Azimut Investments High Conviction Global Equities SMA

Monthly Investment Report
As of 30/06/2024

Investment Objective:
The portfolio aims to achieve a return of 2%p.a. in excess of the MSCI World Ex Australia Index, over the medium to long term (before fees).

Asset Class:
Global Equities

Currency:
Unhedged

Number of Holdings:
15-35

Minimum Suggested Timeframe:
5 years

Estimated Total Cost:
HUB24 (AZS007): 0.7175% p.a before transaction costs and platform fees
Mason Stevens: 0.635% p.a. before transaction costs and platform fees

Minimum Initial Investment:
$50,000

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.

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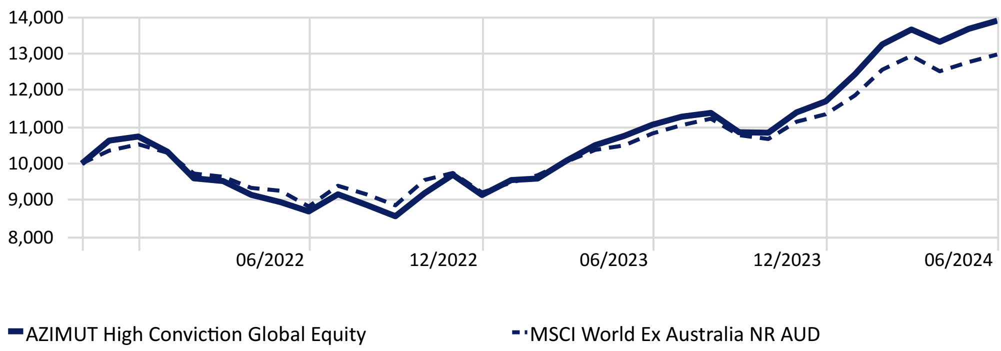
Latest Performance*

	1-mth	3-mths	6-mths	1-yr
AZIMUT High Con Global Equity	1.61	1.75	18.82	25.67
MSCI World Ex Australia NR AUD	1.61	0.28	14.37	19.92

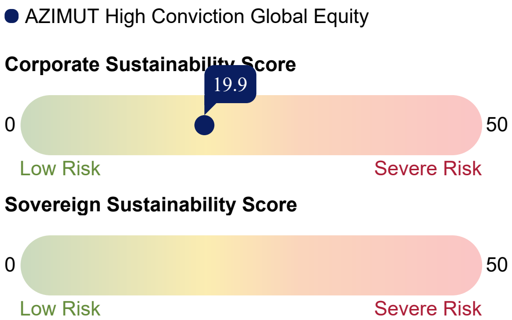
Investment Approach

The portfolio employs a combination of top down and bottom-up analysis. The process seeks to exploit market trends, strength of trends and potential turning points to make statistically favourable decisions. The portfolio strategy is based on identifying stocks with the highest expected risk adjusted returns in the current market conditions. This view is obtained through a combination of top down and bottom-up analysis and leads the portfolio to exhibit different styles and factors depending on market conditions. Both fundamental as well as quantitative approaches are applied which helps filter the stock universe.

$10,000 invested over time



Sustainability Score



ESG Pillar Score

4.0 Environmental
8.9 Social
6.3 Governance
0.1 Unallocated

Source: Morningstar Direct

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Top 10 Holdings

Portfolio Date: 30/06/2024

	%
Apple Inc	5.49
JPMorgan Chase & Co	5.21
Alphabet Inc Class A	5.20
Microsoft Corp	5.18
ASML Holding NV	4.77
NVIDIA Corp	4.58
Taiwan Semiconductor Manufacturing Co Ltd ADR	4.36
Costco Wholesale Corp	4.00
Toyota Motor Corp	3.97
Novo Nordisk A/S Class B	3.34

Equity Sectors

Portfolio Date: 30/06/2024

Basic Materials	2.86
Consumer Cyclical	12.61
Financial Services	18.32
Real Estate	0.00
Consumer Defensive	6.86
Healthcare	12.62
Utilities	3.32
Communication Services	6.83
Energy	3.16
Industrials	8.55
Technology	24.89

Regional Exposure

Portfolio Date: 30/06/2024

North America	64.16%
Latin America	0.00%
United Kingdom	0.00%
Europe Developed	25.81%
Europe Emerging	0.00%
Africa/Middle East	0.00%
Japan	4.05%
Asia Developed	4.45%
Asia Emerging	1.52%

Important information

*Past performance is not a reliable indicator of future performance. Performance is calculated before taxes, model management and platform fees and after underlying investment management fees. For full details of fees please refer to the relevant platform offer documents. Performance is notional in nature and an individual investor's actual performance may differ to the that of the model portfolio. Investment performance is shown from 1/11/2021 and represents modelled performance only and assumes income received is reinvested.

The Morningstar Historical Corporate Sustainability Score is a weighted average of the trailing 12 months of Morningstar Portfolio Corporate Sustainability Scores. Historical portfolio scores are not equal-weighted; rather, more-recent portfolios are weighted more heavily than older portfolios. Combining the trailing 12 months of portfolio scores adds consistency while still reflecting portfolio managers' current decisions by weighting the most recent portfolio scores more heavily.

ESG pillar scores are displayed as a number between 0 and 100 with most scores range between 0 and 25. It is the asset-weighted average of the company environmental, social, governance risk scores for the covered corporate holdings in a portfolio. The scores measure the degree to which a company's economic value may be at risk driven by environmental, social, and governance factors. The risk represents the unmanaged risk exposure after taking into account a company's management of such risks.

Source: Morningstar Direct

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Market Commentary

June was marked by the resurgence of political risk in Europe, with the surprise announcement of elections in the UK and France. While the U.S. elections are still relatively far away, in Europe the spotlight has been on the first round of elections in France at the end of June, although the final picture will not be known until after the second round on July 7. Uncertainty over which party will be able to form a new government has fuelled uncertainty in the European stock markets, while Wall Street remains at all-time highs. Things were even worse for the bond markets, where uncertainty has pushed the OAT-Bund spread back to the levels of the summer 2012 crisis. Overseas, despite lower-than-expected inflation numbers, fears about a recovery in price growth continue to prevail.

Looking at the macro picture the US economy is showing increasing signs of weakness. Sales of existing homes fell for the third month in a row and US retail sales marked a slowdown in consumer spending after higher figures at the start of the year. At the same time, US industrial production rose by 0.9% in May (against expectations of 0.3%), which is a positive sign for the manufacturing sector. These releases point to moderate future growth, while last week's data showed that US consumer and producer prices were weaker than expected in May. Turning to inflation the core PCE index, which excludes the volatile food and energy components, rose by 0.1% in May compared with the previous month, against a revised value of 0.3% in April and 0.1% expected. On an annual basis, the core PCE index rose by 2.6% in May, versus 2.8% in April and 2.6% expected.

Growth momentum in Europe decelerated. The composite PMI declined in June to 50.8 (vs 52.2 in May). The data shows that it is France and Germany that are holding back the Eurozone. Indeed, in Germany, industry is still struggling plunging further into contraction territory (43.4vs.46.4 expected), hurt by the fall in demand and its high dependence on China, with the renewed trade tensions between the EU and Beijing being a concern for German business leaders. In France, the significant increase in uncertainty linked to the political scene weighed on business activity. Turning to the UK consumer price index (CPI) fell to 2% in May, compared with 2.3% in April and 2% expected, moving closer to the Bank of England's 2% target for the first time in almost three years. These figures should enable the central bank to cut UK rates in the coming months. In China, the dichotomy continues between the Caixin PMI, which reflects the outlook for smaller export-oriented companies, and the national PMI related to large local companies. While Caixin manufacturing remains healthy and expanding, domestic manufacturing continues to shrink, confirming the difficulty in restarting the Chinese economy.

In the currency market, the US dollar continued to move in a sideways trend, hovering around the 1.07 area against the euro. The Swiss franc depreciated against all major currencies after the SNB's surprise cut. The yen continued to lose ground both against the euro (new all-time high for the EurJpy over 173) and against the dollar, with no intervention from the currency authorities, despite statements pointing in that direction. On the emerging front, the weakness of the South African rand came to a halt after the PM, Ramaphosa, managed to reach an agreement to form the executive.

Turning to commodities, oil's rally continued (with Brent crude closing the month at $86.70/b), despite the unexpected sharp increase in U.S. oil and gasoline inventories. The reason being the rising tensions in the Middle East with Israel, which in addition to Hamas, could also be heading for escalation with Lebanese Hezbollah. Gold, on the other hand, consolidated just above $2,300/o, in an environment where we are beginning to see a return of interest from physical ETFs.

We've made a decision to sell our position in Norfolk, a company we've held for over three years, and reinvest the funds into Caterpillar. This move reflects our confidence in Caterpillar's growth potential and better alignment with our investment goals. We believe this reallocation will optimize returns for our portfolio and position us for future opportunities.

Among the best performers for the month were Taiwan Semiconductor, Nvidia and ASML. While among the worst performers were Nextera, L'Oreal and Visa. As at the end of month we had cash of roughly 2.75%.

Stocks in Focus: JPMORGAN

JPMorgan Chase & Co. (JPM), the biggest bank in the US, has achieved a 20% return year-to-date, outperforming the S&P 500's 17% and the S&P 500 Financials Index's 11%.

JPMorgan's latest Q1 earnings report posted a solid beat on both the top and bottom lines, bolstered by the acquisition of the almost bankrupt First Republic. Net income and revenue showed year-on-year growth, even excluding First Republic's contributions. Despite this, the lack of guidance change led to an initial sell-off, suggesting potentially weaker results later in the year. Net interest income, saw minimal guidance change despite fewer expected rate cuts, indicating possible challenges ahead.

JPMorgan's valuation is not the most attractive, with shares near all-time highs and a relatively high price-to-earnings (P/E) and price-to-book (P/B) ratio. However, the bank's robust profitability, strong balance sheet, and consistent dividend growth make it a compelling long-term investment. The recent dividend increase, despite being somewhat off-schedule, underscores JPMorgan's commitment to returning value to shareholders. This makes the American bank an interesting candidate for dividend growth investors.

Interestingly, in the years before the Credit Crunch, returns in the first half of the year exceeded the second half. However, since the Fed started stress testing banks, second-half returns have exceeded first-half returns, with JPMorgan Chase & Co. benefitting more than most. Over the past 10 years, 9 out of 10 Julys have been positive months for both SPX and JPM, with the bank producing average returns of 14.75% versus 6.6% for SPX. These factors, coupled with a strong balance sheet and recent weakness, make now a good time to hold JPM.

Source: Morningstar Direct

Market Commentary

Overall, JPMorgan remains a top-tier financial institution, arguably the most important globally, with a diversified revenue base and market-leading position. Despite potential short-term volatility and valuation concerns, its strong fundamentals and consistent performance make it a solid long-term investment.

Stocks in Focus: ASML

ASML Holding N.V., a Dutch semiconductor firm, has seen significant stock performance and market cap growth over the last decade, recently recording an impressive rally of +46.34% since the beginning of 2024.

ASML’s primary business is the production of lithography machines used by chip manufacturers, with extreme ultraviolet (EUV) lithography revenue increasing nine fold over the last seven years. EUV is expected to overtake sales from legacy systems in 2024, driven by growing demand from the generative AI, automotive, and renewable energy sectors.

Despite some risks, including the recent trade ban to China, ASML remains poised for growth due to catalysts like the CHIPS Act. The U.S. has pledged $50B to the chip industry, including $39B in manufacturing incentives, which will benefit companies like Intel that need EUV machines for their new plants. ASML's expanded capacity in 2025/2026 will help meet the increasing demand, allowing the company to fulfill its multi-year backlog as generative AI demand grows.

Looking at the numbers, ASML’s newest machine, the High-NA EUV Lithography Machine, costs around $350M each, and the first one has already been delivered to Intel. These machines can produce the highest-end AI applications and advanced consumer electronics. The older Low-NA EUV machines, priced at $150M, have been largely sold to Taiwan Semiconductor (TSM). With EUV revenue growth tracking at 32% since 2017, and the company’s expanded manufacturing capabilities expected to significantly increase in the next years, ASML is positioned for robust long-term capital appreciation.

To understand why ASML maintains such an entrenched monopoly, one must consider its complex supply chain and specialized parts manufacturers. ASML’s machines are massive, complex, and expensive, relying on hundreds, if not thousands, of specialized suppliers. For instance, a cooling fan in an EUV machine cannot be a traditional one due to the excessive vibration it would cause. ASML had to source a manufacturer capable of producing high-powered fans that spin via levitation and magnets to eliminate vibrations. This level of specialization is spread across thousands of parts, contributing to ASML’s competitive edge.

The company’s financial performance underscores its strong market position. ASML reported net sales of €27.6 billion in 2023 with a gross margin of 51.3%, numbers that we normally see from a software company, not a hardware one. Despite some concerns about "slipping demand" for EUV machines in FQ1'24, ASML’s orders are already in place, with multiple high-NA EUV units set for delivery in 2024.

Source: Morningstar Direct