

Quarterly Investment Update

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Dec 2023

AAN Asset Management Pty Ltd

5 February 2024

Investor Letter

Dear Investor,

The year 2023 began with low expectations for global economic growth and heightened fears of a recession, but various factors like China's reopening, significant fiscal stimuli in the U.S. and Europe, and the persistent strength of U.S. consumers helped stabilise growth. This, along with optimism driven by ChatGPT, luxury goods, weight-loss drugs, anticipated Federal Reserve rate cuts, and a bitcoin rally, positively influenced risk markets. This was despite major challenges like significant interest rate hikes, wars, an energy crisis, a regional banking crisis, and economic downturn discussions. Some economists have flagged potential declines in inflation and economic demand in 2024, the result of which may lead to investor concern. This highlights the potential for downside risks to dominate over euphoria.

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

Heading into 2024, the global economic and political outlook is marked by significant uncertainty. The current economic situation is a catch-22: sustainable risk asset rallies require reduced interest rates and easing monetary policies, which may only happen if there's a market correction or inflation decline due to a weaker demand. Key questions being asked include the impact of rapid advancements in artificial intelligence on business operations and identifying the potential winners in the AI race.

Another area of focus is the energy transition, particularly whether electricity, wind, and solar power will replace fossil fuels as the primary energy sources and the timeline for such a shift. In the bond market, with U.S. Treasury yields at a 16-year high, there is a speculation that this might signal a historic opportunity for real income returns in the fixed-income sector.

However, potential risks loom on the horizon. Concerns include the impact of rising government debt on economic growth, the effects of escalating U.S. and China tensions on global trade, the possibility of conflicts in Ukraine and the Middle East escalating, and the impact of a pivotal U.S. election year on market volatility. Despite these uncertainties and potential for volatility, the current climate is seen as a prime time for active investing, offering both significant challenges and unprecedented opportunities. This complex scenario sets the stage for the 2024 Outlook report, highlighting the need for careful analysis and strategic investment decisions in a rapidly changing environment.

"Reflation, not recession" provides an optimistic outlook for global and Australian economies, predicting stronger growth and easing inflation in 2024. There are five key reasons for this positive forecast:

- **Emerging Markets Driving Global Recovery:** Emerging markets, notably India, Vietnam, Mexico, and parts of emerging Europe, have spearheaded a substantial recovery in global production. This momentum, which began before mid-2023, has continued into the later months, offsetting the slight drag from developed markets.
- **Excess Credit as a Growth Catalyst:** Despite central bank tightening in the West and ongoing quantitative tightening, credit growth continues to outpace economic growth in major economies. This trend historically indicates future economic expansion.
- **Anticipated Interest Rate Relief:** The U.S. is expected to reach its inflation target by April 2024, prompting a potential easing cycle from the Federal Reserve starting in May 2024. However, the scope for significant interest rate reductions is limited due to the minimal spare capacity in product and labour markets.
- **Quantitative Tightening (QT) Coming to an End:** The Federal Reserve and the Bank of England are expected to conclude their QT programs in 2024. This change, along with shifts in policies in Europe, Australia, and China, signals an end to the economic drag caused by QT, offering cyclical support for the recovery.
- **China's Economic Strategy Shift:** China has taken steps to stimulate its economy, including expanding its budget deficit and enhancing local government liquidity facilities. These measures, coupled with a less confrontational stance towards the West, are expected to support a sustained domestic economic recovery.

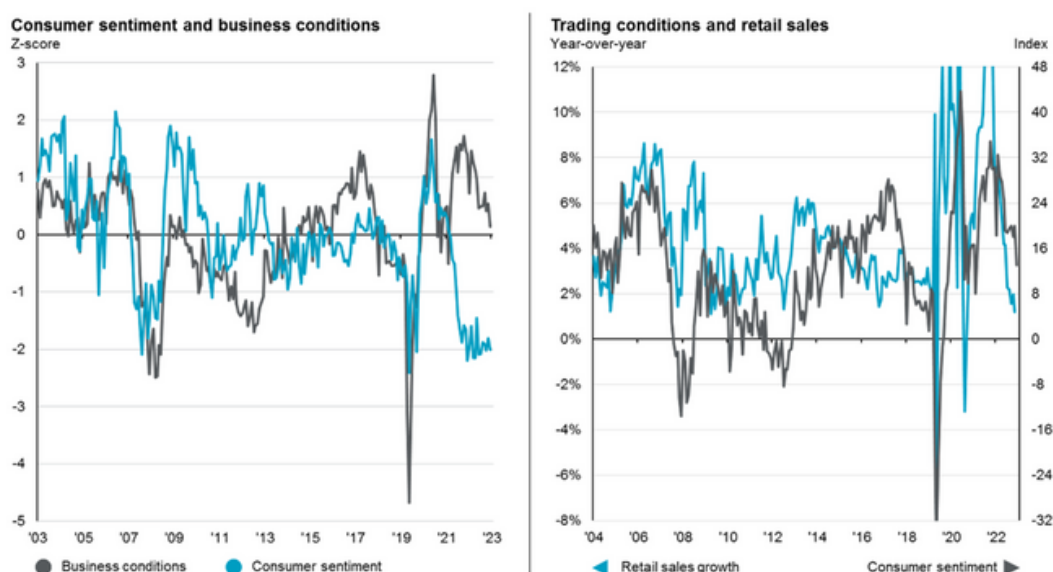
The global economy is expected to undergo significant changes in the coming years, with trends emerging that investors may not be adequately recognizing. The rising interest rates and reconsideration of risk premiums are leading to reduced liquidity, affecting investment flows, and causing potential dislocations in various asset classes. These market changes may create opportunities for informed investors.

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.

For Australia, the outlook is similarly positive, with expectations of avoiding a recession and experiencing accelerated growth in 2024. Several factors support this view:

- High commodity prices and construction backlogs have sustained economic growth.
- Household assets have grown, offsetting the impact of interest rate hikes.
- Increased net immigration has bolstered population growth, supporting the economy.
- Inflation moderation is expected to drive rate cuts, further stimulating growth.

Figure 1. Consumer and business confidence - Australia



Source: JPMorgan Asset Management

Locally, the forecast for the Australian economy and equity market in 2024 is positive, with some economists expecting economic growth to average 2.25%, bond yields to stabilize, and a strong performance in sectors like Industrials, Materials, Financials, Technology, and REITs.

This contrasts with the fourth quarter 2023 consumer sentiment and business sentiment, which are both slightly negative to December 31.

From a Year-on-Year perspective, retail sales are lagging and following the same direction as consumer sentiment. Both point to the views held by consumer and business, that the effects of inflation and higher interest rates are curbing spending.

Markets:

USA

The U.S. government's commitment of \$1.4 trillion over the next seven years to support local supply chains, clean energy, and the semiconductor industry is poised to significantly impact American industry. This influx of capital is expected to stimulate the capital investment cycle and transform sectors like manufacturing and energy. The stimulus is also likely to have a broader economic impact, creating job opportunities and driving demand in related industries. This trend is already visible in 2023, with companies like Carrier Global and Caterpillar experiencing increased demand for energy-efficient systems and construction equipment, respectively, spurred by this federal spending and changing market conditions.

Europe

The common perception that innovation is predominantly driven by U.S. tech giants is challenged by significant advancements in various industries across Europe.

- British-Swedish firm AstraZeneca, known for its COVID vaccine and lung cancer treatment Tagrisso, has made substantial investments in R&D, resulting in a promising pipeline of therapies for oncology and rare diseases.
- Swiss company Sika, a specialty chemical producer, is positioned to capitalize on stricter emissions regulations and increased infrastructure investment with its energy-efficient construction materials.
- France's Safran, a leading producer of narrow-body aircraft engines, is developing engines with General Electric that could reduce emissions by 20%.

This highlights that while the U.S. continues to be a key player in innovation, Europe offers diverse and promising investment opportunities that can add valuable diversification to investment portfolios.

Japan

Japan is actively working to modernise its corporate sector and place greater emphasis on shareholder interests, a shift from the slow progress seen since the initiation of the 'Abenomics' reform program. The Tokyo Stock Exchange has urged companies to enhance profitability, returns, and valuations, particularly by aiming to raise price-to-book (P/B) ratios above one. This can be achieved through strategies like reducing excess cash and divesting underperforming subsidiaries. While this drive has recently propelled Japanese equities to levels not seen since the late 1980s, mainly in value stocks, there's scepticism about whether this upward trend represents a significant change.

Emerging Markets

The spotlight in emerging markets is shifting beyond China, with countries like India, Indonesia, and Mexico emerging as attractive investment destinations. This shift is driven by rapid infrastructure development, stronger government balance sheets, and changes in global supply chains. Despite China's slowing economy, emerging markets are gaining depth due to trends like:

- Supply chain reconstruction
- Demographic shifts
- Energy transition

Investment opportunities in these regions are diverse, encompassing sectors like:

- Banking
- Aircraft components
- Real estate
- Mining
- Consumer goods
- Technology platforms focused on consumer services

Despite the broader shift, China remains relevant in the investment landscape, offering opportunities in:

- Innovative companies
- Strong market positions
- Significant cash flows
- Attractive valuations, especially following a deep market sell-off

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, decarbonization, and deglobalization, 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 9 January 2024

Australian unemployment

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

3.9%

AUD/USD

68c compared to 64c at the end of the September quarter.



Australian bonds

Australian bond yields at 3.97% by quarter end down 0.53 percentage points.

3.97%

Model performance

The AAN Index Growth Model was the best performing model for the quarter returning 6.90% and the AAN Sustainable Growth Model was the best performing model over 12 months returning 16.54%.



Annual inflation

US 3.2% OCT 2023 compared to 7.7% OCT 2022. AUS 4.9% OCT 2023 compared to 7.0% OCT 2022.



Equity markets

S&P500 returned 11.7% whilst the ASX200 returned 8.4% for the quarter.



Iron Ore price

Iron Ore \$143 USD/T +19.2% for the quarter.



Gold price

\$2,059 USD/oz +12.7% for the quarter.



Oil price

Brent crude \$76 USD/bbl -16.3% for the quarter. West Texas Intermediate (WTI) crude \$70USD/bbl -20.8% for the quarter.



Volatility Index

VIX ranged between 12 and 22 over the quarter.



US yield curve

US 10Y Treasury reached 3.9% by quarter-end, with the US10Y/2Y spread at -0.38%.



AAN CORE - AC0001

As at 31 Dec 2023

Investment Manager	AAN Asset Management Pty Ltd
Model Code	AC0001
Investment Fee	0.48% p.a.
Performance Fee	Nil
Less AAN Client Model Fee Discount	0.24% p.a.
Commencement	05 Feb 2016
ICR and Transaction Cost	0.57% p.a.
Indicative No. of Holdings	Unlimited

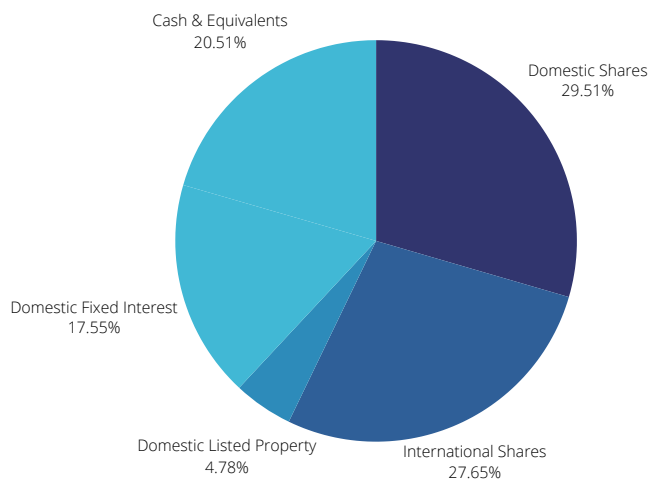
Investment description

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	18.53%
Vaneck MSCI Index International Shares (Hedged) ETF	7.13%
Franklin Global Growth	7.00%
Vaneck MSI International Quality ETF	6.73%
Lazard Global Equity Franchise	6.67%

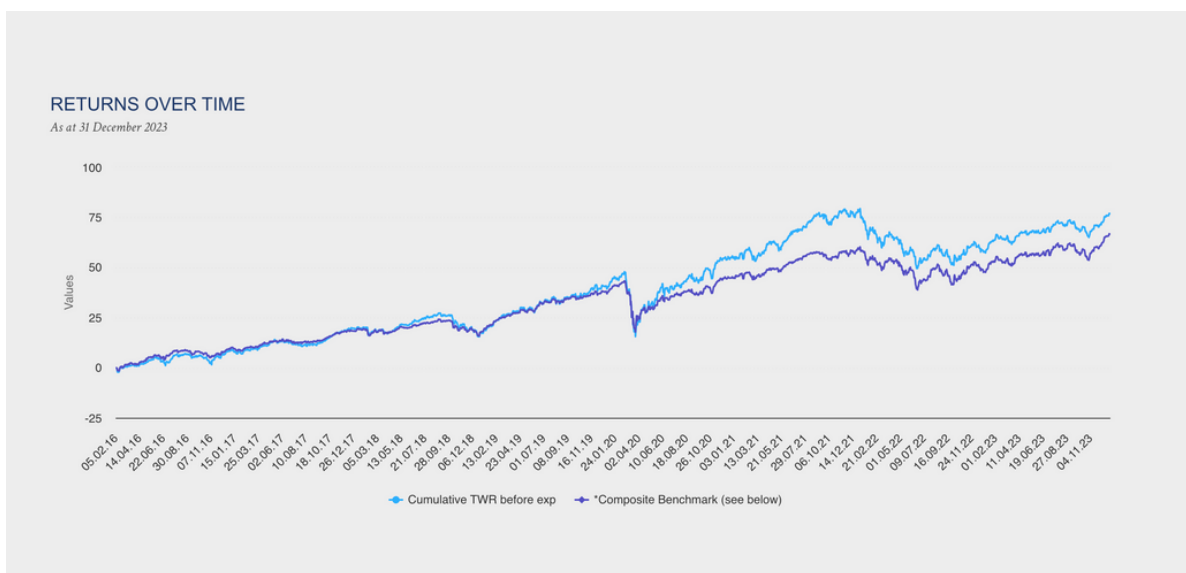
Top 5 holdings represent 46.06% of total fund

Performance

As at 31 Dec 2023

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Total Gross Return	3.46%	4.57%	4.54%	12.42%	4.96%	8.94%	7.93%

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):

- In the fourth quarter of 2023, global equity markets experienced a sharp rise, influenced by fluctuating investor optimism and speculations about the monetary policies of major central banks like the US Federal Reserve, European Central Bank, and Bank of England. These institutions had been raising interest rates since late 2021 to address inflation, impacting stock markets and bond yields. The Lazard Global Equity Franchise Fund returned 3.56%, slightly underperforming the MSCI World Index's 5.38% return. Key contributors to the fund's performance included Nexi, which benefited from robust Q3 results and potential asset sales, and United Utilities, which gained from increased capital expenditure plans. Omnicom also performed well, showing stable revenues and margins. Conversely, Pediatrix Medical Group and Fresenius Medical Care faced challenges, with the former missing Q3 expectations and the latter impacted by clinical trial results. International Game Technology (IGT) underperformed despite beating Q3 estimates and exploring strategic alternatives. Overall, the portfolio continues to focus on high-quality franchise companies with strong financial productivity, trading at reasonable valuations and offering promising long-term prospects.

Domestic Equities (DNR Capital):

- During the reported period, key contributors to the portfolio included James Hardie Industries (JHX), SEEK (SEK), and Scentre (SCG), which benefited from an improving outlook in their respective sectors. JHX gained from a positive housing outlook in North America and potential interest rate cuts, while SEK's performance was bolstered by diminishing recessionary fears and in-line job advertisement declines. SCG, along with the broader REIT sector, excelled due to market optimism about the future direction of interest rates. On the other hand, key detractors were IDP Education (IEL), QBE Insurance Group (QBE), and Aristocrat Leisure (ALL). IEL suffered due to changes in Australia's temporary migration program, QBE was impacted by falling bond yields affecting interest-sensitive earnings, and ALL faced dissatisfaction regarding its investment in mobile gaming.
- The broader market saw the S&P/ASX 200 Total Return Index rise by 7.26% for the quarter[MV1] [DI2], with A-REITs leading sector performance. This rise was attributed to the market pricing in peak interest rates, benefiting duration stocks. Health Care also outperformed, capitalising on the duration tilt. In contrast, Utilities and Energy sectors lagged behind, impacted by lower energy prices and sector-specific uncertainties. The DNR Capital Australian Equities High Conviction Portfolio, however, underperformed its benchmark in this period. The year 2023 ended with a notable rally in equity indices, influenced by the US Federal Reserve's dovish pivot and diminishing recessionary fears. The outlook for 2024 remains cautious, with attention on inflation rates, interest rate trajectories, and geopolitical instabilities affecting market dynamics.

Performance

The AAN Core model returned 4.57% (before fees) this quarter, bringing the rolling 12 month total to 12.42% (before fees).

Over the quarter, all asset classes made positive contributions to the portfolio. The largest contribution came from domestic equities (+1.77%), followed by international equities (+1.44%) and domestic listed property (+0.6%) making a smaller positive contribution.

For the 12-month period, all asset classes were positive contributors, led by international shares (+22.51%) and domestic shares (+13.24%), followed by domestic listed property (+16.95%), international fixed interest (+4.62%), domestic fixed interest (+4.86%), and cash (+3.00%).

Key Contributors:

- Vanguard MSCI Index International Shares (Hedged) +0.55%
- Vanguard Australian Property Securities Index +0.50%
- VanEck Australian Equal Weight +0.48%

Key Detractors:

- IGO Ltd -0.05%
- Woodside Energy Group Ltd -0.04%
- Perpetual Focus Australian Share -0.03%

AAN GROWTH - AC0002

As at 31 Dec 2023

Investment Manager	AAN Asset Management Pty Ltd
Model Code	AC0002
Investment Fee	0.52% p.a.
Performance Fee	Nil
Less AAN Client Model Fee Discount	0.22% p.a.
Commencement	02 Sept 2016
ICR and Transaction Cost	0.45% p.a.
Indicative No. of Holdings	Unlimited

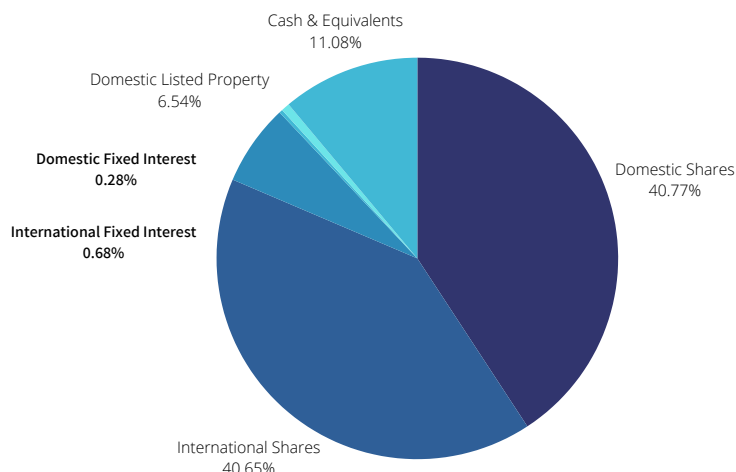
Investment description

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 Growths 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	10.72%
VanEck Australian Equal Weight ETF	9.91%
Perpetual Focus Australian Share	9.16%
Perpetual Diversified Real Return W	9.00%
Franklin Global Growth	8.94%

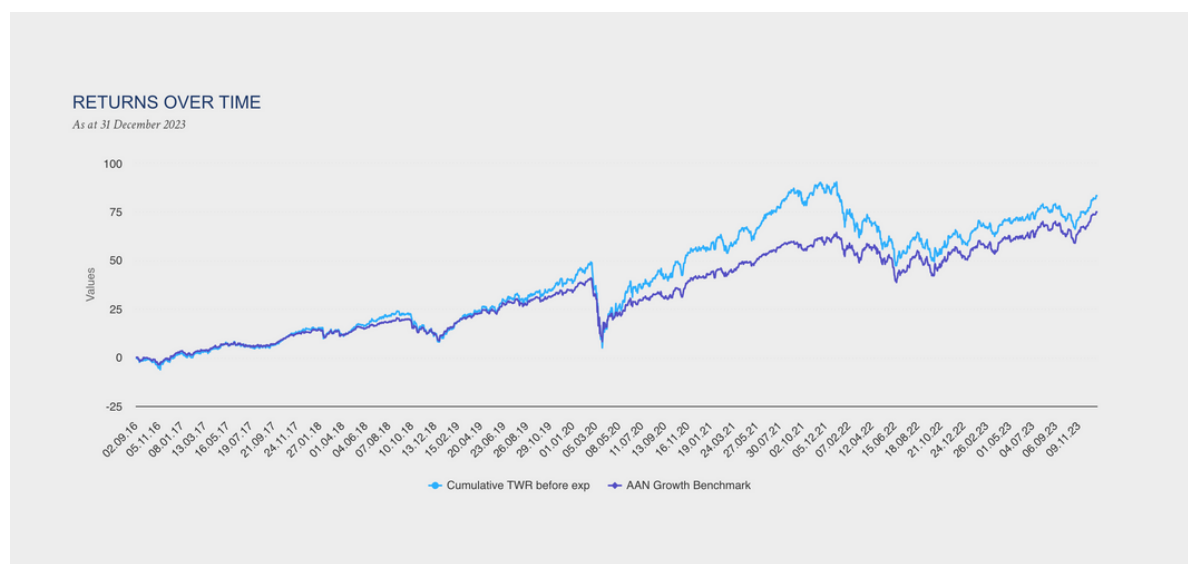
Top 5 holdings represent 47.73% of total fund

Performance

As at 31 Dec 2023

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Total Gross Return	4.84%	-6.31%	5.56%	16.06%	6.08%	11.18%	9.22%

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 (Perpetual Focus Australian Share Fund):

- In the fourth quarter of 2023, the S&P/ASX300 index saw a strong finish, delivering an 8.4% total return[MV1] [CU2] for the quarter, driven by investor optimism around moderating inflation and speculation about potential interest rate cuts in 2024. This optimism was bolstered by the Federal Reserve's pivot to a more dovish policy in December. The quarter saw varied performances across different sectors, with notable gains in A-REITs, Healthcare, and Materials, led by BHP's significant rise. However, the Energy sector struggled due to falling oil prices.
- The Focus Australian Share Fund's portfolio had overweight positions in Insurance Australia Group Ltd, National Australia Bank Limited, and Santos Limited, while being underweight in companies like Westpac Banking Corporation, Macquarie Group, and Wesfarmers Limited. Key contributors to the fund's performance included an underweight position in Woodside Energy Group and a new position in Goodman Group, which capitalised on opportunities in the property sector. Detractors included Iluka Resources, which saw a decline after previous significant gains, and AGL, which underperformed in relation to energy sector developments. Looking into 2024, expectations vary, with hopes for a soft landing in the US and Australian economies, despite potential challenges such as a European recession and a sluggish Chinese economy.

International Equities (Franklin Growth Fund)

- In the fourth quarter of 2023, Zscaler and Shopify positively impacted the IT sector, with both companies surpassing consensus earnings expectations. Zscaler, a U.S. network security firm, reported a significant revenue increase in its fiscal first quarter of 2024, while Shopify's third-quarter earnings were boosted by strong gross merchandise value growth, top-line trends, and unexpected profitability. Conversely, Paycom Software in the industrials sector underperformed, with its shares dropping after a downward revision in its 2023 revenue growth forecast due to issues with the Beti platform. Similarly, consumer discretionary company Aptiv faced a decline in stock value, affected by concerns over United Auto Workers strikes in the U.S. and a disappointing growth-over-market figure, despite strong third-quarter financial results.

Performance

The AAN Growth model returned 6.31% (before fees) for the quarter, bringing the rolling 12 month return to 16.06% (before fees).

Over the quarter, all asset classes made positive contributions to the portfolio. The largest contribution came from domestic equities (+2.49%), followed by international equities (+2.14%) and domestic listed property (+0.82%) making a smaller positive contribution.

For the 12-month period, all asset classes were positive contributors, led by international shares (+22.51%) and domestic shares (+13.24%), followed by domestic listed property (+16.95%), international fixed interest (+4.62%), domestic fixed interest (4.86%), and cash (+3.00%).

Key Contributors:

- Vanguard MSCI Index International Shares (Hedged) +0.82%
- Vanguard Australian Property Securities Index +0.70%
- VanEck MSCI International Quality +0.62%

Key Detractors:

- IGO Ltd -0.07%
- Perpetual Focus Australian Share -0.06%
- Woodside Energy Group Ltd -0.05%

AAN Australian - AC0003

As at 31 Dec 2023

Investment Manager	AAN Asset Management Pty Ltd
Model Code	AC0003
Investment Fee	0.65% p.a.
Performance Fee	Nil
Less AAN Client Model Fee Discount	0.19% p.a.
Commencement	30 Jan 2017
ICR and Transaction Cost	0.16% p.a.
Indicative No. of Holdings	Unlimited

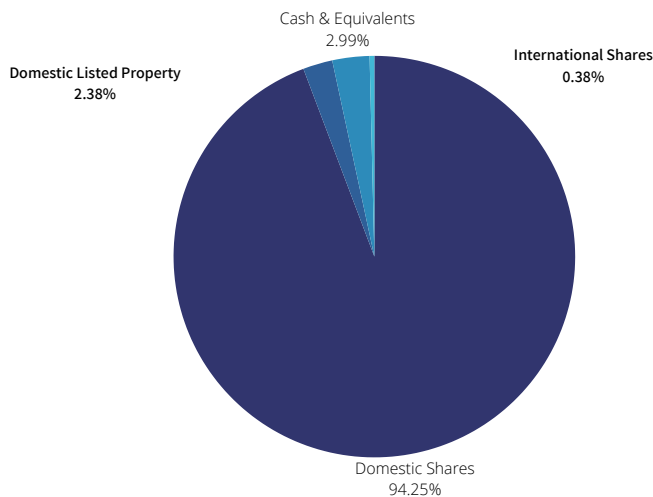
Investment description

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	25.07%
Perpetual Focus Australian Share	23.28%
BHP Group Limited FPO	6.99%
CSL Limited FPO	5.20%
National Australia Bank Limited FPO	3.59%

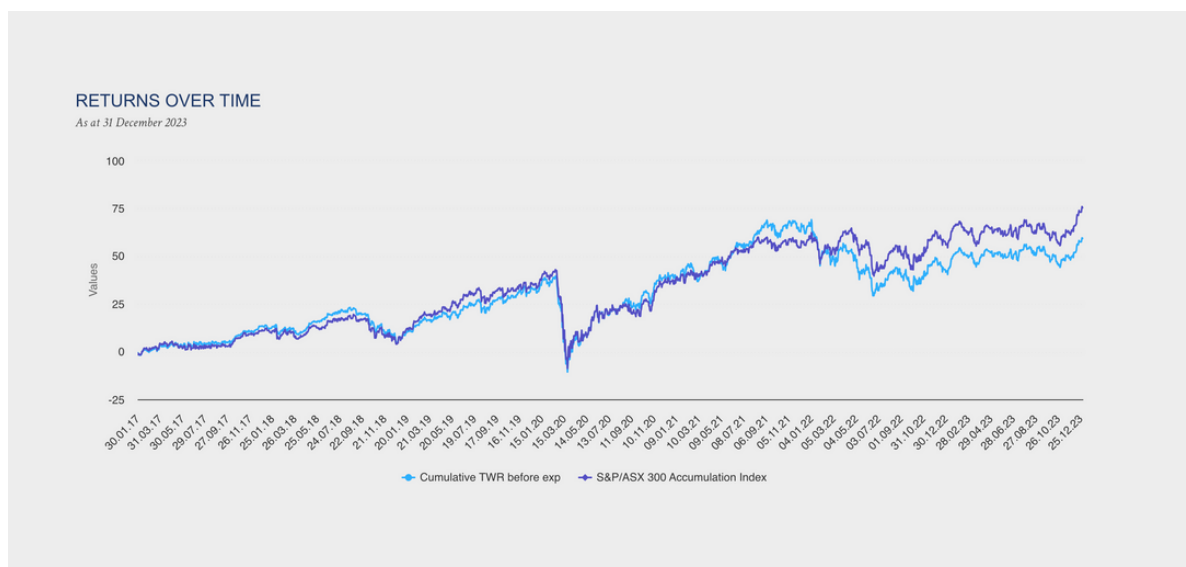
Top 5 holdings represent 64.13% of total fund

Performance

As at 31 Dec 2023

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Total Gross Return	6.29%	6.12%	5.91%	13.12%	5.86%	9.23%	8.08%

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:

- The contributors and detractors to the portfolio's performance for this quarter - James Hardie Industries, SEEK, and Scentre were strong performers, while IDP Education, QBE Insurance Group, and Aristocrat Leisure underperformed. The S&P/ASX 200 Total Return Index increased by 7.26% during the period, with A-REITs and Health Care sectors performing well, while Utilities and Energy sectors lagged. After a dovish pivot by the US Federal Reserve and fluctuations in bond yields, the focus is to retain high-quality stocks in an uncertain economic landscape. With the potential for interest rate cuts in 2024 and other key risks for the year ahead, including inflation concerns and geopolitical tensions in the Middle East, portfolio positioning will involve taking advantage of any increased volatility to enhance high conviction positions and improve portfolio quality.

Perpetual Focus Australian Share Fund:

- The S&P/ASX300 concluded the year robustly, achieving a +8.4% total return for the quarter and a +12.1% return over 12 months, buoyed by the "Santa rally" driven by optimism around moderating inflation and the potential end to the Federal Reserve's rate hikes, further fuelled by speculations of rate cuts in 2024. This optimism surged post-October when 10-year bond yields peaked and was cemented by the Fed's dovish policy pivot on December 13. Sector performance varied significantly, with yield proxies and growth sectors like A-REIT (+16.6%), Healthcare (+13.1%), and Materials (+13.4%, highlighted by BHP's rise) outperforming, while the Energy sector lagged due to falling oil prices. Portfolio highlights include strong positions in Insurance Australia Group Ltd, National Australia Bank Limited, and Santos Limited, with notable contributions from underweight positions in energy, particularly Woodside Energy Group, and positive impacts from investments in Goodman Group amidst a challenging market. Detractors included Iluka Resources and AGL, with the latter impacted by regulatory changes and market conditions. Looking ahead, the outlook for 2024 remains mixed with varying expectations for the US and Australian economies amidst potential cyclical downturns and external challenges from Europe and China.

Performance

The AAN Australian model returned 6.12% (before fees) for the quarter and 13.12% (before fees) for the 12 month period. No asset classes detracted from the portfolio over the quarter. For the 12 months domestic shares have returned 13.27% while domestic listed property has generated 24.25%.

In absolute terms, the best performing positions through the quarter were VanEck Australian Equal Weight (+1.57%), BHP (+1.09%), NAB (+0.71%), CBA (+0.48%), RIO (+0.40%).

The detractors include IGO (-0.18%), Woodside Energy Group (-0.13%) and Perpetual Focus Australian Share Fund (-0.13%).

Key Contributors:

- VanEck Australian Equal Weight +1.57%
- BHP +1.09%
- NAB +0.71%

Key Detractors:

- IGO -0.18%
- Woodside Energy Group -0.13%
- Perpetual Focus Australian Share Fund -0.13%

AAN Index Core - AC0004

As at 31 Dec 2023

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

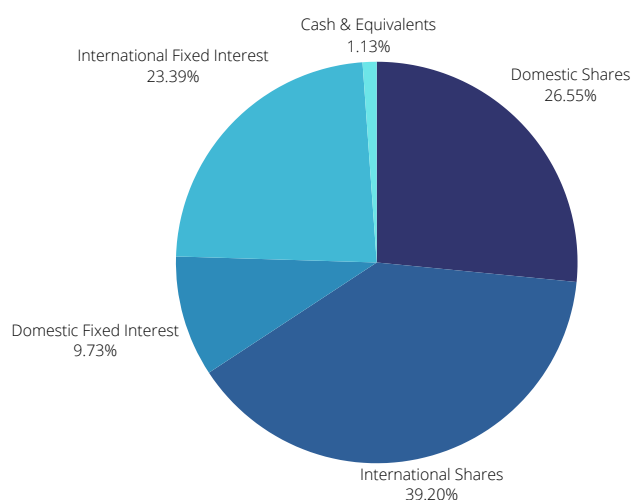
Investment description

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	26.55%
Vanguard Global Aggregate Bond Index (Hedged) ETF	23.39%
Vanguard US Total Market Shares Index ETF	13.36%
Vanguard MSCI Index International Shares (Hedged) ETF	12.05%
iShares Australian Bond Index	9.73%

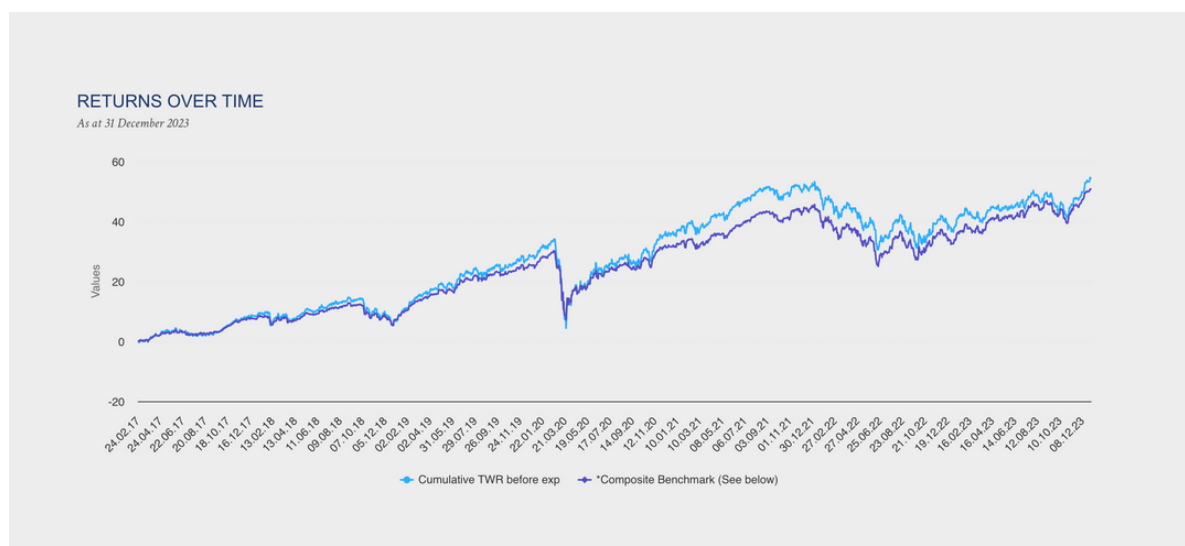
Top 5 holdings represent 85.08% of total fund

Performance

As at 31 Dec 2023

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Total Gross Return	4.36%	6.54%	5.58%	12.79%	4.92%	7.98%	6.99%

Returns over time



AAN Index Core - AC0004

As at 31 Dec 2023

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 BetaShares Australia 200 ETF (+2.04%), and the Vanguard US Total Market Shares Index ETF AUD (+0.94%).

There are no negative contributors to the portfolio for this quarter.

Performance

The AAN Index Core model returned 6.54% over the quarter (before fees) which brought the rolling 12 month period return to 12.79% (before fees).

Key Contributors:

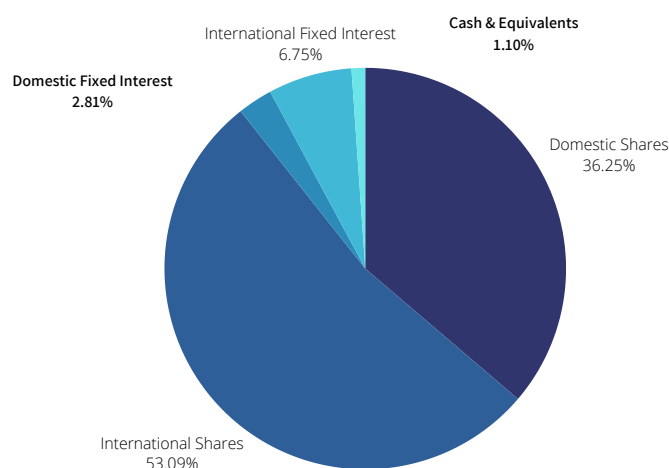
- BetaShares Australia 200 ETF +2.04%
- Vanguard US Total Market Shares Index ETF AUD +0.94%
- Vanguard MSCI Index International Shares +0.92

AAN Index Growth - AC0005

As at 31 Dec 2023

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	0.16% p.a.
Indicative No. of Holdings	Up to 25

Asset Allocation



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	36.25%
Vanguard US Total Market Shares Index ETF	18.20%
Vanguard MSCI Index International Shares (Hedged) ETF	16.23%
Vanguard All-world ex-US Shares Index ETF	7.53%
Vanguard Global Aggregate Bond Index (Hedged) ETF	6.75%

Top 5 holdings represent 84.96% of total fund

Performance

As at 31 Dec 2023

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Total Gross Return	4.82%	6.90%	6.30%	15.72%	8.14%	10.81%	8.46%

Returns over time

RETURNS OVER TIME

As at 31 December 2023



AAN Index Growth - AC0005

As at 31 Dec 2023

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 BetaShares Australia 200 ETF (+2.77%), and the Vanguard US Total Market Shares Index ETF AUD (+1.28%).

There are no negative contributors to the portfolio for this quarter.

Performance

The AAN Index Growth model returned 6.90% this quarter (before fees), bringing the rolling 12 month return to 15.72% (before fees).

Key Contributors:

- BetaShares Australia 200 ETF +2.77%
- Vanguard US Total Market Shares Index ETF AUD +1.28%
- Vanguard MSCI Index International Shares +1.24%

AAN Sustainable Growth - AC0006

As at 31 Dec 2023

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	0.13% p.a.
Commencement	17 Dec 2020
ICR and Transaction Cost	0.62% p.a.
Indicative No. of Holdings	

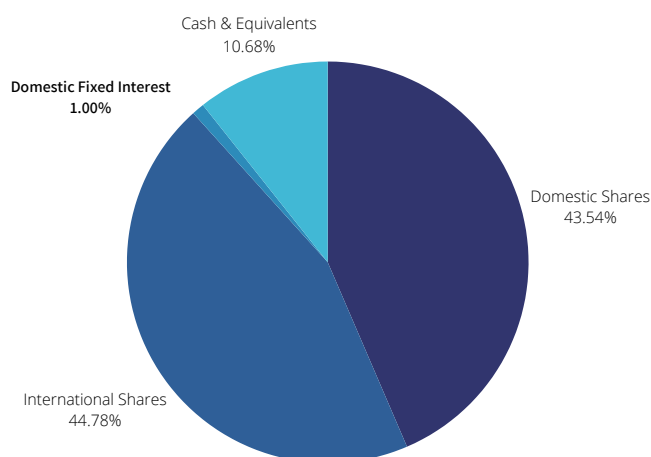
Investment description

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

iShares Core MSCI Australia ESG ETF	11.73%
iShares Core MSCI Word Ex Aus ESG (AUD HED) ETF	11.61%
Stewart Investors Worldwide Sustainability	11.51%
Alphinity Sustainable Share	11.16%
Betashares Global Sustainability Leaders ETF	11.08%

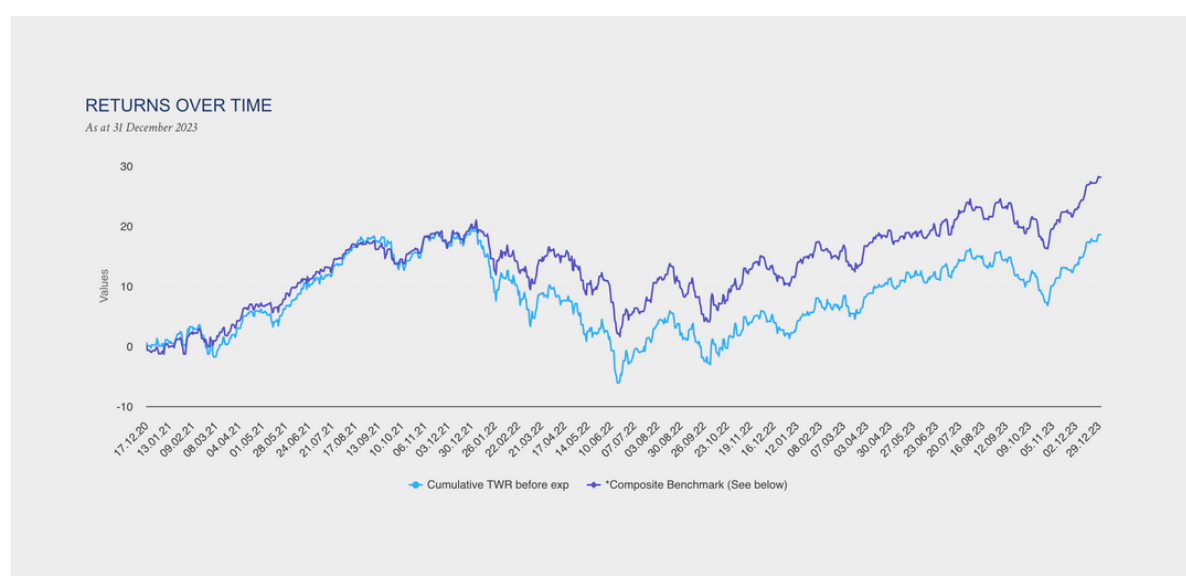
Top 5 holdings represent 57.09% of total fund

Performance

As at 31 Dec 2023

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Total Gross Return	4.71%	6.77%	4.86%	16.54%	6.33%	N/A	6.25%

Returns over time



AAN Sustainable Growth - AC0006

As at 31 Dec 2023

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 December quarter, the Fund outperformed the market with a 0.4% gain after fees, largely due to not owning gas producers like Woodside Energy or Santos, as oil prices retreated. Key contributors to this performance were specialist retailer Super Retail Group, building materials company James Hardie Industries, industrial property specialist Goodman Group, industrial services company Seven Group, and hearing device company Cochlear. On the other hand, main detractors included insurer QBE, pallet pooler Brambles Industries, and supermarket operator Woolworths, with the absence of Fortescue Metals in the portfolio also being detrimental. The year 2023 proved challenging for generating alpha due to significant market uptrends and in-market style rotations, influenced by a substantial drop in bond yields following better-than-expected US inflation figures and strong consumer spending in November and December. The portfolio management focused on earnings revisions, valuation, and quality, leading to a more defensive and short growth positioning throughout the year. The decline in bond yields prompted a noticeable short-term shift towards cyclicals, growth, and yield-sensitive stocks, contrasting with the market's earlier concerns about a slowing economy amidst persistent inflation and interest rate issues.

International Shares (Stewart Investors Worldwide Sustainability):

- The strategy for Q4 led to a positive return for the full year, marking a successful period despite the continuation of the turbulent conditions from 2022, which posed challenges for most portfolio companies and caused fluctuations in portfolio performance. The aftermath of Russia's 2022 invasion of Ukraine continued to affect the global economy in 2023, including heightened geopolitical tensions and a persistent rise in energy prices. Additionally, companies faced ongoing supply chain issues from 2022, leading to overstocking and contributing to higher inflation. In 2023, de-stocking and slowing demand were prevalent, along with significantly higher interest rates in many countries compared to the start of 2022. The period from August to October 2023 was especially difficult due to various macroeconomic issues. The market's buoyancy was often limited to U.S. mega-cap tech stocks and trendy sectors like AI and weight loss drugs. In contrast, small and mid-cap stocks, along with many European-listed stocks, faced valuation pressures due to recession fears, central bank uncertainty, and a pessimistic outlook from China.
- Portfolio adjustments in Q4 included no new additions but reinforced positions in companies with strong cash flows and compelling valuations, such as Halma, Spectris, and Edwards Lifesciences. Investments were also increased in undervalued firms with solid fundamentals, like Zebra Technologies and Alfen, which are poised to benefit from automation and energy transition trends, respectively. Conversely, positions were reduced in Admiral, Arista Networks, and Advanced Drainage Systems due to valuation concerns, and Constellation Software was entirely divested because of its high valuation. The healthcare sector, despite its expected long-term resilience and value, was a disappointment over the last two years. However, the portfolio remains diverse and focused on companies with quality management, sustainable practices, and the potential to drive human development and alleviate environmental pressures. The focus on sustainability, diverse growth drivers, and reasonable valuations leaves the portfolio well-positioned for future success.

Performance

The AAN Sustainable Growth model returned 6.77% this quarter (before fees) whilst over 12 months the model returned 16.54% (before fees).

No asset classes detracted from the portfolio over the quarter. Domestic shares contributed (+2.51%), while international equities delivered (+2.20), domestic listed property (+0.06%) and cash and equivalents (+0.06%).

For the 12 months to December 31, international shares 21.12% leads the way, with domestic shares producing 15.15%, domestic listed property 14.23% and cash and equivalents 1.16%.

Key Contributors:

- BetaShares Global Sustainability Leaders ETF +0.89%
- Alphinity Sustainable Share Fund +0.86%
- Vanguard Ethically Conscious International Shares Index ETF +0.61%

Key Detractors:

- Healius Ltd -0.07%
- Incitec Pivot Ltd - 0.07%
- Perpetual ESG Australian Share Fund -0.07%

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.