Azimut Investments High Conviction Global Equities SMA

Monthly Investment Report
As of 31/12/2024

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$187 billion in assets globally including over AU$2.1 billion in multi-manager solutions in Australia.

www.azimutinvestments.com.au

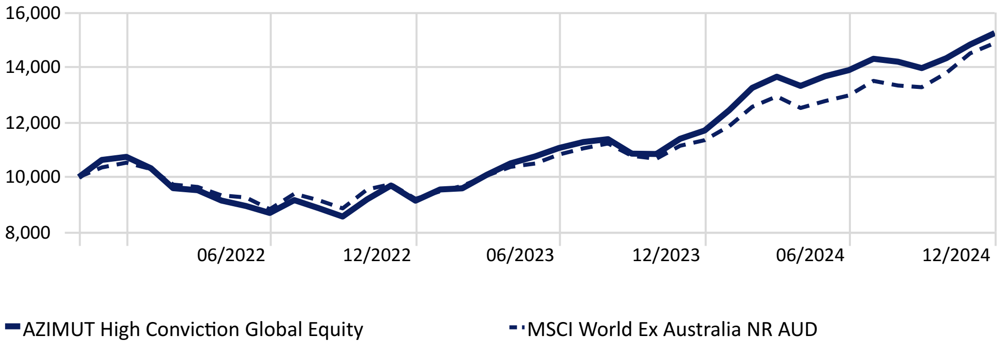
Latest Performance*

	1-mth	3-mths	6-mths	1-yr	2-yr	S.I.
AZIMUT High Con Global Equity	2.82	9.13	9.72	30.37	29.17	12.43
MSCI World Ex Australia NR AUD	2.58	12.12	14.70	31.18	27.14	12.50

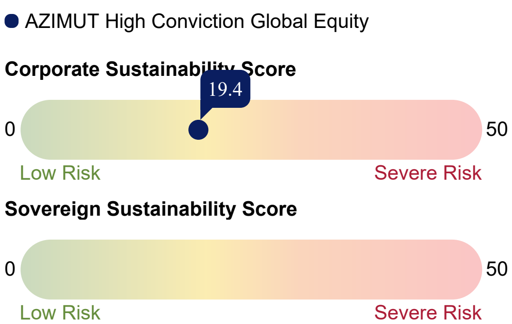
Investment Approach

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

4.2 Environmental
8.8 Social
6.3 Governance
0.0 Unallocated

Source: Morningstar Direct

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Top 10 Holdings

Portfolio Date: 31/12/2024

	%
Alphabet Inc Class A	5.81
Apple Inc	5.78
Microsoft Corp	5.10
JPMorgan Chase & Co	4.87
Taiwan Semiconductor Manufacturing Co Ltd ADR	4.74
NVIDIA Corp	4.49
Costco Wholesale Corp	4.38
ASML Holding NV	4.24
Toyota Motor Corp	4.19
Lvmh Moet Hennessy Louis Vuitton SE	4.01

Equity Sectors

Portfolio Date: 31/12/2024

Basic Materials	2.04
Consumer Cyclical	13.95
Financial Services	17.39
Real Estate	0.00
Consumer Defensive	6.95
Healthcare	11.45
Utilities	3.10
Communication Services	7.92
Energy	3.47
Industrials	8.60
Technology	25.13

Regional Exposure

Portfolio Date: 31/12/2024

North America	64.55%
Latin America	0.00%
United Kingdom	0.00%
Europe Developed	24.32%
Europe Emerging	0.00%
Africa/Middle East	0.00%
Japan	4.32%
Asia Developed	4.89%
Asia Emerging	1.92%

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.

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Source: Morningstar Direct

Market Commentary

In December, markets continued to integrate the possible news coming from the new US administration. In particular, investors began to reason about the possibility that the cycle of rate cuts may be less profound than previously expected and about the risk of a rapid reversal of the cycle itself, given the Fed's renewed focus on inflation. The hypothesis the Fed might enter a new phase of the monetary easing cycle pushed bonds yields generally higher, while sentiment remained positive for stock markets, which managed to close substantially unchanged compared to the beginning of the month, thanks to the resilience of large cap stocks.

Looking at the macro picture, the U.S. economy remained strong: Q3 GDP was revised upwards to 3.1% annualised (vs. 2.6%) in the final reading thanks to an improvement in consumption and investment. Jobless claims showed positive indications confirming that the labour market is less cause for concern, as it was in the summer. The preliminary PMI indices for December were broadly in line with the trend of recent months. The manufacturing indices continued to contract in both the United States and the Eurozone. The sluggishness of the manufacturing sector continues to contrast with the resilience of the services sector, which came in well above expectations in both regions. The composite indicators though show an ever-widening divergence, at 56.6 points in the United States compared with 49.5 in the Eurozone.

Looking at prices, the disinflation momentum of recent months seems to be running out of steam in the U.S. while the risks of higher inflation are mounting in view of Trump's highly expansionary economic program and potential tariffs. The CPI index rebounded for the second month in a row in November, rising to 2.7% from 2.6% in October. The core CPI, excluding food and energy, held steady at 3.3%, in line with expectations. For the euro area, the final November figure was revised downwards to 2.2% from 2.3% in the first estimate (still up from 2.0% in October), while the core index remained stable at 2.7%. Looking at China, markets continued to be disappointed with the lack of detail from Beijing on further fiscal support measures. The November retail sales figures were also disappointing, confirming that domestic demand is struggling to pick up. Retail sales slowed to 3% year-on-year, after rebounding in October (4.8%). Moreover, the threat of a new trade war could diminish the role of exports as an engine of growth after contributing almost a quarter of the economic expansion this year. China's Politburo nonetheless plan to set an annual growth target of around 5% for next year and to increase the budget deficit to 4% of GDP.

As far as central banks go the ECB lowered rates, by 25 basis points to 3% and revised its growth and inflation projections downwards for 2025, forecasting GDP growth of only 1.1% (versus 1.3% previously). Although the ECB has removed its commitment to “keep rates at a restrictive level to achieve its inflation target”, it has not made any further comment regarding future rates, contributing to a rebound in rate expectations: markets are expecting a rate of 1.75% for Oct 2025 (compared with 1.5% on December). The FOMC lowered the fed funds target range by 25 basis points as expected but sent a strong signal that inflation concerns are back on the agenda. The Fed now believes it will take much longer for inflation to reach the 2% target. As a result, the Central bank has halved its forecast for interest rate cuts next year. The focus on inflation represents a significant change in strategy from September. The median interest rate projection for December 2025 now targets only 2 rate cuts. The Bank of Canada has cut its key rate by a further 50 basis points to 3.25% while the Swiss National Bank has finally surprised the consensus by cutting its key interest rate by 50 basis points to 0.50%, in order to counter the strength of the Swiss franc.

On currency markets, Powell's hawkish cut favoured the greenback against all major currencies. The EUR/USD cross touched 1.0343, very close to its year's low of 1.0335. The Sterling remained weak. The UK currency remains exposed to further declines due to the increased likelihood of a rate cut in early 2025. Similarly, the month ended on a weak note for the yen, with the cross against the euro in the 164 area, after the BoJ kept its benchmark rate unchanged at 0.25%, pushing forward the decision for a possible rate hike. The Fed's cut triggered a tsunami that hit all the Asian currencies, namely the USD/CNH, which rose to 7.3269, the level reached back in Nov 2023. Worth mentioning the collapse of the Brazilian real, which fell to an all-time low of 6.1251 against the US dollar. Since the start of the year, the currency has fallen by almost 22%, making it one of the worst-performing emerging currencies against the dollar. The rise in public spending since radical leftist President Lula's return to power pushed up inflation expectations and with them the expectation of a devaluation of the exchange rate.

No big changes on commodities: Gold closed the month around $2625/oz, while oil prices remained flat around $75/b. Bitcoin lost momentum, retracing to the $95,000 area.

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 Alphabet, Taiwan Semiconductor, LVMH. While among the worst three names were UnitedHealth, Sherwin Williams, Waste Management.

We rebalanced a few positions without changing the overall sector exposure. As of the end of month we have a buffer of cash (roughly 3.00%) to be allocated.

Source: Morningstar Direct

Market Commentary

Stock in Focus: ALPHABET

Alphabet Inc., Google's holding company, continues to dominate the digital advertising and search engine sector thanks to its advanced technological platform and interconnected ecosystem of products. The company operates through three main segments: Google Services (including Search, YouTube, and Google Play), Google Cloud, and Other Bets. In 2023, Alphabet reported revenues of $307 billion, reflecting growth of 8.7% compared to 2022, demonstrating solid operational resilience despite macroeconomic challenges. EBITDA margins remained robust at 39.7%, highlighting efficient resource management and the ability to mitigate inflationary pressures.

From 2023 to December 2024, Alphabet's stock achieved an extraordinary performance, gaining approximately 53%, fuelled by almost linear growth driven by enthusiasm for artificial intelligence and the dominance of the so-called "Magnificent 7," the most influential tech companies in the market. Part of this growth was supported by Alphabet's significant investments in AI, with capex rising to over $51 billion in 2024, an increase of 58% compared to 2023. These investments were primarily directed towards data centres and the development of generative models to strengthen the company's competitive position. However, Alphabet still appears to lag behind competitors such as Microsoft and OpenAI in the AI sector, despite notable progress.

Alphabet's resilience is also evident in its stable margins and strong cash flow generation capabilities. Between 2022 and 2023, EBITDA margins remained steady at around 40%, showcasing the ability to adapt to challenging market conditions, while free operating cash flow (FOCF) increased to $72 billion in 2023. Even as of September 2024, on a trailing basis, the company continued to generate robust operating cash flows, with FFO exceeding $102 billion, underscoring a financial solidity that positions it well to tackle further investments and regulatory challenges.

Alphabet's geographical and sectoral diversification further strengthens its business model. In 2023, 48% of revenues came from the United States, 30% from the EMEA region, and 16% from Asia-Pacific, mitigating localised risks. However, the core business remains heavily concentrated in digital advertising, accounting for 80% of total revenues. This represents both a strength and a vulnerability, particularly given the growing competition from models like ChatGPT, which could reduce the use of Google's search engine, jeopardising the advertising segment. Despite these challenges, Alphabet has maintained a dominant position, with a 92% market share in global desktop searches.

Regulatory dynamics remain a key area of concern. In the third quarter of 2024, Alphabet faced new legal developments, including an unfavourable ruling in the United States challenging certain antitrust practices related to agreements setting Google as the default search engine. In Europe, the company has accumulated fines totalling $6.8 billion for competition law violations. While these risks are significant, they are manageable thanks to the company's strong net cash position, which stood at $93 billion as of September 2024, and its ability to generate additional operating cash flows.

In summary, Alphabet remains an undisputed leader in the tech sector, with solid fundamentals and the ability to adapt swiftly to an evolving competitive and regulatory landscape. However, the success of its AI investments and its ability to address competitive and regulatory risks will be crucial in maintaining growth momentum in the medium term.

Source: Morningstar Direct