Azimut Investments High Conviction Global Equities SMA

Monthly Investment Report
As of 30/06/2025

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.

www.azimutinvestments.com.au

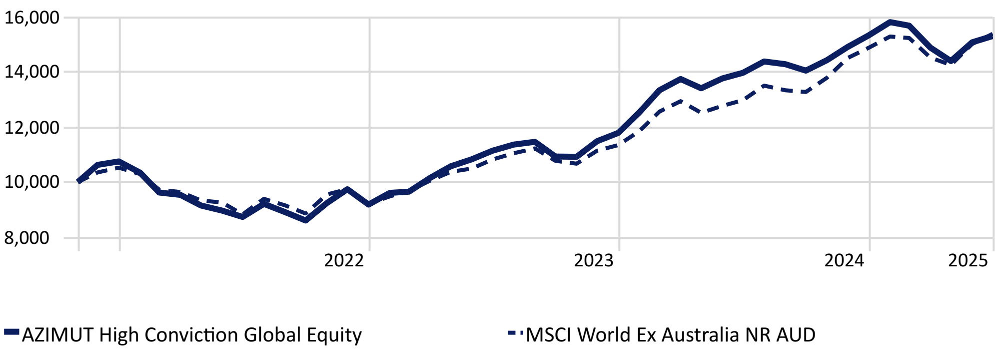
Latest Performance*

	1-mth	3-mths	6-mths	1-yr	2-yr	S.I.
AZIMUT High Con Global Equity	1.51	2.83	-0.17	9.57	17.23	10.73
MSCI World Ex Australia NR AUD	2.45	5.94	3.39	18.58	19.25	11.70

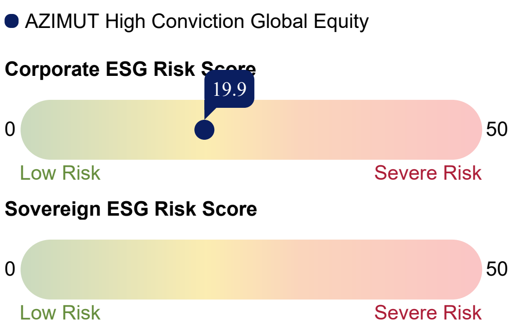
Investment Approach

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



ESG Risk Score



ESG Pillar Score

5.4 Environmental
9.2 Social
6.0 Governance
0.0 Unallocated

Source: Morningstar Direct

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Top 10 Holdings

Portfolio Date: 30/06/2025

	%
Microsoft Corp	5.50
JPMorgan Chase & Co	5.00
NVIDIA Corp	5.00
Alphabet Inc Class C	4.50
Apple Inc	4.50
Taiwan Semiconductor Manufacturing Co Ltd ADR	4.50
ASML Holding NV	4.25
Costco Wholesale Corp	4.25
ConocoPhillips	3.75
Lvmh Moet Hennessy Louis Vuitton SE	3.50

Equity Sectors

Portfolio Date: 30/06/2025

Basic Materials	3.08
Consumer Cyclical	12.31
Financial Services	17.69
Real Estate	0.00
Consumer Defensive	6.92
Healthcare	9.49
Utilities	3.59
Communication Services	7.18
Energy	3.85
Industrials	8.72
Technology	27.18

Regional Exposure

Portfolio Date: 30/06/2025

North America	66.67%
Latin America	0.00%
United Kingdom	0.00%
Europe Developed	23.33%
Europe Emerging	0.00%
Africa/Middle East	0.00%
Japan	2.82%
Asia Developed	4.62%
Asia Emerging	2.56%

Source: Morningstar Direct

Market Commentary

After the markets' muted reaction to the outbreak of hostilities between Israel and Iran, even to the direct intervention of the United States, the holding of the truce enabled risky assets to extend their rebound, especially after Trump announced the end of the "Twelve-Day War." The first and most notable effect was the drop in energy commodity prices, which helped ease inflation fears and pushed short-term yields lower. Another source of relief came from the NATO summit agreement to raise Allied countries military spending to 5% of GDP by 2035, as requested by Trump. This may indicate that a breakthrough on trade tariffs between the U.S. and EU is becoming more likely as the end of the tariff suspension approaches. This fuelled optimism in the equity markets, with the S&P 500 index hitting a new all-time high, posting the strongest quarter since 2023. The rally was also helped by progress in trade negotiations and renewed expectations for a Fed rate cut later this year.

U.S. figures confirmed a slowdown, but do not signal a recession. Consumer spending showed signs of weakness (especially in services) hitting the lowest level since the start of the year amid persistent uncertainties over the Trump administration's policies. Similarly, retail sales fell for the second month in a row, weighed down by autos and gas. Meanwhile jobless claims were broadly in line with recent averages but pointed to a softening labour market. Meanwhile, PMI data came in better than expected, particularly in the manufacturing sector. Turning to prices, the core PCE index, the Fed's preferred measure of inflation, was slightly higher than expected in May, at 2.7% from 2.6%, against a consensus forecast of no change. The overall index rose to 2.3% from 2.1% in April. In the Eurozone, the flash composite PMI for June remained unchanged at 50.2. The manufacturing PMI held steady at 49.4 but showed signs of increased production activity for the fourth consecutive month. The services PMI rose to 50 from a previous 49.7, accompanied by improved expectations for future business activity. Germany emerged as the main driver, supported by growing optimism around fiscal support, while the pace of expansion slowed in the rest of the Eurozone. Inflation came in line with expectations: the HICP rose 0.1% to 2.0% year-on-year, while the core index stabilised at 2.3% (unchanged from the previous month). In China, the average PMI indices (NBS and Caixin) rose from 48.9 in May to 50 in June, mainly due to improved orders following the trade truce reached in Geneva, signalling a stabilisation of manufacturing activity at the end of Q2, followed by two months of declines.

As far as monetary policy goes, the ECB has announced a further 0.25% cut in interest rates, bringing its deposit rate to 2%, the lowest level since December 2022. The ECB is expected to pause at its July and September meetings, while a further rate cut is expected by year end given the deceleration in inflation. The FED has decided to keep interest rates steady (at 4.25% to 4.50%) for the fourth consecutive meeting, revising up its inflation forecasts and cutting its GDP growth projections for the next two years. However, in his address to Congress, Powell struck a more pragmatic tone reinforcing expectations of a Fed rate cut at the September meeting. As a result, the possibility of more than two cuts in 2025 remains on the table.

Looking at government bonds, expectations for a potential Fed rate cut as early as July pushed the 2-year yield to 3.75% (-0.20%), hence the Treasury curve continued its steepening trend, despite the 10-year yield returning to 4.27%. In Europe, the fiscal spending implications have already impacted European government bonds, given the new spending plans for defence and the accelerated pace of the German fiscal spending for the infrastructure program. This led the German government bond to underperform vs Treasuries, with the 10-year hovering around 2.5%. After having suffered during the most turbulent phases, the BTP-Bund spread hit multi-year lows at 0.87%, also driven by a broader risk-on environment. The yield on the Italian ten-year closed the month around 3.50%.

In the currency markets, the unconfirmed rumour that the White House intends to name the next Fed chair by the summer undermining the current Fed leadership and ultimately steer the central bank's decision-making toward a more dovish stance set the dollar under pressure. The Euro continued to appreciate against the Dollar, which struggled to attract investors, closing the month at 1.1765. In the first half of 2025 alone, the dollar index dropped over 10%, falling back to its lowest level since April 2022. The USD/JPY showed some weakness (around 149), after the BoJ decided to leave interest rates unchanged amid uncertainty fuelled by the trade war. The worst-performing currency was the Norwegian krone, weighed down by falling energy prices which added up to the weakness fuelled by the Central bank's surprise cut.

Oil prices were hit both upwards and downwards by geopolitical tensions in the Middle East. Despite major strikes by the United States on Iran, investors remained calm, perceiving this intervention as local and seeking to resolve the "Iranian nuclear" problem rather than as a conflict likely to destabilise the region and world oil supplies. Oil initially rebounded strongly to 80$/b following Israel's attacks on Iran, before falling back and ending the month at 67$/b. Gold consolidated at $3,300, but failed to reach any new highs, posting flat performance for the month.

The portfolio during the month dynamically managed the geographical and sectorial exposure, still preferring developed markets to emerging markets and quality companies with high return on capital. Asian exposure is represented via the overweight in Europe in particular through companies generating revenues in Asian markets.

Among the best three names during the month were NVidia, Caterpillar and JPMorgan. While among the worst three names were Toyota, Luis Vuitton and Costco.

During the month, we rebalanced a few positions without changing the overall sector exposure. As of the end of month we have a buffer of cash (roughly 2.50%) to be allocated.

Source: Morningstar Direct

Market Commentary

Company Overview: CAT US Equity – Caterpillar Inc.

Caterpillar Inc. is the global leader in the manufacturing of construction, mining, and industrial equipment, with a well-established presence in over 180 countries. Its business model is built on a broad portfolio of products and services that range from excavators and bulldozers to industrial engines and energy and transportation solutions, combining manufacturing, distribution, and aftermarket support. The company operates primarily through three segments: Construction Industries, Resource Industries, and Energy & Transportation, complemented by a financial arm, Cat Financial, which offers leasing and financing solutions to its global client base.

With a vast network of over 150 independent dealers and an asset-light approach in certain areas of production, Caterpillar maintains strong operating leverage and significant flexibility in managing economic cycles. Its geographical footprint is well-diversified, with North America accounting for over 50% of total revenues, followed by Asia-Pacific (~17%), EAME (Europe, Africa, and the Middle East, ~19%), and Latin America (~10%). This diversification helps the company mitigate the impact of regional shocks, although its performance remains sensitive to global macroeconomic trends, particularly construction cycles and commodity markets.

In recent years, the company has undergone a strategic transformation focused on three main pillars: operational efficiency, digitalisation of products, and the shift toward more sustainable solutions. On the technology front, Caterpillar has accelerated the integration of remote monitoring systems, predictive maintenance, and automation, especially in the mining and construction segments where autonomous vehicles and remote-control systems are gaining traction. From an ESG standpoint, Caterpillar has launched initiatives on electric and low-emission powertrains, in line with the heavy equipment industry's sustainability goals.

From 2020 onward, Caterpillar has benefited from a particularly favourable macro backdrop: the post-COVID recovery, the boom in U.S. infrastructure spending, and solid demand in resource-related sectors pushed revenue from $41.7 billion in 2020 to $67 billion in 2023, a cumulative increase of over +60% in three years. 2024 is expected to mark a slight normalisation, with revenue projected at $64.8 billion (-3.4%), in a context of easing supply chain pressures, cooling inflation, and a cyclical slowdown—particularly in Asia.

Operationally, the company has delivered a significant improvement in profitability: EBITDA margins rose from around 19% in 2020 to over 24% in 2024E, driven by price increases, operating leverage, cost efficiency, and an improved product mix. Net income reached $10.9 billion in 2023, with a net margin above 16%, and is expected to remain at similar levels in 2024. At the same time, cash generation strengthened: free cash flow exceeded $8 billion in 2023, enabling the company to raise its dividend per share ($5.2 in 2024, projected at $6.2 by 2026) and maintain a strong balance sheet, with a conservative leverage profile (Net Debt/EBITDA < 1x).

Financially, the company demonstrates discipline in capital allocation: in addition to dividends, Caterpillar has consistently repurchased shares and maintained elevated R&D investments (over $1.6 billion in 2023), with a focus on energy efficiency, automation, and equipment digitalisation. Capex remains well-calibrated, with ROIC levels above 20%, reflecting a disciplined and profitable approach to reinvestment.

On the equity market, Caterpillar stock has delivered strong performance in recent years, rallying +43% in 2023 thanks to record results and a favourable macro backdrop. After a more cautious start to 2024, due to signs of a global manufacturing slowdown and macro uncertainty in China, the stock regained momentum following the temporary suspension of certain tariffs, which improved sentiment across the industrial and heavy machinery sectors. As of mid-2024, the stock is trading close to its recent highs, reflecting renewed investor confidence and a still-resilient U.S. economic outlook.

From a valuation perspective, Caterpillar currently trades at a P/FCF multiple of around 15x, implying a FCF yield above 6%—levels broadly consistent with historical norms and not overly stretched. This valuation appears balanced given the company's robust fundamentals, recurring service revenues, and long-term exposure to multi-decade trends such as infrastructure investment, energy transition, and industrial automation. Importantly, during bullish cycles, Caterpillar has historically commanded higher multiples (above 20x FCF), indicating upside potential should the macro picture continue to stabilise or improve.

Lastly, on the risk side, Caterpillar has some exposure to geopolitical and trade dynamics. While the company operates with a globally distributed production network and relies on local dealers, tariff, regulatory, or FX tensions can affect international operations, particularly in emerging markets. Nevertheless, the growing focus on services, proprietary technologies, and recurring revenue streams makes the business model more defensive than in the past.

Source: Morningstar Direct