

Quarterly Investment Update

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Mar 2024

AAN Asset Management Pty Ltd

10 April 2024

Investor Letter

Dear Investor,

In early 2024, the US stock market demonstrated remarkable resilience, with a bullish trend continuing despite concerns about prolonged higher interest rates. The first quarter saw significant gains, with the S&P 500 returns exceeding 10%, culminating in nearly 30% total returns over the past 12 months, with almost all of these gains occurring since 1 November. Technology stocks, fuelled by the artificial intelligence boom, and value stocks led the charge, while the bond market grappled with the expectation of delayed Federal Reserve rate cuts. This dynamic period in the markets underscores the robust performance of the economy, which so far has managed to avert a recession that many had anticipated, thanks in part to strong GDP growth and a robust labour market, challenging the earlier consensus that the Fed would commence rate cuts as early as March 2024.

The resilience of the U.S. economy can be attributed to several unique factors throughout the Federal Reserve's recent aggressive monetary policy tightening cycle. The economy sidestepped the recession forecasted for 2023, benefiting from solid private sector balance sheets, labour hoarding due to pandemic-induced workforce shortages, and a staggered recovery across different sectors that precluded any singularly adverse quarter. Immigration boosts and an unexpectedly expansionary fiscal policy further cushioned the economy against the potential blow from heightened borrowing costs. Despite eased financial conditions and reduced near-term recession risks, uncertainties such as the potential stress from commercial real estate on small banks, underscore that the threat of recession, while diminished, is not entirely off the table.

“An irrational drop in price makes a stock cheaper. A rational drop in price makes it more expensive.”
- Gautam Baid

The inflation narrative remains complex, with initial 2024 figures disrupting the market and U.S. Federal Reserve's confidence in a steady march towards the 2% inflation target. Resilient economic growth and specific sectors accelerating have stoked fears of persistent, if not escalating, inflation. However, a detailed look at the economy reveals that the typical inflation drivers have been offset by a faster expansion of the supply side, including healing supply chains, increased workforce participation due to immigration, and recovering worker productivity.

These developments suggest that despite tight labour markets, the economy may continue to balance strong growth with moderating inflation, navigating through what has been termed an "immaculate disinflation."

Credit market conditions have also shown signs of improvement, with credit spreads tightening and a notable shift in bank lending practices. The Senior Loan Officer Opinion Survey indicated a potential leveling off in the tightening of standards for commercial and industrial loans, pointing towards a fragmented credit landscape that may affect large and small firms differently. This scenario is further complicated by the ongoing challenges posed by high interest rates, especially for borrowers with floating rate liabilities, signalling a need for strategic financial adjustments to navigate a potentially higher-for-longer rate environment.

The synthesis of these factors paints a picture of a U.S. economy and financial market at a crossroads. The resilience against a recession, coupled with the counterbalance of robust economic growth against inflationary pressures, sets a nuanced stage for investors and policymakers alike. The anticipation of Federal Reserve rate cuts, the adaptation to a divided credit market, and strategic adjustments to corporate leverage in response to interest rate challenges reflect a broader economic environment that remains ripe with both opportunities and risks.

Navigating this landscape demands a nuanced understanding of the interplay between monetary policy, economic indicators, and market dynamics. The resilience of the stock market, despite the spectre of persistent inflation and higher interest rates, underscores the complex calculus investors must engage with. Similarly, the bond market's cautious stance in anticipation of Federal Reserve policy shifts speaks to the broader uncertainty permeating financial markets.

The economic resilience observed through strong private sector fundamentals, labour market dynamics, and fiscal policies suggests a buffer against immediate downturns, yet vigilance remains crucial. As analysts project a cautiously optimistic outlook, emphasizing a pro-risk stance while hedging against potential inflationary pressures and interest rate risks, the strategic positioning within equities and credit markets suggests a preference for quality and diversification.

Meanwhile, with a significant amount of money in low-risk, short-duration investments, investors seem to be waiting for the right moment to diversify their portfolios, likely adopting a conservative approach initially. Active management and thorough fundamental analysis are crucial in this evolving market landscape, as they enable investors to identify and capitalize on emerging trends and undervalued sectors. Such strategies are essential for navigating the changing market conditions and seizing investment opportunities in times of uncertainty and change.

Ultimately, the evolving economic narrative of 2024 is marked by its complexity and the balancing act between fostering growth and managing inflation, within a backdrop of cautious monetary policy anticipation. As the year unfolds, the strategies employed by investors, businesses, and policymakers will continue to adapt to the dynamic interplay of these factors, aiming to sustain the momentum of the current economic expansion while preparing for the inevitable challenges that lie ahead.

Domestically, economic growth is anticipated to be subdued in the near term, as inflation and the aftermath of prior interest rate hikes dampen demand, particularly consumer spending. This tempered outlook stems from declines in real income over recent years, which are expected to suppress consumption, especially in the first half of 2024. The economy faces further headwinds from high construction costs and skilled labour shortages, affecting new building approvals and dwelling investment, although a robust pipeline of construction work and factors like strong population growth and a rebound in tourism are expected to underpin overall investment levels. Despite robust demand, it currently surpasses the economy's supply capacity, contributing to inflationary pressures and a period of growth below the trend, anticipated to aid in rebalancing demand and supply. The cash rate is predicted to remain at its current peak until mid-2024, with the impacts of monetary policy tightening and high inflation being felt unevenly across households.

As the economy moves forward, a gradual uptick in GDP growth is forecasted, primarily fuelled by an increase in household consumption and public demand. This improvement in consumption is likely supported by a recovery in real income growth as inflation eases and dwelling investment is expected to climb from 2025 onwards due to robust population growth and a surge in housing demand. The labour market is poised to adjust towards conditions consistent with full employment in the forthcoming years, with nominal wages growth remaining strong in the short term and then moderating as the labour market softens. This economic projection hinges on the assumption that labour productivity growth will return to its long-run average, essential for achieving the inflation target, albeit with the acknowledgment of potential risks associated with weaker-than-expected productivity enhancements.

USA

In Q1, U.S. equities, notably the S&P 500, achieved all-time highs with a 10.6% total return, despite a shift from expectations of a dovish Federal Reserve pivot to a more hawkish monetary policy stance. Initially, markets anticipated up to seven rate cuts in 2024, but this outlook adjusted to just three cuts amid signs of economic strengthening and a deceleration in disinflation. The GDP growth exceeded expectations, and the labour market showed resilience, contributing to an optimistic economic scenario. Although some inflation measures indicated rising prices early in the year, the Federal Reserve's preferred inflation gauge showed a slight cooling. Despite smaller and micro-cap stocks leading in the final two months of 2023, they lagged behind large-cap indices in Q1. Nonetheless, the markets remain hopeful about an upcoming cycle of rate cuts, reflected in the strong performance across equity benchmarks during this period.

The table below highlights the month on month and Q1 change across several US equity markets. There are a couple of key takeaways:

US Benchmarks – Q1 2024

US Benchmarks	Q1 2024	March	Feb.	Jan.	5M % Chg. (Nov. - March)
Russell MicroCap	4.7%	2.5%	6.2%	-3.9%	31.0%
S&P Midcap 400	9.9%	5.6%	5.9%	-1.7%	29.7%
Russell 2000	5.2%	3.6%	5.7%	-3.9%	28.7%
Nasdaq Comp.	9.3%	1.8%	6.2%	1.0%	28.0%
Nasdaq 100	8.7%	1.2%	5.4%	1.9%	27.2%
S&P 500	10.6%	3.2%	5.3%	1.7%	26.1%
NDX Equal Weight	5.7%	1.2%	3.9%	0.6%	25.9%
SPX Equal Weight	7.9%	4.5%	4.2%	-0.8%	25.8%
Dow Jones Industrials	6.1%	2.2%	2.5%	1.3%	21.6%

*** Percentages represent total return

Source: Nasdaq

January saw micro, small and mid cap companies struggle against the NASDAQ 100 and S&P500. February and March highlights a contrasting outcome.

Over the quarter all US benchmarks represented are positive, despite their differing journey's.

- Numerous U.S. equity benchmarks reached new all-time highs
- S&P 500 registers historic 5-month gain.

Europe

European markets concluded the first quarter of 2024 on a positive note, rising by 6.8%, buoyed by cooling inflation pressures. The Stoxx 600 index achieved a new all-time high, surpassing 513 points, marking its best quarter in a year and the most robust month since December 2023, according to LSEG data. Amidst this upward trend, travel stocks led the gains, increasing by 9.5%, while utilities experienced a slight dip. JD Sports Fashion saw a significant share price jump of 16% following a trading update that alleviated investor concerns about the company's future performance. Concurrently, economic data revealed the UK entering a recession in 2023, with a 0.3% GDP contraction in Q4, even as Germany reported a slight increase in employment for February.

Japan

On March 19, 2024, the Bank of Japan (BoJ) marked a pivotal shift in its monetary policy by ending the negative interest rate policy (NIRP) and slightly raising rates to a range of 0.0%–0.1%. This move, signalling confidence in overcoming deflation, is expected to gradually strengthen the yen against the dollar, though the initial impact may be muted due to prior signalling of the policy shift. The anticipation is for a conservative rate hike to 0.25% by year's end, aligning with rising inflation expectations that buoyed the Japanese equity market. The long-standing low and negative rates facilitated a substantial carry trade, seeing Japanese yen loans to foreign investors surge by US\$460 billion over three years. However, the potential unwinding of these trades in response to yen strengthening could inject volatility into global markets. Nonetheless, the policy shift is seen as a boon for Japanese banks, industrials, and consumer sectors, promising improved profitability, investment revival, and increased consumer spending. Despite the optimism, there's caution over potential adverse reactions in the USD-JPY exchange rate and the global financial markets due to the possible repatriation of overseas investments by Japanese investors.

Emerging Markets

Emerging market (EM) economies are projected to grow at 3.9% in 2024, slightly down from 4.3% in 2023, yet still showing robust expansion. The growth differential between EMs and developed markets, or EM growth alpha, is expected to increase to 2.9% in 2024, up from 2.6% in 2023, marking the highest level since 2013, primarily driven by Asian countries, while Latin American economies may see a slowdown. This anticipated growth comes amidst an investor-friendly emerging market inflation trend, with headline inflation easing due to lower commodity prices, though services inflation stays above pre-2020 levels. This disinflationary trend potentially allows EM central banks more leeway to cut rates, though market expectations for 2024 rate cuts may have peaked unless unforeseen economic challenges arise. The U.S. inflation trajectory, trending downward, bodes well for EM debt (EMD) assets, yet the possibility of U.S. rate cuts could hinge on further labour market softening or economic downturns, signalling a cautious outlook for investors. Nonetheless, EM central banks might independently pursue rate reductions, supported by ongoing disinflation within their economies.

Australia

The past decade's investment landscape has been characterized by abnormal trends due to efforts to avert financial crises, resulting in unusually low interest rates and heavy monetary intervention. This environment has skewed the market, favouring speculative behaviours and growth-focused sectors like technology and green energy, leading to inflated valuations for these popular assets. The COVID-19 pandemic further heightened this disconnect between the real and financial economies. Now, as inflation returns and interest rates rise, there's a growing realization that returns might normalize, moving away from the era of 'free money.' This shift suggests that future returns may be more modest and uneven, especially as market trends concentrate around technology and high-growth themes. The investment landscape is also being reshaped by factors like demographics, decarbonisation, and deglobalisation, which will impact future returns, particularly in areas like renewable energy and infrastructure. Investors are advised to focus on sensible and reasonably valued investments, recognizing that the transition to a more sustainable economy will be complex and may not align with current market expectations.

Regards,

The AAN Asset Management Investment Committee

Economic Summary

Data from 1 April 2024

Australian unemployment

3.7% mid-quarter compared to 3.9% for the previous quarter.

3.7%

Equity markets

S&P500 returned 10.6% whilst the ASX200 returned 5.3% for the quarter.



AUD/USD

65c compared to 68c at the end of the December quarter.



Iron Ore price

Iron Ore \$102 USD/T -28.4% for the quarter.



Australian bonds

Australian bond yields at 4.00% by quarter end up 0.03 percentage points.

4.00%

Gold price

\$2259 USD/oz +9.7% for the quarter.



Oil price

Brent crude \$87 USD/bbl - +15.1% for the quarter.
West Texas Intermediate (WTI) crude \$83USD/bbl - +18.6% for the quarter.



Model performance

The AAN Sustainable Growth Model was the best performing model for the quarter returning 8.98% and the best performing model over 12 months returning 19.70%.



Volatility Index

VIX ranged between 12 and 16 over the quarter.



Annual inflation

US 3.2% FEB 2024 compared to 6.0% FEB 2023. AUS 3.4% FEB 2024 compared to 6.8% FEB 2023.



US yield curve

US 10Y Treasury reached 4.2% by quarter-end, with the US10Y/2Y spread at -0.41%.



AAN CORE - AC0001

As at 31 Mar 2024

Investment Manager	AAN Asset Management Pty Ltd
Model Code	AC0001
Investment Fee	0.43% p.a.
Performance Fee	Nil
Less AAN Client Model Fee Discount	0.24% p.a.
Commencement	05 Feb 2016
ICR and Transaction Cost	0.61% p.a.
Indicative No. of Holdings	Unlimited

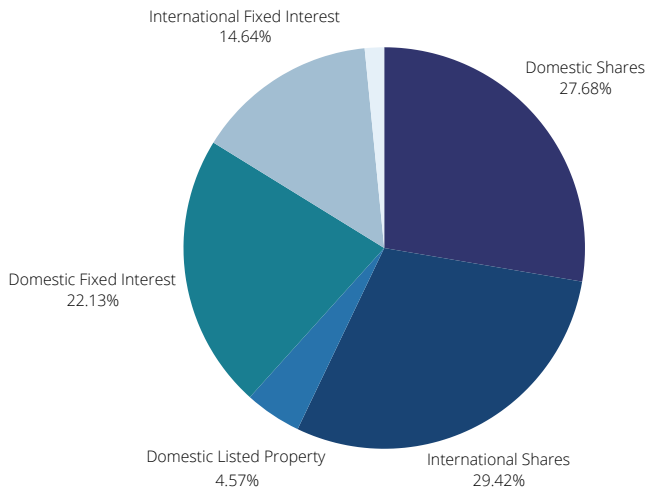
Investment description

The Core portfolio is an actively managed portfolio providing a diversified exposure with a neutral tilt towards growth asset classes (65%) relative to defensive asset classes (35%). The portfolio is constructed using a multi-manager approach which seeks to incorporate a blend of investment styles. The portfolio will generally be reweighted to its strategic weights quarterly and may employ a blend of active and passive investment styles based on market conditions. Investment exposure is obtained through a combination of direct equities, exchange traded products and/or managed funds.

Investment objective

The Core portfolio's investment objective is to outperform CPI by 3.0% p.a before fees over rolling 5-year periods.

Asset Allocation



Top 5 holdings

Perpetual Diversified Real Return W	14.64%
Vaneck MSCI Index International Quality ETF	7.81%
Vaneck Australian Equal Weight ETF	7.60%
Vanguard MSCI Index International Shares (HEDGED) ETF	7.46%
Perpetual Focus Australian Share	7.30%

Top 5 holdings represent 44.81% of total fund

Performance

As at 31 Mar 2024

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Total Gross Return	1.92%	5.12%	9.93%	12.80%	6.06%	8.32%	8.34%

Returns over time



The Model

There were no material changes to the portfolio this quarter other than reweighting back to benchmark allocations.

Notable Investments

International Shares (Lazard Global Equity Franchise Fund):

- Global equities saw significant gains in the first quarter of 2024, driven by robust earnings reports, growth prospects tied to artificial intelligence, and optimism regarding economic soft landings in certain regions. Franklin Global Growth Fund returned 3.52%, underperforming its benchmark. Detractors included stocks like Inari and Humana in healthcare, and Zscaler in information technology, while contributors included Intuitive Surgical and Manhattan Associates. Over the 12-month period ending March 31, 2024, the fund returned 15.38%. Sector allocation remains driven by bottom-up security selection, with recent detractors including Paycom Software and Aptiv in industrials, while MongoDB, Zscaler, and Shopify contributed positively to technology.
- Despite underperformance in the short term, the fund's focus on pure play companies down the market cap spectrum and strong free cash flow generation underpins its long-term outlook. With expectations for a broader market rally and a focus on companies supported by strong secular growth drivers, diversified across industries, the fund remains poised to capture potential returns over the long term. The emphasis on strong competitive positioning and ongoing adjustments to portfolio weightings reflect a commitment to navigating market dynamics while staying true to the fund's investment principles.

Fixed Interest (Yarra Capital):

- The Yarra Enhanced Income Fund demonstrated robust performance over the recent quarter, yielding a return of 2.04% net, including franking credits, which surpassed its benchmark by 97 basis points. Over a 12-month period, the fund has achieved an 8.47% return, significantly outperforming the RBA Cash Rate by 433 basis points. This success is attributed to strong demand in both primary and secondary markets, particularly in Tier 2 securities and corporate subordinated debt, which have shown exceptional returns. The fund's allocation to floating rate securities has also paid off, offering substantial income returns as the RBA maintained interest rates at 4.35%.
- In broader market trends, the fixed income sector saw a strong start in the first quarter of 2024 despite ongoing expectations of interest rate cuts in most developed markets which have yet to materialize, except for the Swiss National Bank. Domestically, the Reserve Bank of Australia (RBA) has maintained a steady interest rate of 4.35% with no immediate indications of future cuts, moving towards a more neutral stance. Meanwhile, credit spreads have continued to tighten despite high issuance volumes, with Australian credit spreads remaining attractive compared to USD and EUR spreads. This reflects stronger domestic fundamentals and the high quality of AUD corporates, suggesting a potential further tightening in credit and hybrid spreads in the near future.

Performance

The AAN Core model returned 5.12% (before fees) this quarter, bringing the rolling 12 month total return to 12.8% (before fees).

Over the quarter, no asset classes detracted from the portfolio. All asset classes made positive contributions to the portfolio. The largest contribution came from international equities (+2.54%), followed by domestic equities (+1.28%) and domestic listed property (+0.65%).

For the 12-month period, all asset classes were positive contributors, led by domestic listed property (+15.53%), international shares (+8.86%) and domestic shares (+4.29%), followed by international fixed interest (+2.39%) and domestic fixed interest (+1.00%).

Key Contributors:

- VanEck MSCI International Quality ETF +1.20%
- Vanguard MSCI Index International Shares (Hedged) ETF +0.72%
- Vanguard Australian Property Securities Index ETF +0.56%

Key Detractors:

- BHP Group Ltd -0.21
- Domino's Pizza Enterprises Ltd -0.07%
- Rio Tinto Ltd -0.04%

AAN GROWTH - AC0002

As at 31 Mar 2024

Investment Manager	AAN Asset Management Pty Ltd
Model Code	AC0002
Investment Fee	0.47% p.a.
Performance Fee	Nil
Less AAN Client Model Fee Discount	0.22% p.a.
Commencement	02 Sept 2016
ICR and Transaction Cost	0.54% p.a.
Indicative No. of Holdings	Unlimited

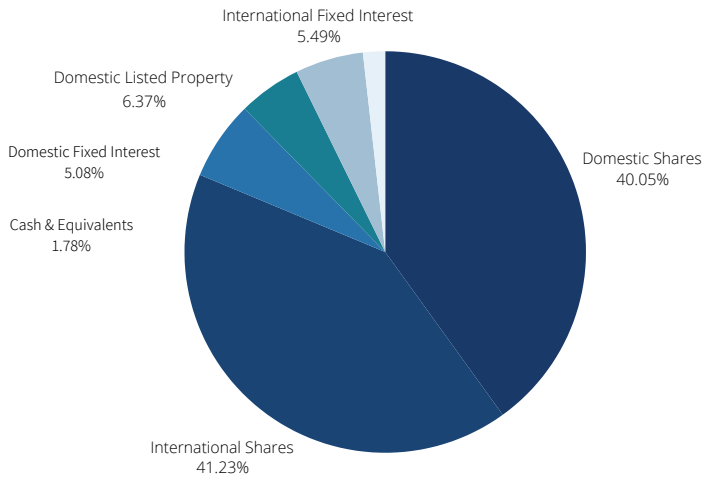
Investment description

The Growth portfolio is an actively managed portfolio providing a diversified exposure with a focus on growth asset classes (90%) relative to defensive asset classes (10%). The portfolio is constructed using a multi-manager approach which seeks to incorporate a blend of investment styles. The portfolio will generally be reweighted to its strategic weights quarterly and may employ a blend of active and passive investment styles based on market conditions. Investment exposure is obtained through a combination of direct equities, exchange traded products and/or managed funds.

Investment objective

The Growth portfolio's investment objective is to outperform CPI by 4.0% p.a before fees over rolling 7-year periods.

Asset Allocation



Top 5 holdings

Vanguard MSCI Index International Shares (Hedged) ETF	10.76%
VanEck Australian Equal Weight ETF	9.77%
Perpetual Focus Australian Share	9.71%
Vaneck MSCI International Quality ETF	9.27%
Lazard Global Equity Franchise	8.78%

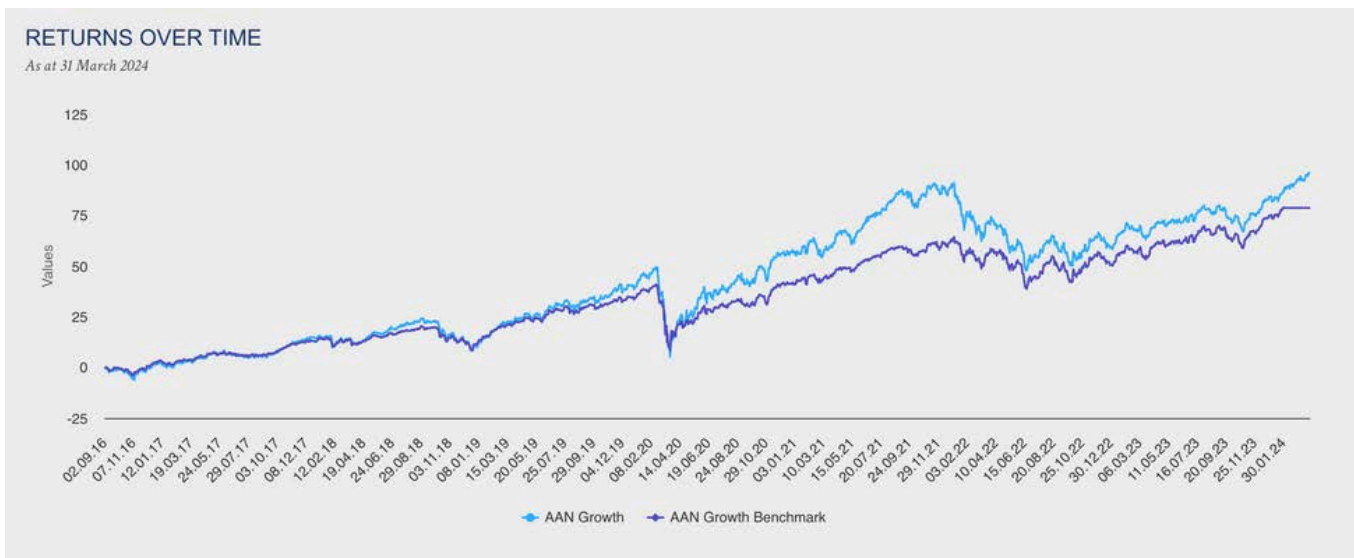
Top 5 holdings represent 48.29% of total fund

Performance

As at 31 Mar 2024

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Total Gross Return	2.61%	6.85%	13.59%	17.16%	7.60%	10.37%	9.86%

Returns over time



The Model

There were no material changes to the portfolio this quarter other than reweighting back to benchmark allocations.

Notable Investments

Domestic Shares (DNR Capital):

- During the recent financial period, various contributors and detractors influenced the performance of funds and sectors. ALS (ALQ) saw a robust recovery alongside rising gold prices, hinting at a potential upturn in the mineral exploration cycle, boosted further by strategic acquisitions in the pharmaceutical sector. On the contrary, Westpac Banking Corporation (WBC) faced a downturn amid rumours of its CEO's departure and extensive IT upgrades, while Scentre (SCG) outperformed, benefitting from favourable market conditions that priced in lower interest rates, advantageous for rate-sensitive sectors like REITs.
- Conversely, Aristocrat Leisure (ALL) and SEEK (SEK) underperformed, the former due to lackluster investor briefings and increased competition, and the latter due to a sector-wide decline following negative domestic job data. Goodman (GMG), however, excelled with a focus on its profitable data center development pipeline expected to drive significant earnings growth over the next decade. Overall, market dynamics reflected a complex interplay of corporate earnings, economic signals, and sector-specific trends, with ongoing adjustments in asset allocation and strategic positioning to optimize returns against a backdrop of fluctuating interest rates and economic forecasts

International Equities (Franklin Growth Fund)

- In the first quarter of 2024, global equity markets experienced significant gains driven by growing confidence in technology stocks and optimism regarding interest rates worldwide. Investors were buoyed by the belief that major central banks' efforts to control inflation had made enough headway to allow for a shift towards a more dovish monetary policy stance. Lazard Global Equity Franchise Fund underperformed for the quarter, returning 5.77% compared to the MSCI World Index's 13.88%. Despite this, specific stocks within the fund saw notable performances. eBay, for instance, saw growth following positive 4Q23 results and optimistic guidance for FY24, particularly in margin improvement. Similarly, companies like Knorr Bremse, Omnicom, and Rentokil experienced favourable market responses driven by factors such as margin improvement strategies, positive market sentiment towards the US economy, and strong financial results.
- However, some companies within the portfolio faced challenges. IGT and Nexi, despite solid performance and strategic initiatives, saw declines in their share prices, reflecting market concerns about execution and cash flow generation. Additionally, Reckitt Benckiser encountered setbacks due to legal issues stemming from a court ruling against its subsidiary, Mead Johnson, which could potentially impact the company financially. Nonetheless, the portfolio maintains its focus on high-quality franchise companies with robust financial productivity and reasonable valuations, positioning it at a discount to intrinsic value and the broader market index, and offering potential long-term benefits to investors amidst market fluctuations.

Performance

The AAN Growth model returned 6.85% (before fees) for the quarter, bringing the rolling 12 month return to 17.16% (before fees).

Over the quarter, no asset classes detracted from the portfolio. All asset classes made positive contributions to the portfolio. The largest contribution came from international equities (+3.78%), followed by domestic equities (+1.91%) and domestic listed property (+0.93%).

For the 12-month period, all asset classes were positive contributors, led by domestic listed property (+15.56%), international shares (+9.09%) and domestic shares (+4.39%), followed by international fixed interest (+2.07%) and domestic fixed interest (+1.27%).

Key Contributors:

- VanEck MSCI International Quality ETF +1.49%
- Vanguard MSCI Index International Shares (Hedged) ETF +1.06%
- Vanguard Australian Property Securities Index ETF +0.81%

Key Detractors:

- BHP Group Ltd -0.27%
- Domino's Pizza Enterprises Ltd -0.09%
- Rio Tinto Ltd -0.05%

AAN Australian - AC0003

As at 31 Mar 2024

Investment Manager	AAN Asset Management Pty Ltd
Model Code	AC0003
Investment Fee	0.55% p.a.
Performance Fee	Nil
Less AAN Client Model Fee Discount	0.19% p.a.
Commencement	30 Jan 2017
ICR and Transaction Cost	0.22% p.a.
Indicative No. of Holdings	Unlimited

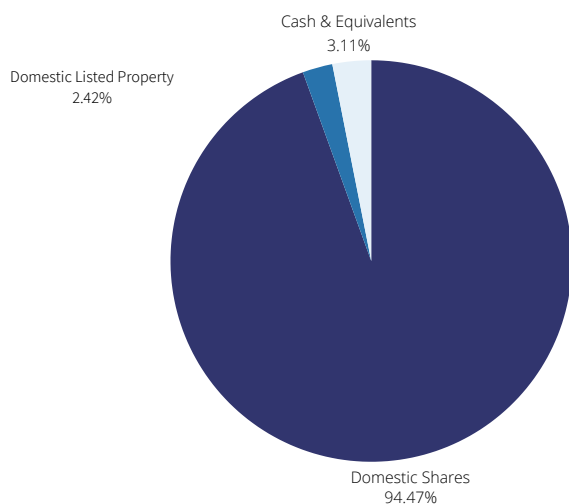
Investment description

The AAN Australian model provides exposure to an actively managed portfolio of Australian equities. The portfolio is constructed using a multi-manager approach which seeks to reduce style bias and may employ a blend of active and passive investment styles based on market conditions. Investment exposure is obtained through a combination of direct equities, exchange traded products and/or managed funds.

Investment objective

The AAN Australian Model's investment objective is to outperform the S&P/ASX 300 Accumulation Index before fees over rolling 7-year periods.

Asset Allocation



Top 5 holdings

VanEck Australian Equal Weight ETF	25.31%
Perpetual Focus Australian Share	25.16%
BHP Group Limited FPO	5.61%
CSL Limited FPO	4.86%
National Australia Bank Limited FPO	3.74%

Top 5 holdings represent 64.68% of total fund

Performance

As at 31 Mar 2024

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Total Gross Return	2.95%	4.85%	11.26%	12.49%	6.69%	8.47%	8.51%

Returns over time



The Model

There were no material changes to the portfolio this quarter other than reweighting back to benchmark allocations.

Notable Investments

DNR Capital:

- During the recent financial period, various contributors and detractors influenced the performance of funds and sectors. ALS (ALQ) saw a robust recovery alongside rising gold prices, hinting at a potential upturn in the mineral exploration cycle, boosted further by strategic acquisitions in the pharmaceutical sector. On the contrary, Westpac Banking Corporation (WBC) faced a downturn amid rumours of its CEO's departure and extensive IT upgrades, while Scentre (SCG) outperformed, benefitting from favourable market conditions that priced in lower interest rates, advantageous for rate-sensitive sectors like REITs.
- Conversely, Aristocrat Leisure (ALL) and SEEK (SEK) underperformed, the former due to lackluster investor briefings and increased competition, and the latter due to a sector-wide decline following negative domestic job data. Goodman (GMG), however, excelled with a focus on its profitable data center development pipeline expected to drive significant earnings growth over the next decade. Overall, market dynamics reflected a complex interplay of corporate earnings, economic signals, and sector-specific trends, with ongoing adjustments in asset allocation and strategic positioning to optimize returns against a backdrop of fluctuating interest rates and economic forecasts.

VanEck:

- For the quarter ending March 31, 2024, the VanEck Australian Equal Weight ETF (MVW) recorded a return of 5.37%, marginally outperforming the S&P/ASX 200 Index by 0.04%. The period saw significant variation in sector performance, with Information Technology, Real Estate, and Consumer Discretionary sectors leading with notable gains of 24.36%, 15.32%, and 12.88% respectively. Conversely, the Materials sector faced challenges, recording a decline of 6.20%, reflecting the volatility and potential risks within resource-heavy industries.
- Looking forward, VanEck expresses a cautious optimism regarding the economic outlook. While there are expectations of interest rate cuts by the RBA, these may be premature given ongoing rental inflation and other economic headwinds. MVW's strategic portfolio positioning—with an underweight stance in banking stocks and an overweight in consumer staples—may offer resilience and potential for outperformance against a backdrop of economic pressures that could dampen consumer spending and affect the broader financial markets

Performance

The AAN Australian model returned 4.85% (before fees) for the quarter and 12.49% (before fees) for the 12 month period.

Over the quarter, no asset classes detracted from the portfolio. Domestic shares contributed 4.41% and domestic listed property contributed 0.30%.

For the 12-month period, all asset classes were positive contributors, led by domestic listed property (+13.05%) and followed by domestic shares (+4.28%).

Key Contributors:

- Perpetual Focus Australian Share +1.55%
- VanEck Australian Equal Weight ETF +1.44%
- National Australia Bank Ltd +0.48%

Key Detractors:

- BHP Group Ltd -0.68%
- Domino's Pizza Enterprises Ltd -0.24%
- Rio Tinto Ltd -0.12%

AAN Index Core - AC0004

As at 31 Mar 2024

Investment Manager	AAN Asset Management Pty Ltd
Model Code	AC0004
Investment Fee	0.30% p.a.
Performance Fee	Nil
Minimum Initial Investment	No fixed minimum
Commencement	24 Feb 2017
ICR and Transaction Cost	0.20% p.a.
Indicative No. of Holdings	Up to 25

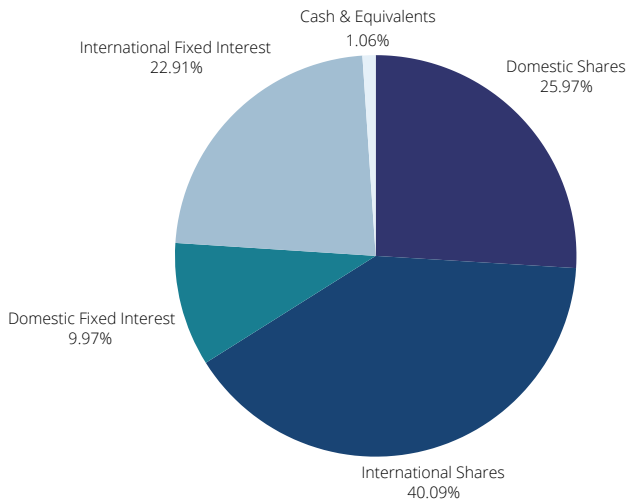
Investment description

The Index Core portfolio is an actively managed diversified portfolio which obtains exposure using a blend of passive ETFs listed on the ASX and index based managed funds. The portfolio is constructed with a strategic growth exposure of 65% and defensive exposure of 35%. The portfolio will generally be reweighted to its strategic weights quarterly.

Investment objective

The Index Core portfolio's investment objective is to outperform CPI by 2.50% p.a before fees over rolling 5-year periods.

Asset Allocation



Top 5 holdings

Betashares Australia 200 ETF	25.97%
Vanguard Global Aggregate Bond Index (Hedged) ETF	22.91%
Vanguard US Total Market Shares Index ETF	13.85%
Vanguard MSCI Index International Shares (Hedged) ETF	11.85%
iShares Australian Bond Index	9.97%

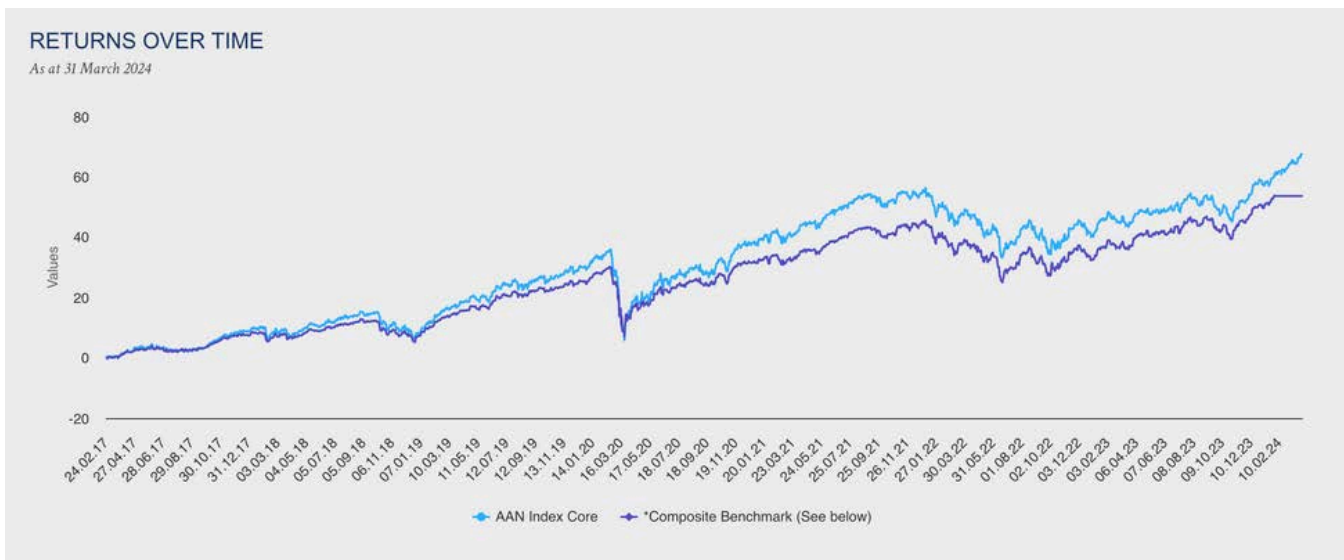
Top 5 holdings represent 84.55% of total fund

Performance

As at 31 Mar 2024

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Total Gross Return	2.49%	5.5%	12.40%	14.18%	5.83%	7.39%	7.54%

Returns over time



AAN Index Core - AC0004

As at 31 Mar 2024

The Model

There were no material changes to the portfolio this quarter other than reweighting back to benchmark allocations.

Notable Investments

The top contributing asset over the quarter was the Vanguard US Total Market Shares Index AUD ETF (+1.92%), BetaShares Australia 200 ETF (+1.43%), Vanguard MSCI Index International Shares (Hedged) ETF (+1.15%), Vanguard All-World ex-US Shares Index ETF (+0.56%) and Vanguard MSCI International Small Companies Index ETF (+0.39%).

The only negative contributor was the Vanguard Global Aggregate Bond Index (Hedged) ETF (-0.22%).

Performance

The AAN Index Core model returned 5.5% (before fees) over the quarter which brought the rolling 12 month period return to 14.18% (before fees).

Over the quarter, international equities (+4.27%) has the largest contribution to the portfolio, followed by domestic equities (+1.43%), with smaller positive contribution from domestic fixed interest (+0.08%). International fixed interest (-0.22%) has been detracted from the portfolio.

For the 12-month period, only international fixed interest had a negative return for the year (-0.89%). All other asset classes were positive, led by international shares (+10.90%), followed by domestic shares (+5.45%) and domestic fixed interest (+0.78%).

Key Contributors:

- Vanguard US Total Market Shares Index AUD ETF +1.92%
- BetaShares Australia 200 ETF +1.43%
- Vanguard MSCI Index International Shares (Hedged) ETF +1.15%

Key Detractor:

- Vanguard Global Aggregate Bond Index (Hedged) ETF -0.22%

AAN Index Growth - AC0005

As at 31 Mar 2024

Investment Manager	AAN Asset Management Pty Ltd
Model Code	AC0005
Investment Fee	0.30% p.a.
Performance Fee	Nil
Minimum Initial Investment	No fixed minimum
Commencement	22 Aug 2018
ICR and Transaction Cost	0.17% p.a.
Indicative No. of Holdings	Up to 25

Investment description

The Index Growth portfolio is an actively managed diversified portfolio which obtains exposure by using a blend of passive ETFs listed on the ASX and index based managed funds. The portfolio is constructed with a higher emphasis on growth exposure (90%) relative to defensive exposure (10%). The portfolio will generally be reweighted to its strategic weights quarterly.

Investment objective

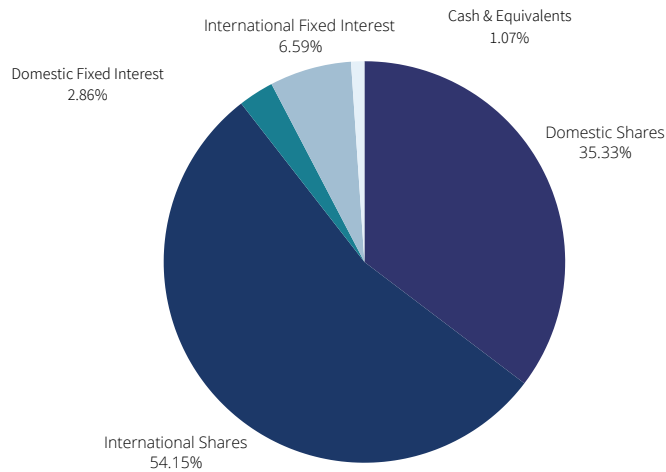
The Index Growth portfolio's investment objective is to outperform CPI by 3.5% p.a before fees over rolling 5-year periods.

Top 5 holdings

BetaShares Australia 200 ETF	35.33%
Vanguard US Total Market Shares Index ETF	18.83%
Vanguard MSCI Index International Shares (Hedged) ETF	15.91%
Vanguard All-world ex-US Shares Index ETF	8.01%
Vanguard Global Aggregate Bond Index (Hedged) ETF	6.59%

Top 5 holdings represent 84.67% of total fund

Asset Allocation

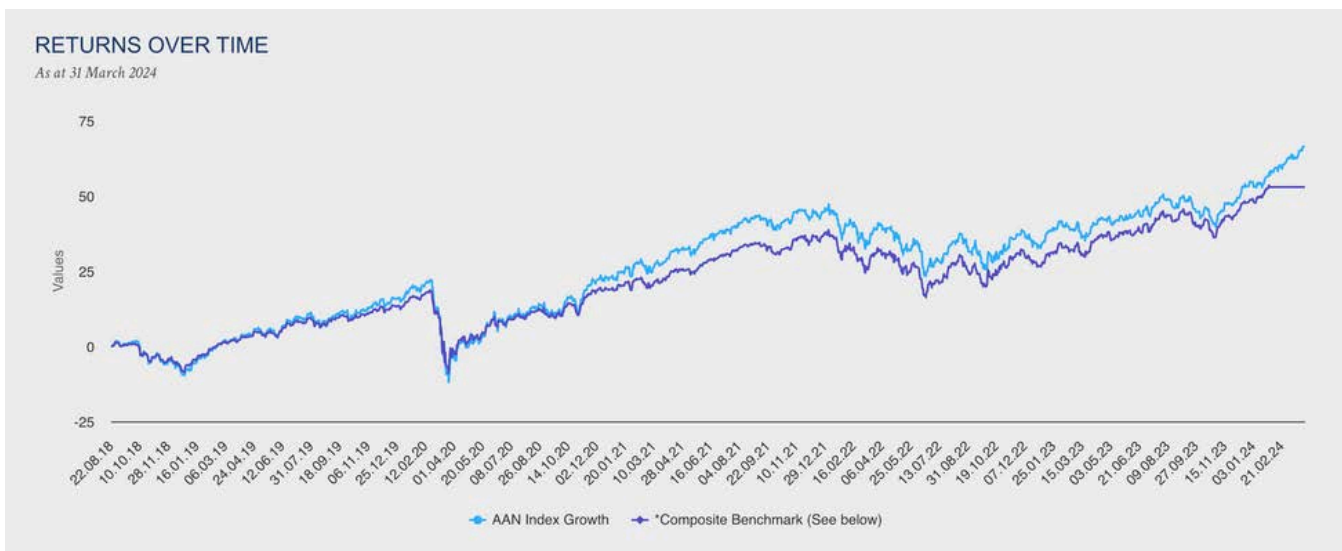


Performance

As at 31 Mar 2024

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Total Gross Return	3.02%	7.69%	15.13%	19.01%	9.02%	10.24%	9.50%

Returns over time



AAN Index Growth - AC0005

As at 31 Mar 2024

The Model

There were no material changes to the portfolio this quarter other than reweighting back to benchmark allocations.

Notable Investments

The top contributing asset over the quarter was the Vanguard US Total Market Shares Index AUD ETF (+2.64%), BetaShares Australia 200 ETF (+1.97%), Vanguard MSCI Index International Shares (Hedged) ETF (+1.57%), Vanguard All-World ex-US Shares Index ETF (+0.77%) and Vanguard MSCI International Small Companies Index ETF (+0.54%).

The only negative contributor was the Vanguard Global Aggregate Bond Index (Hedged) ETF (-0.07%).

Performance

The AAN Index Growth model returned 7.69% (before fees) this quarter, bringing the rolling 12 month return to 19.01% (before fees).

Over the quarter, international equities (+5.86%) has the largest contribution to the portfolio, followed by domestic equities (+1.97%), with smaller positive contribution from domestic fixed interest (+0.02%). International fixed interest (-0.07%) has been detracted from the portfolio.

For the 12-month period, only international fixed interest had a negative return for the year (-0.89%). All other asset classes were positive, led by international shares (+10.92%), followed by domestic shares (+5.45%) and domestic fixed interest (+0.78%).

Key Contributors:

- Vanguard US Total Market Shares Index AUD ETF +2.64%
- BetaShares Australia 200 ETF +1.97%
- Vanguard MSCI Index International Shares (Hedged) ETF +1.57%

Key Detractor:

- Vanguard Global Aggregate Bond Index (Hedged) ETF -0.07%

AAN Sustainable Growth - AC0006

As at 31 Mar 2024

Investment Manager	AAN Asset Management Pty Ltd
Model Code	AC0006
Investment Fee	0.40% p.a.
Performance Fee	Nil
Less AAN Client Model Fee Discount	0.21% p.a.
Commencement	17 Dec 2020
ICR and Transaction Cost	0.59% p.a.
Indicative No. of Holdings	

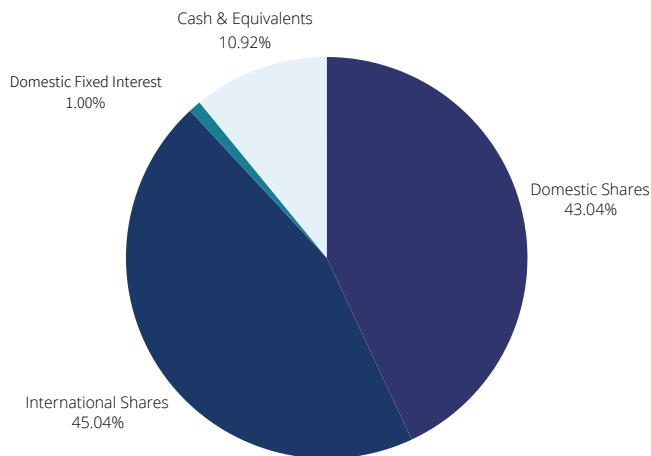
Investment description

The model caters for investors seeking a portfolio of predominantly growth assets that aligns with their preference for sustainable investments with potential for making a positive contribution to society. The model has a strategic allocation of 90% to growth assets and 10% to defensive assets via investing in managed funds, ETFs and/or Australian equity model portfolios, that will each employ their own sustainable investment approach. The overall model is managed according to the manager's Sustainable Investment Policy which seeks to avoid tobacco and tobacco products, gambling, alcohol, pornography, armaments manufacture or distribution, high impact fossil fuels and predatory lending. A company with a minor or indirect exposure to one of the sectors will not be automatically excluded, although may be subject to ongoing review by the manager.

Investment objective

The AAN Sustainable Growth Model has an objective to outperform CPI by 4% p.a before fees over rolling 7-year periods, through investing in a diversified portfolio of growth and income assets that meet the manager's ESG requirements.

Asset Allocation



Top 5 holdings

Betashares Global Sustainability Leaders ETF	11.42%
Perpetual ESG Australia Share	11.37%
iShares Core MSCI World Ex Aus ESG (AUD HED) ETF	11.30%
iShares Core MSCI Australia ESG ETF	11.23%
Stewart Investors Worldwide Sustainability	11.19%

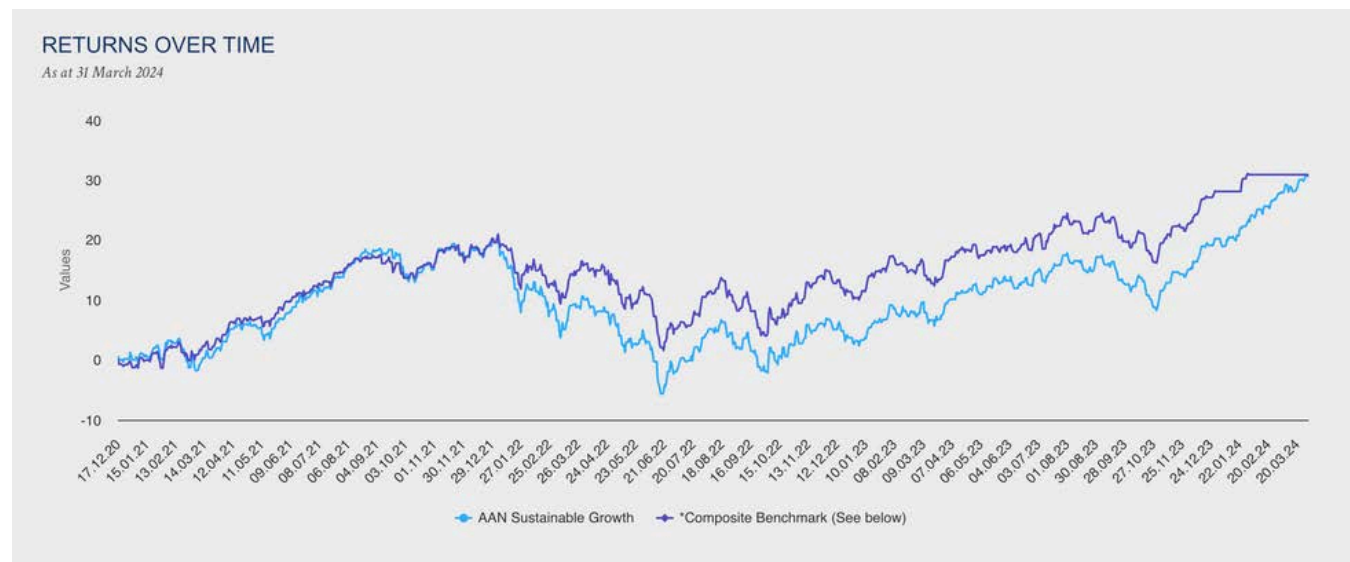
Top 5 holdings represent 56.51% of total fund

Performance

As at 31 Mar 2024

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Total Gross Return	2.85%	8.98%	16.36%	19.70%	8.67%	N/A	8.57%

Returns over time



AAN Sustainable Growth - AC0006

As at 31 Mar 2024

The Model

There were no material changes to the portfolio this quarter other than reweighting back to benchmark allocations.

Notable Investments

Domestic Shares (Alphinity):

- In the March quarter, the Fund outperformed the ASX300 benchmark by 0.8% post-fees, bolstered by a robust reporting season. Key contributors to returns included companies like Goodman Group, QBE, Brambles, and CAR Group, while the absence of Fortescue Metals in the portfolio also provided support. However, notable detractors during the period included Rio Tinto, BHP, Woolworths, and Lifestyle Communities. As the market's one-year forward earnings multiple slightly exceeded its long-term average, the focus shifted towards delivering earnings. The fund's strategy of identifying quality, undervalued companies experiencing positive earnings revisions proved beneficial during the reporting season, though some disappointments were encountered. Adjustments were made to the portfolio based on updated convictions, gradually transitioning from a defensive stance to a more balanced position with increased exposure to growth and cyclical names.
- Sector overweight positions remained in insurance and industrials, driven by individual stock stories rather than sector-specific views. The fund slightly increased its overweight position in healthcare while further reducing exposure to banks due to perceived sectoral overvaluation. Underweight positions were maintained in resources and consumer discretionary sectors, with attention paid to developments in China and cautious adjustments made accordingly. Overall, the fund's positioning reflects a nuanced approach to sectoral allocations, balancing bottom-up stock selection with broader market trends and economic outlooks.

Real Returns (Perpetual):

- In terms of performance, the Perpetual ESG Real Return Fund reported a modest net return of 0.6% in February 2024, culminating in a 1.5% return over the past 12 months. This performance is attributed to strategic asset allocation and the effective integration of ESG criteria which helped navigate a complex investment landscape marked by variable corporate earnings and economic signals. The fund's performance reflects both the challenges and opportunities presented by a volatile market environment, influenced by factors such as shifts in U.S. Federal Reserve policies and global economic conditions.
- Looking ahead, the fund maintains a cautious stance due to the persistent uncertainties in global markets, including high equity valuations and speculative earnings growth expectations. It focuses on high-quality markets and firms with strong financial health to navigate potential market corrections effectively. The fund continues to adapt its strategies to safeguard investments against downside risks while exploring growth opportunities through a prudent and responsive investment approach.

Performance

The AAN Sustainable Growth model returned 8.98% this quarter (before fees) whilst over 12 months the model returned 19.7% (before fees).

Over the quarter, no asset classes detracted from the portfolio. All asset classes made positive contributions to the portfolio. The largest contribution came from international equities (+5.07%), followed by domestic equities (+3.53%), with smaller contribution from cash (+0.17%), and domestic listed property (+0.05%).

For the 12-month period, all asset classes were positive contributors, led by international shares (+11.23%), followed by domestic shares (+8.02%), domestic listed property (+5.08%), and cash (+1.49%).

Key Contributors:

- BetaShares Global Sustainability Leaders ETF +1.92%
- iShares Core MSCI WorldxAus ESG Leaders (AUDH) ETF +1.26%
- AXA IM Sustainable Equity +1.24%

Key Detractors:

- Lendlease Group -0.05%
- Seek Ltd -0.03%
- IDP Education Ltd -0.03%

General Advice Warning

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Performance is based on a model portfolio and is gross of investment management and administration fees, but net of transaction costs. The total return performance figures quoted are historical and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all portfolio income. Past performance is not a reliable indicator of future performance. Portfolio holdings may not be representative of current or future recommendations for the portfolio. The securities listed may not represent all of the recommended portfolio's holdings. If you want more information on the benchmarks used for each model please visit the AANAM website at www.aanam.com.au.