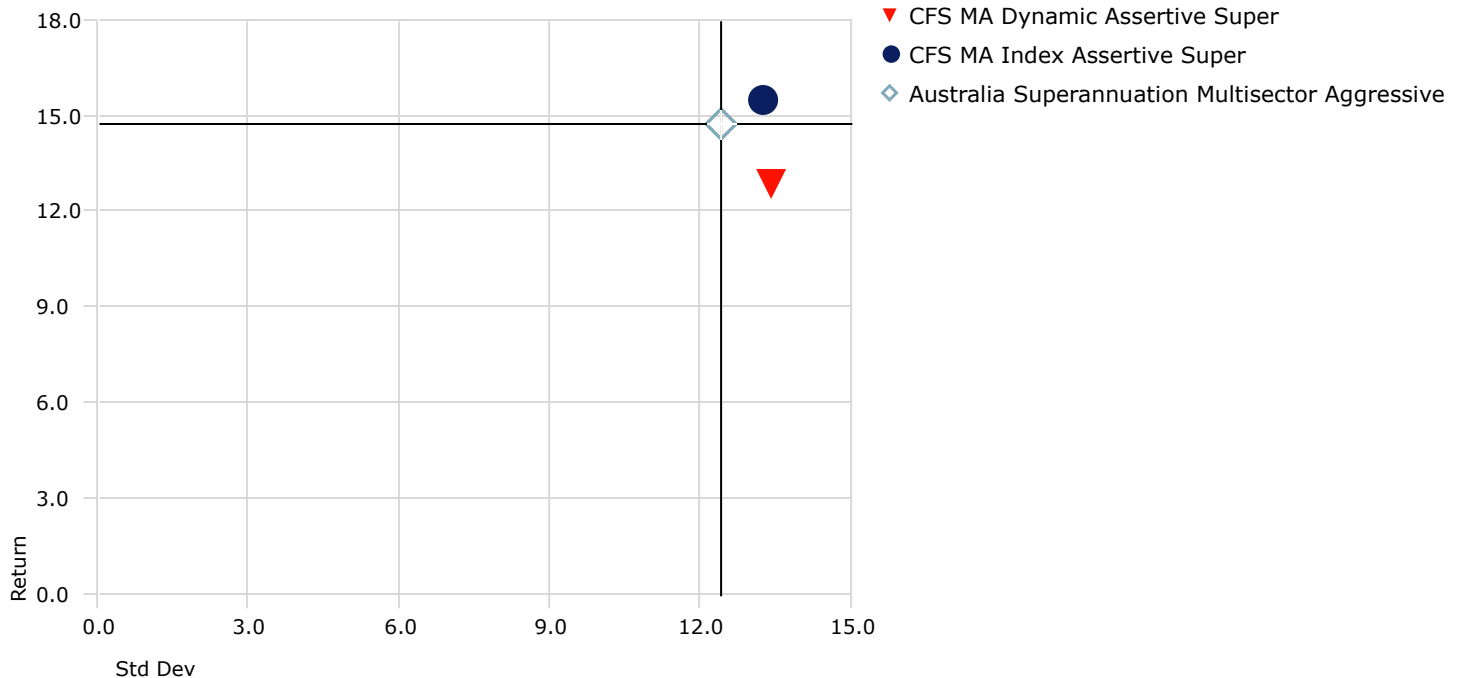
▼ CFS MA Dynamic Assertive Super

● CFS MA Index Assertive Super



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Risk-Reward (Since common inception)



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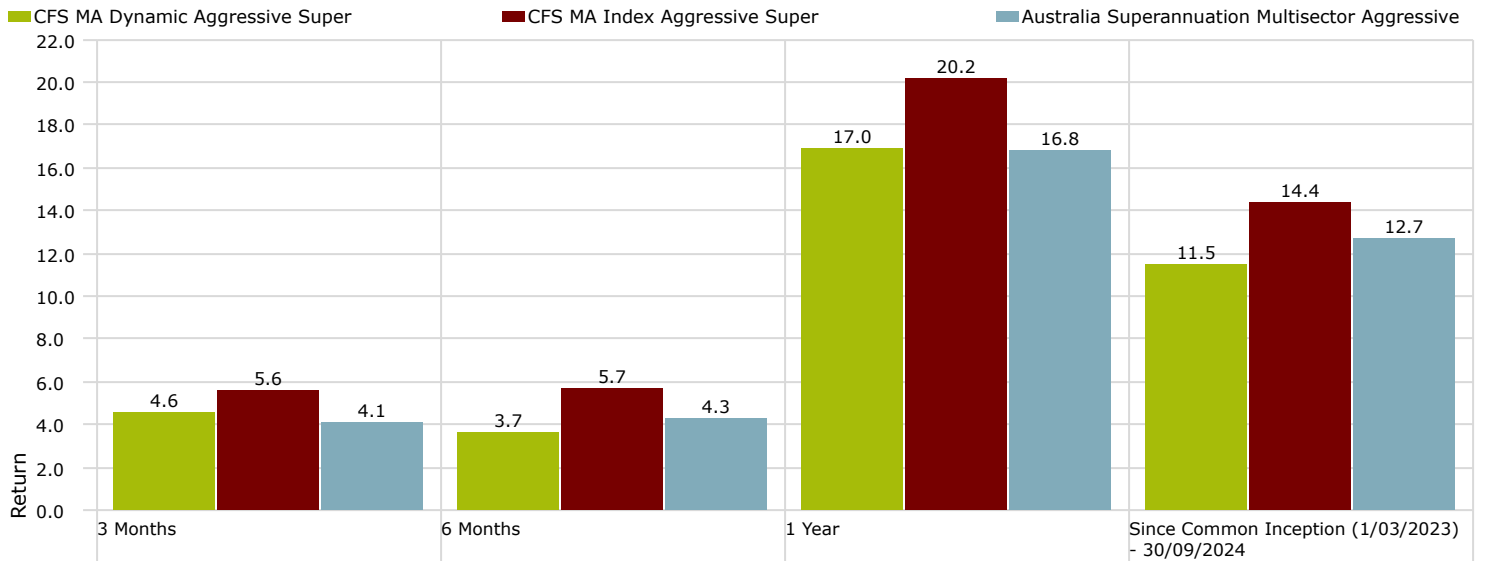
Peer Group Returns

Multisector Aggressive Category



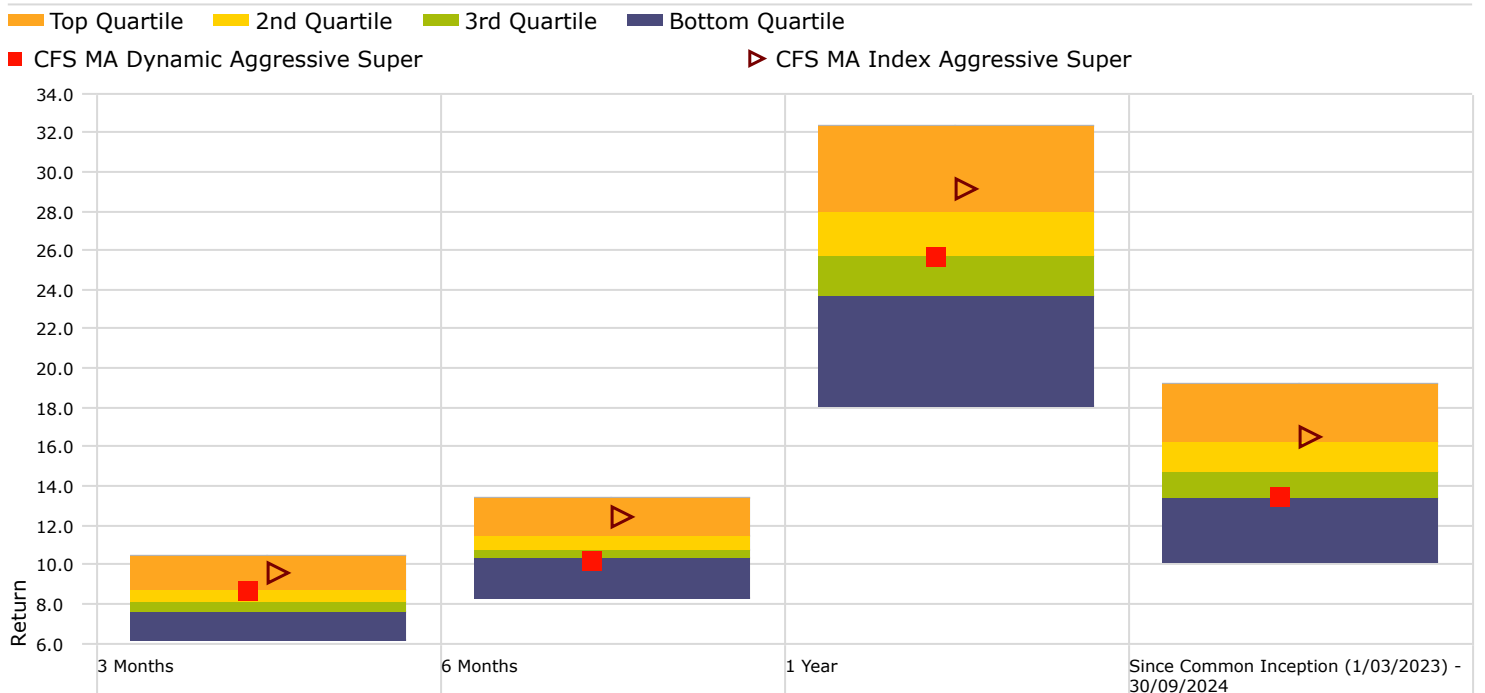
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Sestante Aggressive Portfolios vs Morningstar Peers



Sestante Aggressive Performance Relative to Peer Group

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



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Peer Group Returns

Multisector Aggressive Category



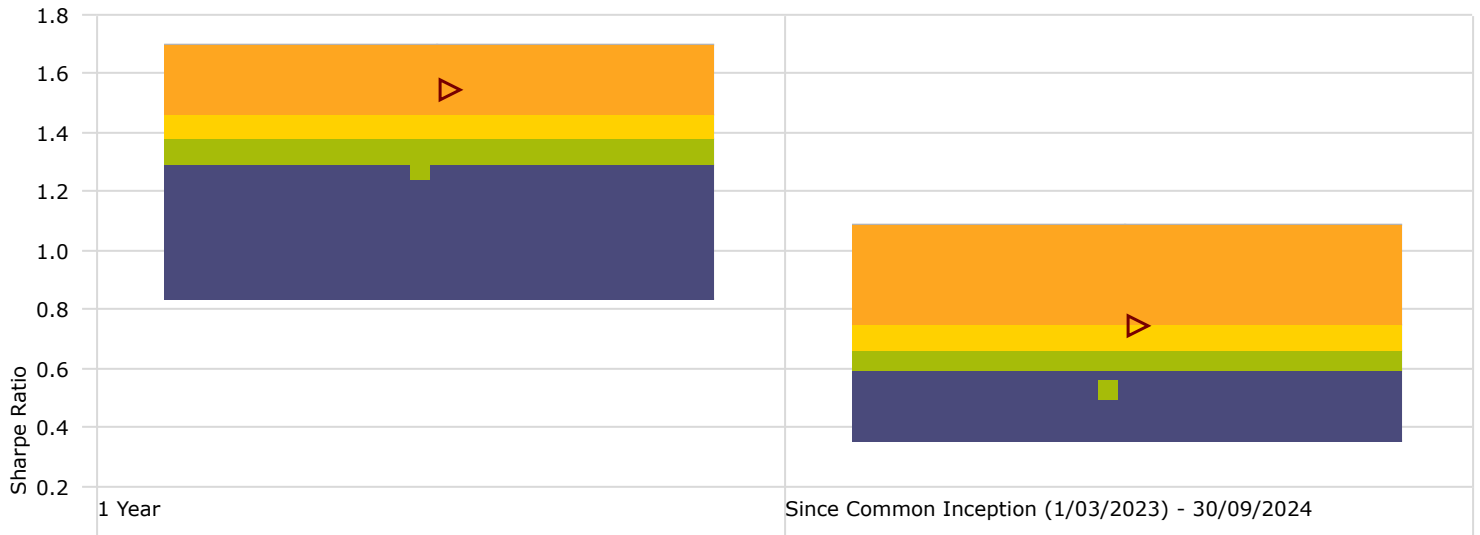
Sharpe Ratio Relative to Peer Group - Aggressive

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

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

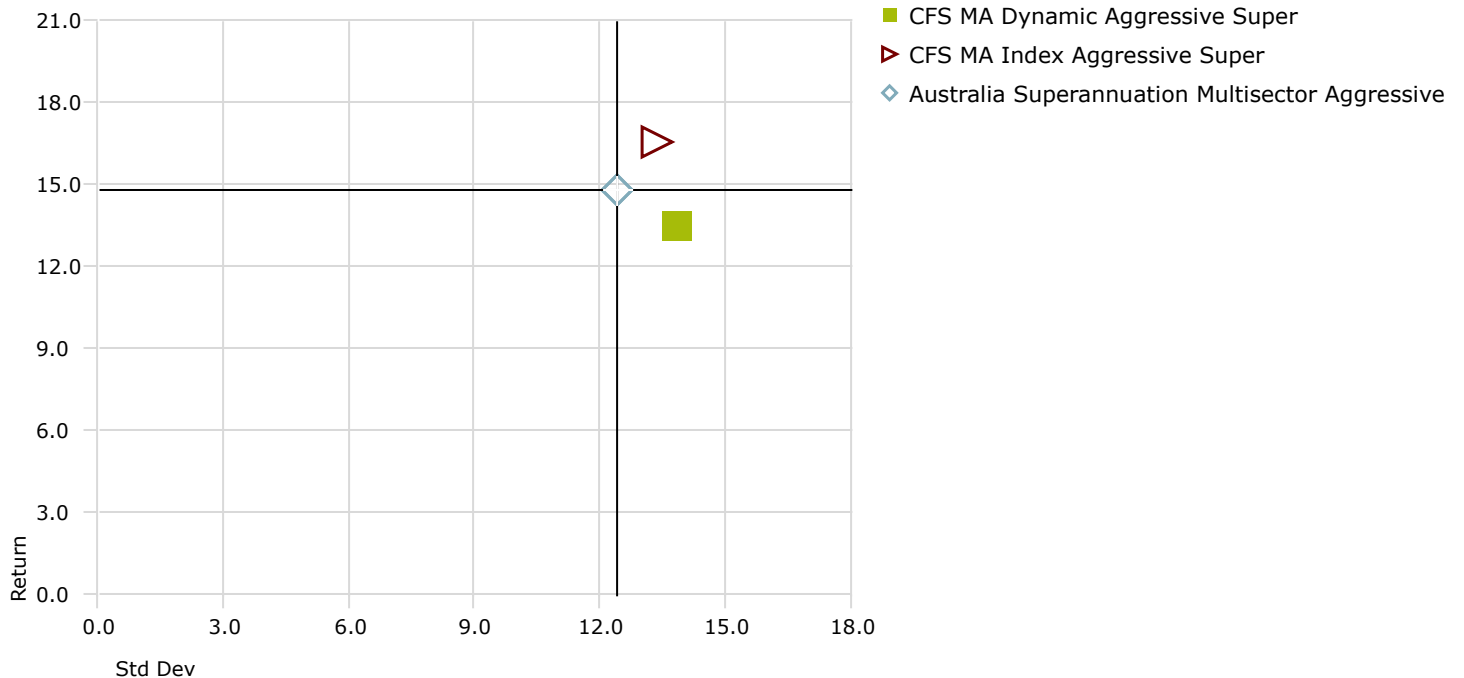
■ CFS MA Dynamic Aggressive Super

▷ 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 | www.azsestante.com

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