

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	

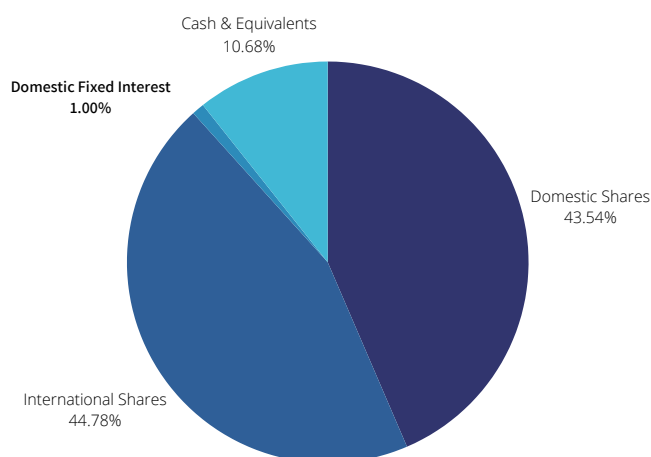
Investment description

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%

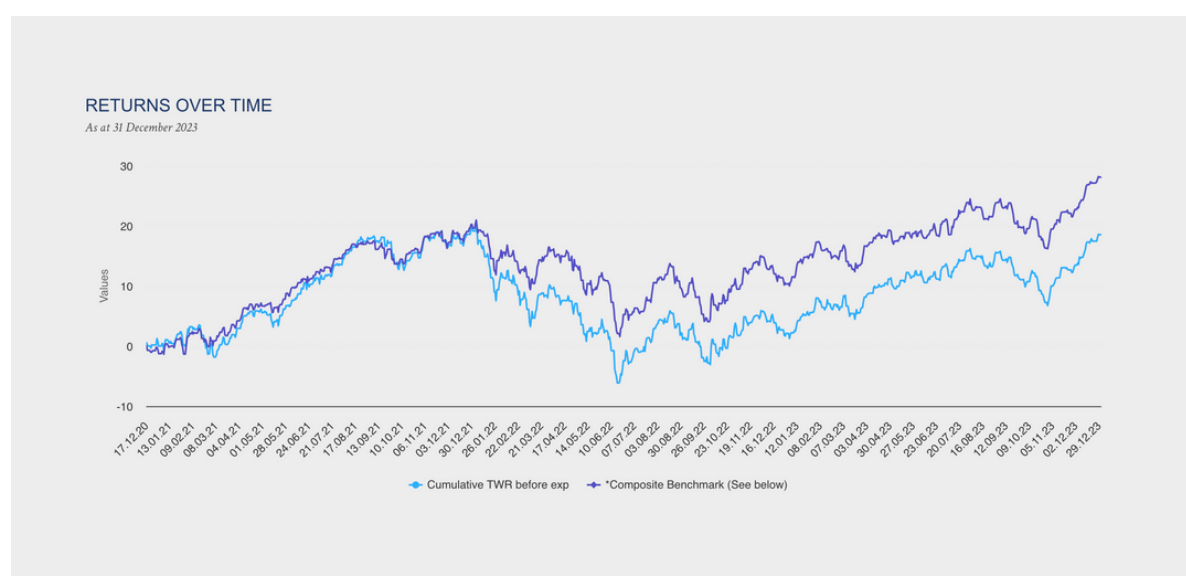
Top 5 holdings represent 57.09% of total fund

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



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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%

AAN Sustainable Growth Disclaimer

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.

*Total net returns represent past performance only. Past performance is not a reliable indicator of future performance. Returns of the Fund can be volatile and in some periods may be negative. The return of capital is not guaranteed. Composite Benchmark: 42.5% S&P/ASX 300 TR Index || 5% Bloomberg AusBond Composite Index || 42.5% MSCI World Index (AUD) || 5% Bloomberg Barclays Global Aggregate TR Hedged AUD || 5% FTSE EPRA Nareit Developed TR Hedged AUD. This Model Portfolio is subject to the risk of stock market fluctuations. Investors accessing the Model Portfolio through a master trust or wrap account will also bear any fees charged by the operator of such master trust or wrap account. Any apparent discrepancies in the numbers are due to rounding. Management costs and buy/sell spread are current as at the date of publication of this website. These fees may be subject to change in the future. Total returns (net) have been calculated using exit prices and take into account the applicable buy/sell spread and are net of AANAM's management costs, transactional and operational costs and assumes reinvestment of distributions. No allowance has been made for tax. Returns of more than one year are annualised. The return of capital is not guaranteed. If you want more information on the benchmarks used for each model please visit the AANAM website at www.aanam.com.au.