Azimut Investments High Conviction Global Equities SMA

Monthly Investment Report
As of 28/02/2025

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

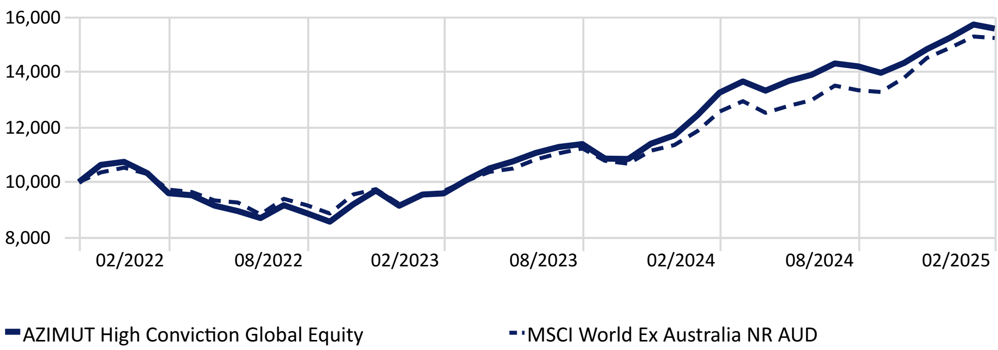
Latest Performance*

	1-mth	3-mths	6-mths	1-yr	2-yr	S.I.
AZIMUT High Con Global Equity	-0.93	5.07	9.69	17.58	27.48	12.50
MSCI World Ex Australia NR AUD	-0.36	5.01	14.24	21.30	25.48	12.63

Investment Approach

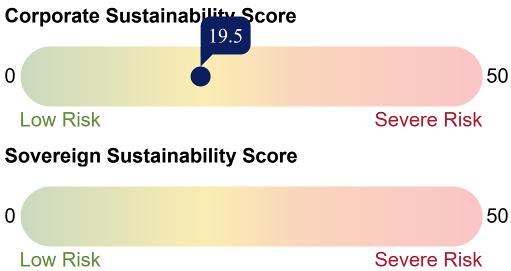
The portfolio employs a combination of top down and bottom-up analysis. The process seeks to exploit market trends, strength of trends and potential turning points to make statistically favourable decisions. The portfolio strategy is based on identifying stocks with the highest expected risk adjusted 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

● AZIMUT High Conviction Global Equity



ESG Pillar Score

4.5 Environmental
9.0 Social
6.1 Governance
0.0 Unallocated

Source: Morningstar Direct

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Top 10 Holdings

Portfolio Date: 28/02/2025

	%
Apple Inc	5.13
JPMorgan Chase & Co	5.09
NVIDIA Corp	4.82
Alphabet Inc Class A	4.78
Microsoft Corp	4.72
Costco Wholesale Corp	4.33
Lvmh Moet Hennessy Louis Vuitton SE	4.30
Taiwan Semiconductor Manufacturing Co Ltd ADR	4.29
ASML Holding NV	4.12
Caterpillar Inc	3.83

Equity Sectors

Portfolio Date: 28/02/2025

Basic Materials	2.60
Consumer Cyclical	13.61
Financial Services	18.31
Real Estate	0.00
Consumer Defensive	6.88
Healthcare	11.44
Utilities	2.98
Communication Services	7.08
Energy	3.90
Industrials	9.39
Technology	23.80

Regional Exposure

Portfolio Date: 28/02/2025

North America	64.71%
Latin America	0.00%
United Kingdom	0.00%
Europe Developed	25.13%
Europe Emerging	0.00%
Africa/Middle East	0.00%
Japan	3.57%
Asia Developed	4.43%
Asia Emerging	2.16%

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

The high degree of policy uncertainty from the new U.S. administration and geopolitics continued to dominate the scene leading to erratic reactions in the markets. Basically, Trump reiterated his intention to apply tariffs on Mexico and Canada as of 4 March along with further 10% tariffs on certain products from China. Europe will probably follow suit. The outcome of the German elections, with the new Chancellor Merz, proved to be at the margin better than expected. The focus has now shifted to the formation of the new government in Germany and the need to work on a defence spending plan, overcoming the constitutional constraint of the 0.35% deficit ceiling (Debt brake). In the markets, the divergence of stock markets between the two sides of the Atlantic continued, with European indices outperforming (despite the threat of tariffs), as opposed to the heavy downturn on Wall Street, led by the collapse of technology stocks (Nvidia above all).

Looking at the U.S. economy, several surveys conducted in February came in weaker than expected amid rising inflation expectations, which appear to be reflecting the threat of tariffs and impact of other government policy shifts. The consumer confidence index fell for the third month in a row in February, reaching 98.3 points compared with an expected 102.5 and 105.3 the previous month, its lowest level since June 2024, erasing relief that occurred in the wake of Trump's victory in November. The decline was mainly caused by the continuous deterioration in the measurement of household expectations, particularly with regards to employment conditions. Inflation data showed that CPI and its core component exceeded expectations.

The Consumer Price Index (CPI) came in higher than expected at 3.0% YoY compared to the 2.9% anticipated. The core component also exceeded expectations, rising to 3.3% YoY from 3.2% the previous month. The bad news was partly mitigated by the PCE (the Fed's preferred inflation measure), which recorded its first decline in four months to 2.5%. The core PCE also declined (from 2.9% to 2.6%). However, it is worth noting that inflation expectations in the CB Consumer Confidence Index rose from 5.2% to 6.0%, the highest level since 1995. In the eurozone, the flash reading of the February PMI points to a stabilising economy, albeit at a rather modest rates of expansion. The composite PMI was unchanged at 50.2 due to an unexpected correction for services (50.7 from 51.3) against a recovery in manufacturing (47.3 from 46.6). The rebound in Germany's manufacturing index more than offset the sharp decline in France's services sector. Inflation surprised slightly on the upside, falling by just a tenth (to 2.4% YoY). However, the upward surprise came from food, while services slowed to 3.7% from 3.9% YoY, and the core index, at 2.6% YoY, was at its lowest in over three years.

The Chinese economy showed signs of resilience after manufacturing PMI indices rose above consensus expectations in both surveys (Caixin and NBS). The average rose from 49.6 in January to 50.5 in February, signalling a return to a moderate expansion in industry activity, supported by rising production and orders.

As far as central banks go, the ECB is expected to cut the deposit rate to 2.5% in March. Uncertainty remains high as to what will happen next, given the division within the Council that has emerged from recent statements and the outcome of the new German government coalition. In the U.S., President Trump's heated policy announcements, as well as the weakness shown at both the manufacturing and consumer spending level, led the market to reconsider its expectation of monetary policy, by fully pricing in two 25 basis points cuts, with the first expected at the June meeting.

The threat of a tariff escalation prompted a risk-off sentiment on risky assets, whereas sovereign interest rates resumed declining. US Treasuries witnessed strong inflows on fears that a trade war might ultimately weaken the economy. Against this backdrop, the yield on the 2-year Treasury fell to 4.0%, while the 10-year reached 4.2% (down 30 basis points compared to the beginning of the month), with the 2-10 year spread dropping to 23 basis points. The decline in Eurozone yields was mitigated by the issue concerning the expansion of the military budget. In fact, the divergence between US and European yields translated into a narrowing of the US-Germany 10-year spread to near 183 basis points, the lowest since October 2024. The Bund/Btp differential closed unchanged around 113 basis points.

On the currency market the dollar continued to trade sideways, while waiting for the actual tariff regime. The cross against the euro, after having repeatedly tested the important resistance at 1.05, retraced to the 1.037 area, thanks to a renewed risk aversion phase. The USD/JPY has been the star performer this month. The greenback lost a total of four figures. Aiding the dollar's collapse was the narrowing of the spread between USTs and JGBs, thanks to rising JGB yields (the 10-year note reached 1.38%, its highest level in 15 years). The currencies of Canada and Mexico recorded significant declines, reflecting the growing uncertainty in the currency markets.

Looking at commodities, Oil prices, but even more so gas prices, declined amid fears of a possible slowdown in the US economy. The threat of production increases by several countries also weighed on crude oil. Oil prices closed the month at around $73/b. After eight consecutive weeks of growth, gold took a pause closing at US$2850/oz. Nevertheless, investors continue to bet on gold as a hedge against geopolitical risks. In addition, the tariff war is causing a surge in demand for physical gold.

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 Kone, Costco and Visa. While among the worst three names were Alphabet, UnitedHealth and Thermo Fisher.

We made a few rebalancing trades during the month without changing the overall sector exposure. As of the end of month, we had a buffer of cash (approximately 3.00%) to be allocated.

Source: Morningstar Direct

Market Commentary

Stock in Focus: KNEBV FH Equity – KONE OYJ-B

KONE Oyj is one of the leading global players in the elevator, escalator, and urban mobility solutions sector, with a well-diversified business model that spans the entire lifecycle of a building. The company operates through three key segments: (i) New Building Solutions, which provides elevators and escalators for new construction projects; (ii) Service, which ensures the maintenance and operational efficiency of installed units, boasting a customer retention rate of over 90%; (iii) Modernisation, focused on upgrading existing infrastructure to improve efficiency and safety. This diversification allows KONE to mitigate the cyclical nature of the industrial sector, a challenge that has impacted its stock performance in recent years.

Following a decade of steady growth, KONE's stock experienced three consecutive years of declines, closing 2021 at -5.15%, 2022 with a sharp -23.38%, and 2023 at -6.5%. More than a deterioration in its fundamentals, this decline was driven by an unfavourable macroeconomic environment characterised by rising interest rates, difficulties in the real estate sector, and a slowdown in construction activity, particularly in China, a crucial market for KONE. Inflationary pressures also weighed on margins, especially in the New Building Solutions segment, which saw a 7.1% drop in sales in 2024 compared to the previous year.

Despite these challenges, KONE has demonstrated remarkable adaptability. The year 2024 marked a turning point with revenue growth of 1.3%, reaching €11.1 billion, supported by strong performances in the Service (+9.5%) and Modernisation (+10.1%) segments. Profitability improved, with operating profit rising by 4.1% to €1.25 billion, while the EBITDA margin increased to 11.7%, up from 11.4% in 2023. Free cash flow saw a significant boost, reaching €1.59 billion, reflecting more efficient financial management. Geographically, sales remained well distributed, with 38% of revenue coming from Europe, 25% from the Americas, 14% from the APMEA region, and 23% from China. The latter continued to be a weak point, with a 16% decline in sales in 2024 due to the ongoing downturn in construction activity. However, growth in other regions offset this weakness. Notably, North America posted a 10.4% increase in sales, while Europe saw a 5.8% rise, driven by demand for modernisation services.

One of KONE's key strengths is its ability to cover a broad portion of the industry's value chain. Beyond selling new installations, the company has solidified its position in the maintenance market, ensuring a stable and recurring revenue stream. With an installed base of over 1.7 million units in service, its customer retention rate exceeding 90% provides a significant competitive advantage, securing consistent revenues and reducing the impact of industrial sector cyclicality. Investments in digitalisation have further strengthened customer loyalty through innovative solutions for predictive maintenance and remote monitoring. In addition to its strong 2024 results, KONE recently signed a major agreement with Azizi Developments in the United Arab Emirates for the supply of elevators, strengthening its presence in the Middle Eastern market. Furthermore, it secured an order for the Aga Hall Estate residential complex in Mumbai, India, contributing to the city's urban development. These developments highlight the company's international expansion and long-term commitment to growth in emerging markets.

After several challenging years, 2025 is shaping up to be a more favourable year. The stock has already seen a strong rebound, up 16.3% YTD, driven by recovering demand in the residential segment and a growing focus on sustainability. The company has also announced new investments to reduce its carbon footprint and enhance energy efficiency, including the launch of zero-emission elevators and modernisation solutions capable of cutting energy consumption by up to 70%. The increasing demand for building upgrades and the adoption of stricter energy efficiency regulations could serve as additional catalysts for growth in the coming years.

Source: Morningstar Direct