Ausbil Balanced Fund

Quarterly Investment Report

March 2024

Ausbil Investment
Management Limited
ABN 26 076 316 473
ACN 076 316 473
AFSL 229722

Strength. Wisdom. Agility.

CELEBRATING 25 YEARS IN FUNDS MANAGEMENT

Economic Review

Economic Review

The month of March saw markets power ahead on an improving outlook for global growth, despite the path of US inflation moderating at a slower 'bumpy' pace. Federal Reserve Chair Powell reiterated that rates will likely be cut sometime this year, with the benefit of a strong economy allowing "time to let the incoming data guide our decisions on policy." The growing optimism was reinforced by the Bank of Japan exiting from negative rates and ultra-accommodative policy settings. On geopolitics, NATO is proposing a US$100 billion 5-year aid package, where NATO would take over the Ramstein Group, an American-led alliance of 50 countries that militarily supports Ukraine.

As illustrated in Table 1, futures market re-pricing is finally in alignment with the Fed's rate projections of three 25bps cuts, 75bps in total for 2024.

Table 1: Official Cash – markets rate cut expectations dialled back for year-end 2024

	Cash Rate Now %	Market view for year end 2024	*Market repricing year to date in basis points*
US	5.50	4.60	*+ 85*
Euro	4.00	3.00	*+ 75*
UK	5.25	4.44	*+ 98*
Canada	5.00	4.35	*+ 63*
Australia	4.35	3.89	*+ 23*
New Zealand	5.50	4.77	*+ 46*
Japan	hiked to 0.0 (was -0.10)	0.27	*+ 7*

Source: Bloomberg through interest rate futures.

Global equity returns outperformed for a fifth consecutive month, ahead of the Easter religious observance. The MSCI World Index for developed markets finished up 3.0%, emerging markets up 1.9%, the US S&P500 up 3.1%, and Australia's S&P/ASX 200 up 2.6%. The China MSCI index lagged, closing up a mere 0.8%. The price of Brent crude oil surged 7.2% and spot gold spiked 8.6% after being flat for two consecutive months. In the US, 10-year bond yields fell by 5 bps to 4.20%, the inverted 2/10-year yield curve steepened, corporate high yield credit spreads narrowed, 10-year inflation-protected real yields fell, and the US dollar index was flat. In Australia, the 10-year nominal bond yield fell by 17bps to close at 3.96%, the 2/10-year yield curve flattened (with 10-year higher than 2-year), and the 10-year bond spread to the US closed lower to 24bps. The Australian dollar and the trade-weighted index closed flat.

The US Federal Reserve's March meeting upgraded macro projections to reflect a resilient economy with real GDP revised higher to 2%, core PCE inflation higher for 2024 to 2.6% and the unemployment rate lowered to 4%. Projected rate cuts for 2024 were left unchanged at three. Meanwhile in Europe, markets have priced in rate cuts starting at the June meeting, following comments from ECB President Lagarde stating that they will know a lot more on the path of inflation by that time.

The Bank of Japan discontinued negative interest rate policy and yield curve control. The bank now aims to keep the overnight call rate between 0% and 0.10%. This was the first change in the short-term policy rate since negative interest rates were introduced in 2016, and the first hike since February 2007. It also scrapped purchases of exchange-traded funds and real estate investment trusts but purchases of government bonds would continue. The Reserve Bank of Australia left the cash rate unchanged at 4.35% with the March meeting minutes confirming a neutral stance. The Board stressed recent data had not materially changed views on the outlook and that it was not possible to either rule in or out future changes to the cash rate.

Economic Review

On the data front, US headline PCE inflation slowed to an annual rate of 2.5% from a year earlier, where it stood at 5.2%. Core inflation eased to an annual pace of 2.8% from 4.8% a year ago. However, the last two months of data show stalling momentum in core goods and core shelter disinflation, whilst core services (ex-housing) remain elevated and sticky. The ISM manufacturing index returned to expansionary territory after being in contraction since Q3'2022.

Euro-area inflation moved to the downside with the headline annual rate slowing to 2.4% in March from 2.6% in February. The core inflation annual rate eased to 2.9% from 3.1%, however services prices remain elevated at 4% for the fifth consecutive month. China's PMI manufacturing survey returned to expansionary territory, supportive of economic activity. The latest National People's Congress Government Work report announced 2024 economic targets with the growth rate set at 5% and the headline budget deficit at 3% of GDP. The Australian labour market remains tight with the 6-month average increase in employment running at 32,500 per month, consistent with a 3.8% unemployment rate. Adding to the positive tone, Chinese tariffs were lifted on A$1.2 billion worth of Australian wine exports, which have been subject to the retaliatory impost since 2020.

Global Economic Outlook

Global Economic Outlook

Growing risks from unpredictable geopolitical events

On geopolitics, developments in the Middle East with shipping attacks by Iranian backed Houthis in the Red Sea, and war between Israel and Hamas are a concerning threat to global stability. In the context of Russia's invasion of Ukraine, and ongoing political tensions with China, the world is now in a state of heightened tension and uncertainty. The Middle East could worsen with neighbouring countries drawn into the conflict, and a risk that the United States could become involved in a proper war, rather than small security skirmishes as with their response to attacks by the Houthis.

Conflict in Ukraine, Putin's growing list of vitriolic threats, and the deployment of tactical nuclear weapons to Belarus all heighten the risk of destabilisation and increase the potential for a broadening of the conflict with neighbouring NATO members. The confluence of risks from both wars could easily reignite inflationary price shocks in energy, metals and food. In this environment, there is a significant risk of further oil price inflation, placing upward pressure on interest rates, and adding further drag on economic growth, which will be a concern for all markets. China's unpredictable foreign policy activities also add unwanted uncertainty to the dynamic shape of international trade relations which, as we have seen, can have severe consequences like the 2020 trade tariffs imposed on Australian exports.

In summary, the current state of play is best summarised by the quote from former US Defence Secretary, Donald Rumsfeld, that there are "known unknowns" and "unknown unknowns" contributing to the fog of war, which is, currently, the primary risk to Ausbil's macro-outlook.

Growth, lower inflation and real rate cuts

While there is much geopolitical risk, including numerous upcoming government elections, we still see the macroeconomic settings returning to more normal levels. Our early contrarian 'soft landing' outlook for the US has now evolved to the next level of sustained theme of 'growth, lower inflation and real rate cuts'. We see the extended pause in global cash rates leading to the commencement of modest rate cuts in 2024 on falling inflation.

Central Banks are in a risk management stance, and aim to "assess the inflation dynamics and reduce rates to offset the impact from rising real rates." The Federal Reserve has forecast 75 basis points (bps) in rate cuts for 2024, starting sometime in the latter half of this year. However, with the economy forecast to remain at trend GDP levels and the unemployment rate holding onto 50-year lows, we believe that the Fed's projected rate cuts for 2025 and 2026 will be dialled backed significantly in the upcoming scheduled SEP quarterly updates. This view has subsequently been confirmed at the latest March SEP update where year 2025 rate cuts were pared back from 4 to 3, that is 75bps (down from 100 bps) while year 2026 rate cuts were left unchanged at 3, that is 75bps. Of greater significance were the slight upgrades to the long run estimates for the terminal cash rate and the neutral real rate, which we believe, will be trending higher over the medium term.

The structural long-run themes of decarbonisation and slowing globalisation will be commodity demand intensive and will underpin real activity. Global GDP growth is on an upward path towards 3.3% in 2024 and from there heading toward its long run trend rate, as illustrated in Table 2.

Global Economic Outlook

Table 2: Global growth – on an upward path toward long run trend

Real GDP % year average	Long run average 2010 to 2019	Ausbil 2024 %	Ausbil 2025 %
United States	2.3	2.1	2.2
Japan	1.2	1.1	1.2
Eurozone	1.4	0.9	1.6
China	7.7	4.8	4.6
India	7.0	6.7	7.0
Australia	2.6	2.0	2.5
Global GDP	3.7	3.3	3.5

Source: Ausbil, FactSet.

Europe skirts shallow recession and China supported by targeted policy stimulus

The Asia-Pacific growth engine, particularly India and China, is expected to outpace the US and a weak Europe, with US growth revised higher to 2.1% (up from 1.7%) in 2024 and higher to 2.2% in 2025. The US growth outlook is driven by a resilient labour market remaining below full employment levels, and underlying strength in the consumer from real wages growth and the drawdown in excess savings. Europe to date has skirted the risk of a shallow recession driven by a weak German economy. We expect activity to resume on a modest and sustained recovery, assisted by likely ECB rate cuts and China's ongoing targeted stimulus measures since August 2023. The latest Chinese National People's Congress Government Work report announced 2024 economic targets with the growth rate set at 5% and the official headline budget deficit at 3% of GDP. Separately and deliberately excluded from the headline budget, they announced an additional US$139 billion in ultra-long dated special treasury bonds. Aggregating the official fiscal and various additional fiscal transfer measures - the augmented budget deficit increases to an expansionary 8.2% share of GDP in 2024 up from 7.0% in 2023.

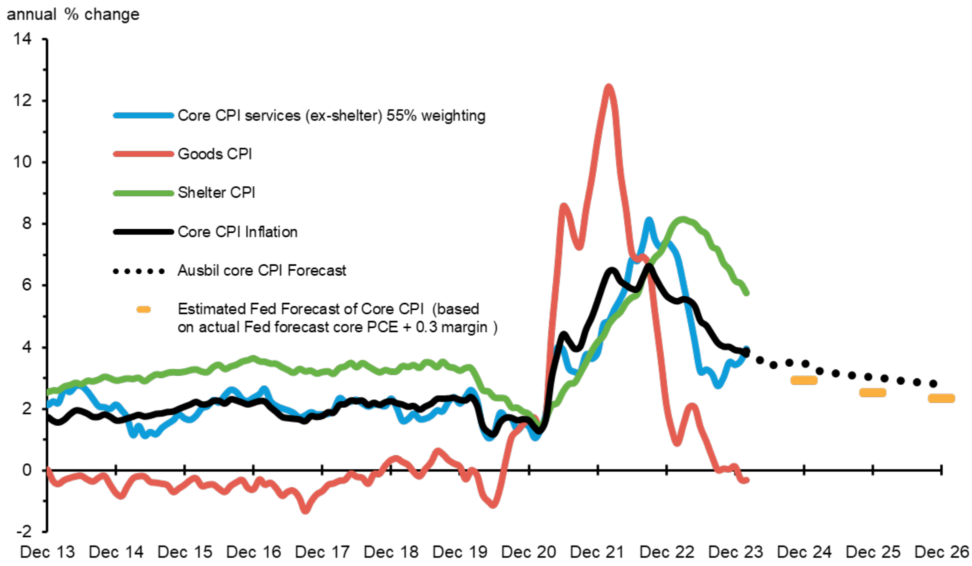
Lower inflation settling above target levels

Inflation is falling, and the forecast trajectory is for a return to above central bank target levels out to 2025. Core inflation dynamics are switching, and we see persistent sticky services (ex-housing) inflation, lower housing inflation to a lesser degree and upside risk from goods inflation. The risk of acceleration lingers as the leading indicators are pointing to the likelihood of stalling momentum in both core goods and core shelter disinflation, whilst core services (ex-shelter) remain stubbornly high.

Chair Powell has decomposed US core inflation into three sector categories: core goods; shelter; and core services, excluding shelter. This breakdown is illustrated in Chart 1 below. As service inflation is intricately linked to the labour market, an improving inflation profile requires correcting the labour imbalance and slowing wage growth from a 4.5% pace towards 3.5%, based on the assumption that labour productivity growth averages 1.5% pa, similar to rates experienced back in 2018-19.

Global Economic Outlook

Chart 1: Three core measures of consumer price inflation



Source: Ausbil, 2024.

Australian Economic Outlook

Australian Economic Outlook

Real GDP growth at 2%, below trend pace

The Australian economy performed exceptionally well in 2023, despite facing the multiple headwinds of geopolitical uncertainty, rising global bond yields, higher mortgage rates and ongoing cost of living pressures. We continue to forecast a favourable domestic outlook for 2024 and into 2025. This is based on our unique geographic exposure to the faster growth engines of the Asia-pacific region, together with an improving global environment supported by cuts in nominal rates on falling inflation.

Australia continues to benefit as a net exporter of commodities, driven by the ongoing cyclical rise in resources demand, and the underlying long-term structural trends, including decarbonisation, which are commodity demand intensive. In addition, Australia will also benefit from China's politburo announcing additional targeted stimulus measures since August 2023 in supporting domestic activity and sand bagging the contagion risk from a depressed housing sector. The latest NPC government work report announced the issue of ultra-long dated special treasury bonds, the specific purpose of which was not declared. The value of 1 trillion yuan (US $139 billion) matches and corroborates late last year's speculation of the likelihood of another 1 trillion yuan in direct credit funding from the Peoples Bank of China to target the housing sector in the lower tiered cities and western regions, which will offer low-cost financing for urban village renovation and affordable housing programs. This should result in an injection of money in phases into public programs via policy banks and via options like the Pledged Supplemental Lending Facility.

Australia's GDP growth is forecast to improve at a revised higher 2% pace in 2024 (up from 1.75%) and higher to 2.5% in 2025. We see a diminishing drag on activity coming from the household consumption channel. The activity drivers in final demand sees the growth baton switching from the public sector to the private sector, with the picking up starting in the second half of 2024 and moving higher in 2025, back toward a trend level of activity. The labour market remains resilient, and we are forecasting a modest uptick in unemployment to 4.1%, with the economy holding on to the 50-year broad-based gains. This is an outcome that would see the unemployment rate remain below the NAIRU (natural rate of unemployment) estimates of Treasury and the Reserve Bank of Australia (RBA) in the range of 4.25% to 4.50%.

Excess household savings a buffer, monitoring for consumer stress

Overall, activity will be supported by the terms of trade, full employment, income tax cuts, a reducing savings rate and the gradual rundown in the stock of excess savings. Based on the latest Q4'2023 national accounts, private households currently have A$238 billion in excess savings (representing 16% of annual nominal gross household disposable income), the peak was A$295 billion in Q3'2022 (equivalent to a 20% share). Of the excess savings amount, A$147 billion (up from A$138 billion in Q3) is sitting in mortgage offset and redraw accounts. Assuming a savings drawdown rate at A$15 billion per quarter, we estimate this will be supportive of subdued household consumption of 0.3% per quarter and meeting mortgage repayments. Since December 2022, the cumulative drawdown in excess savings stands at A$57 billion. That said, as the situation is fluid, we are watching the data for any signs of deterioration, or any consumer stress that emerges. Meanwhile, the positive terms of trade, growing income tax receipts and lesser outlays has seen fiscal policy move dramatically from cyclical deficit into surplus, which is expected to continue over the medium term.

Moderating inflation profile and a fully employed labour market

Allowing for the government overhaul of the temporary migration strategy, underlying population growth and net migration back at more normal levels, this will continue to be supportive of economic growth. Labour supply will see an increase in the participation rate, and the employment-to-population ratio sustained around recent highs. The ratio of the number of unemployed persons per job vacancy is currently at 1.4:1, compared to 3:1 prior to the pandemic.

Australian Economic Outlook

We are forecasting a gradual moderation in underlying domestic inflation over calendar year-end 2024 to 3.4%, moving to 3.2% in 2025 and to 3.1% by June quarter of 2026, still above the upper central bank target level. The moderation is driven by ongoing supply-side improvements against a peaking and stabilising profile in nominal wages growth.

We see real wages growing through the year with headline CPI at 3.6% below the wage price index in the range of 4.10% to 4.40%. However, should we experience persistent higher wages growth and ongoing resilient employment outcomes, this will see the RBA biased to leaving rates in restrictive territory for much longer, thereby further delaying any rate cut.

Rates on hold for some time but improving inflation leads to easing

Headline inflation was better than expected for the 2023 December quarter CPI release driven by lower goods prices. However, the service sector price components as captured in the indexes covering non-tradable inflation (a proxy measure of domestic inflation) and the market services (a proxy measure of domestic labour-intensive services inflation) remain elevated and persistent. We are forecasting the RBA to leave rates on hold at 4.35% for most of 2024, with ongoing forensic monitoring of the underlying dynamics on services inflation. Assuming an improving inflation profile from here for these service sub-components, this should provide scope for the RBA to reduce rates to 4.10% sometime in late 2024, likely through one rate cut this year of 25 bps to be followed up with a second cut of 25bps in Q1'2025.

Regarding the impact from fiscal policy (that is, income tax cuts and government subsidies for cost-of-living pressures such as rental assistance and electricity), we are assuming the current existing measures remain in place. Any future fiscal developments providing additional cost of living relief at the upcoming May 14th budget is unknown and are, by definition, excluded from the forecast. A steady rate profile should allow companies and consumers alike to readjust to a more stabilised policy environment.

Structural demand for resources will underpin the Australian dollar with the AUD expected to appreciate into the range of US70 cents, and the trade weighted basket trending higher.

Meanwhile, the RBA will be monitoring the global economy, household spending, and wage and price-setting behaviour. In summary, repeating what we said for 2023, we do not see Australia entering a recession. On the contrary, we see an improving domestic profile with the growth drivers in final demand switching from the public sector to the private sector.

Jim Chronis

Chief Economist, Associate Director

As Ausbil's Chief Economist, Jim is responsible for macroeconomic research and strategy. As Associate Director – Debt and Diversifieds, Jim manages the Ausbil Balanced Fund cash and fixed interest mandates. Jim holds Bachelor of Laws and Bachelor of Economics (Honours) degrees from the University of Sydney.

Investment Market Review

Investment Market Review

Table 3: Key benchmark returns by asset class - total return

Asset Classes	3 months %	12 months %
Australian Equities	5.61	13.67
Australian Bonds (UBSA Composite Bond Index)	0.88	1.32
Australian Property - Direct Property	2.49	11.93
Australian Property - REITS	16.75	36.58
Global Equities (benchmark)	12.54	25.30
Cash	1.09	4.19

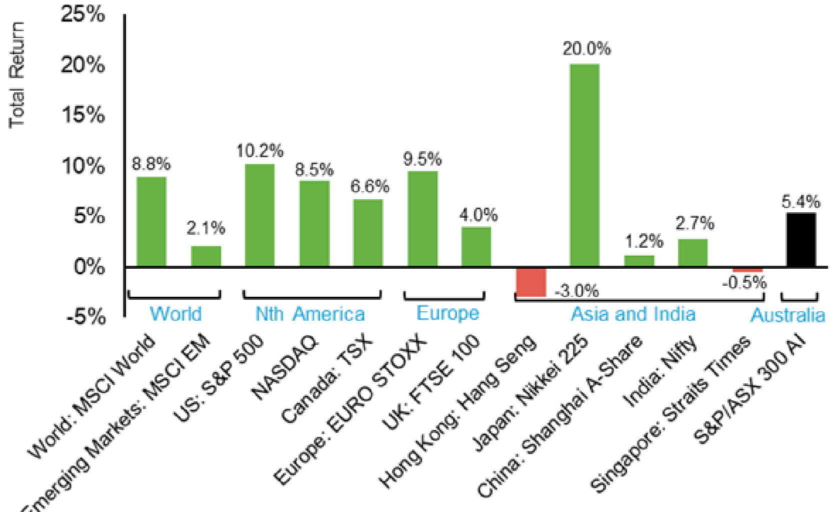
Equity Market Review

Equity Market Review

The March quarter was buoyant in equities with the S&P/ASX 300 Accumulation Index posting gains of +5.4%, bringing the trailing market 1-year return to +14.4%.

Globally, developed markets (MSCI World) outperformed emerging markets (MSCI EM), as illustrated in Chart 2. Every major market, with the exception of Hong Kong and Singapore, delivered positive returns this quarter, with Japan showing a thumping +20.0% and the S&P 500 delivering +10.2%.

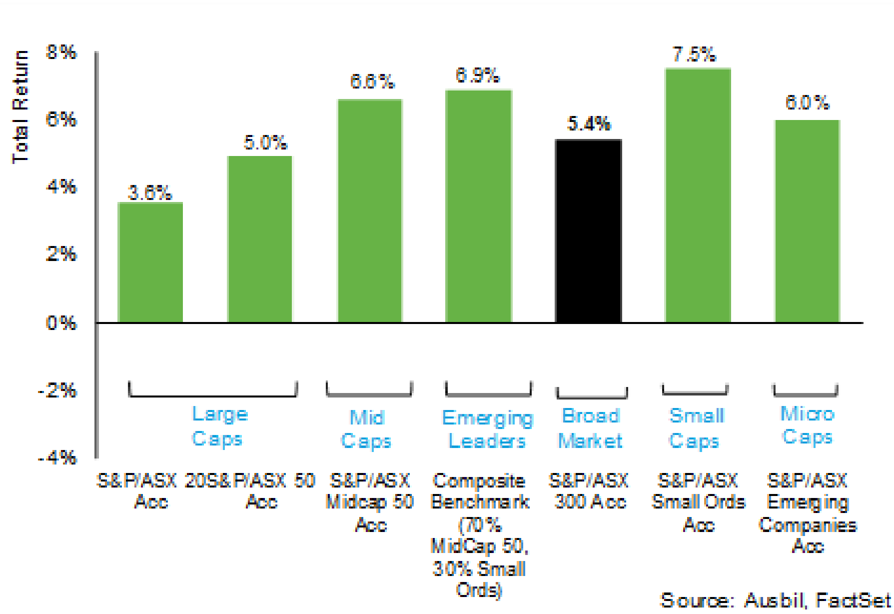
Chart 2: World equity market returns – March Quarter 2024



Source: Ausbil, Bloomberg

Across the quarter, mid and small-cap markets outperformed large-cap equities in Australia, as shown in Chart 3. Mid and small-cap equities displayed the significant rerating relative to large caps as central banks shifted to a rate cutting outlook, building on the strong momentum experienced at the end of calendar 2023.

Chart 3: Domestic returns by segment – March Quarter 2024

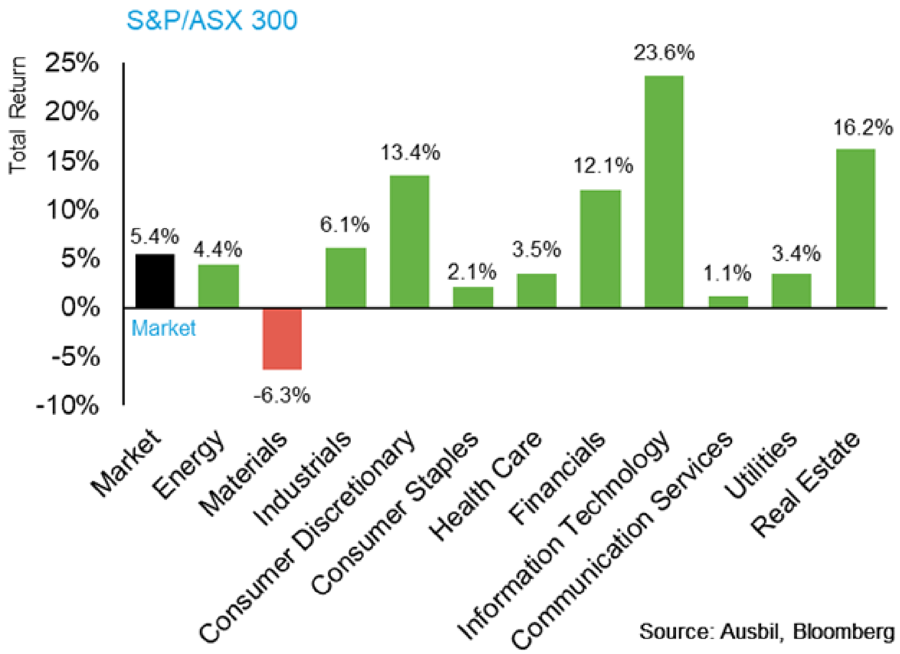


Source: Ausbil, FactSet

Equity Market Review

At a sector level, Information Technology, Consumer Discretionary and Real Estate sectors were significantly rerated as the cycle turned from a tightening to an easing outlook with falling inflation, as shown in Chart 4. Materials lagged largely through weakness in commodity prices, cyclical issues, and ongoing concerns around China.

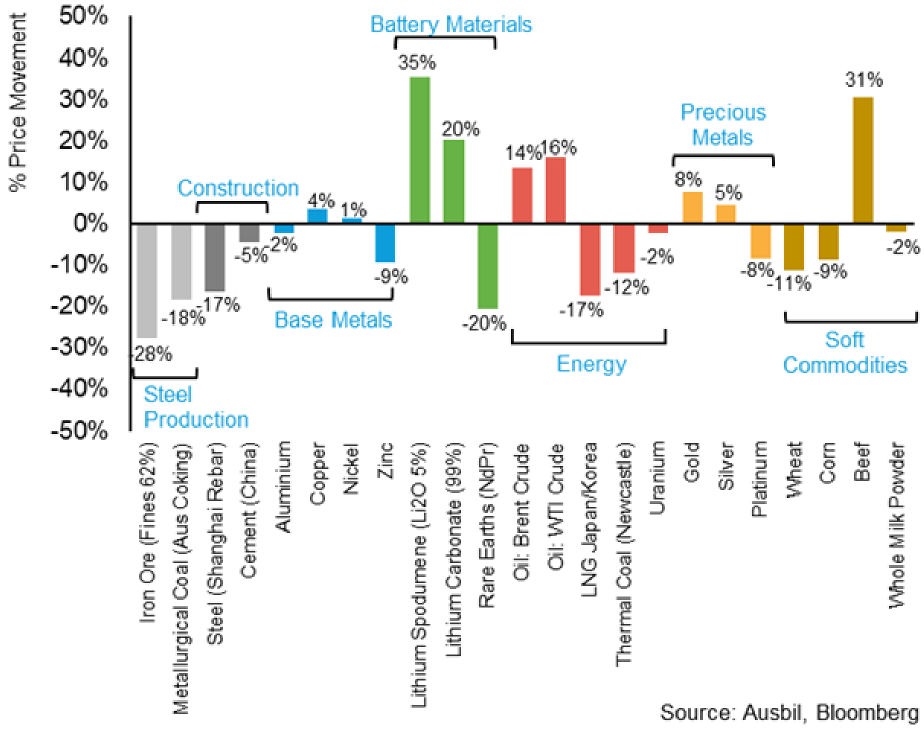
Chart 4: Sector returns – March Quarter 2024



Commodities saw a rebound in lithium this quarter following a significant fall in the price over the past year on excess inventory. Ausbil continues to be positive on the medium-term outlook for lithium with the energy transition. Beef was an elevated outlier because of a pullback on supply ahead of what was incorrectly forecast to be a high drought season. Ferrous-related and construction materials remained weak across the quarter on concerns around the robustness of China's growth, though there was some positive movement in copper on tight supply demand fundamentals. We think some commodities may have rebased this quarter with an outlook for improved prices as the global economy strengthens, and at the start of what we see as a rate cutting cycle with a backdrop of positive economic growth.

Equity Market Review

Chart 5: Commodity markets – March Quarter 2024



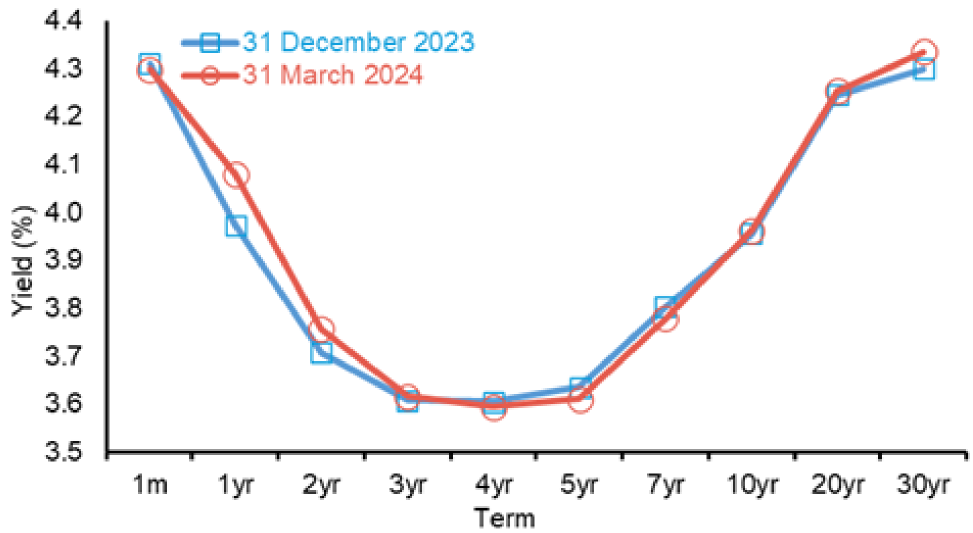
Source: Ausbil, Bloomberg

Ausbil remains focused on the key thematics that are driving long-term earnings growth, particularly where imbalances see demand exceeding supply on a fundamental basis for some time, like in the copper, lithium, oil and metallurgical coal markets.

Across the quarter, short-end yields firmed but fell between 4 and 10-years, indicating an easing outlook for rates and softening inflation. The yield curve remains relatively abnormal, with future rates lower than the cash rate for most periods (that is, in backwardation). In order to normalise rates (where shorter terms are cheaper than longer terms, or in contango), the market is expecting that some cash rate cuts in 2024 will help to push the yield curve towards more normality, but these expectations were pushed out across the quarter with stronger economic data. Ausbil is expecting some loosening in monetary policy in late 2024 but remains cautious with respect to stubborn inflation and some improvement in economic growth.

Equity Market Review

Chart 6: Australian government bond yields – March Quarter 2024



Source: Yield curve showing interest rate (real rates plus inflation) expectations looking forward, Bloomberg.

In March, the AUD/USD fell by -4.3%, closing the month at US$0.6521. In fixed income markets, US 10-year Treasury yields closed at 4.20% and Australian 10-year Government Bond yields closed the month at 3.96%. In credit markets, investment grade credit spreads were 51 bps and high yield spreads were 370 bps.

Fixed Interest and Cash Rates

Fixed Interest and Cash Rates

The March quarter confirmed the strength and resiliency of the US economy whilst suffering a setback in the underlying profile for core inflation. The Federal Reserve (Fed) is in no rush to prematurely cut rates given the potential upside risks to inflation that could stall progress or even cause price pressures to re-emerge. The same message was reiterated by the European Central Bank (ECB) requiring additional data, to gain confidence that inflation is sustainably returning to the 2% target.

For the quarter, excessive futures market re-pricing returned to align with the Fed's rate projections of three for 2024. US 10-year bond yields rose by 32bps to 4.20%, the inverted 2/10-year yield curve steepened, investment grade and high yield corporate credit spreads narrowed, 10-year inflation-protected real yields rose, and the US dollar index appreciated. In Australia, the 10-year nominal bond yield closed unchanged at 3.96%, the 2/10-year yield curve flattened (with 10-year higher than 2-year), and the 10-year bond spread to the US closed lower to 24bps. The Australian dollar and the trade-weighted index depreciated.

The Bank of Japan (BoJ) discontinued negative interest rate policy and yield curve control. The bank now aims to keep the overnight call rate between 0% and 0.10%. The Peoples Bank of China surprised by announcing a larger than expected 50bps cut in the Required Reserve Ratio; and a 25bps targeted cut on relending and rediscount rates for small and medium sized enterprises and the agricultural sector. They also cut the rate on the 5-year Loan Prime Rate by 25 bps to 3.95%, seen as the proxy reference rate for mortgage loans and the measure should support the mortgage and property sector. The Reserve Bank of Australia left the cash rate unchanged at 4.35% with the March meeting minutes confirming a neutral stance. The Board stressed recent data had not materially changed views on the outlook and that it was not possible to either rule in or out future changes to the cash rate.

On the data front, 2023 year average growth outcomes defied consensus predictions of recession. Europe skirted recession to grow at a 0.5% rate, China achieved 5.2%, Japan accelerated to 1.9% and Australia produced a remarkable 2.1%. The latest China's National People's Congress Government Work report announced 2024 economic targets with the growth rate set at 5% and the headline budget deficit at 3% of GDP. The Australian Federal Government announced plans to change the composition of the 'Stage 3' legislated income tax cuts scheduled to take effect on 1 July 2024.

Fund Review

Fund Review

The Balanced Fund out-performed its benchmark index for the March quarter 2024, returning 7.24% (gross of fees) versus the benchmark of 6.58%. Over the past 12-months, the Balanced Fund out-performed returning 16.41% (gross of fees) versus the benchmark of 14.96%.

January saw further consolidation in the already exceptional outperformance in global equity and bond markets over the prior two months late in 2023. This was driven by the Fed confirming rates have peaked for this cycle and that cuts were likely “at some point this year.” Meanwhile, key members of the Fed and European Central Bank were jawboning against the excessive rate-cut expectations for 2024.

February saw global equities power ahead, setting new record highs in the US, Japan and Australia. The move reflected improving corporate earnings growth and insatiable demand for semiconductors in the new capital expenditure cycle on artificial intelligence. Economic resilience held despite the marked setback in the underlying profile for US core inflation, which further triggered the dial back in excessive market rate cut expectations from six to four (totalling in 100 basis points of cuts) – still greater than the Fed’s rate projections of three for calendar year 2024.

March saw markets move higher on an improving outlook for global growth, despite the path of US inflation moderating at a slower ‘bumpy’ pace. Fed Chair Powell reiterated that rates will likely be cut sometime this year, with the benefit of a strong economy allowing “time to let the incoming data guide our decisions on policy.” The growing optimism was reinforced by the Bank of Japan exiting from negative rates and ultra-accommodative policy settings.

On geopolitics, the risk of war increased as tensions intensified between the US and Iranian backed militia groups in Syria, Iraq and Yemen, including the Suez Canal, one of the world’s key trading lifelines. US bases have come under attack, however the US has so far stopped short of directly attacking Iran. Such a move would ignite already simmering tensions in the Middle East. Sweden achieved accession approval and is joining the NATO alliance as the 32nd member. Prompting, Russian President Putin to warn of a potential nuclear confrontation should NATO troops be deployed to the Ukraine. NATO has proposed a US$100 billion 5-year aid package, where NATO would take over the Ramstein Group, an American-led alliance of 50 countries that militarily supports Ukraine.

Strategy and Outlook

Strategy and Outlook

The Balanced Fund strategy will maintain its current asset class positioning.

While there is much geopolitical risk, our early contrarian ‘soft landing’ outlook for the US has now evolved to the next level of theme of sustained ‘growth, lower inflation, and real rate cuts’. Global GDP growth is on an upward path towards 3.3% in 2024 and from there heading toward its long run trend rate. We agree with the Federal Reserve’s forecast of 75 basis points (bps) in rate cuts for 2024 and see lower inflation settling above target levels out to 2025.

Australia’s GDP growth is forecast to improve at a revised higher 2% pace in 2024 (up from 1.75%) and higher to 2.5% in 2025. In addition, Australia will also benefit from China’s politburo announcing additional targeted stimulus measures since August 2023. Domestic activity will be supported by the terms of trade, full employment, income tax cuts, a reducing savings rate and the gradual rundown in the stock of excess savings. We are forecasting a modest uptick in unemployment to 4.1%, with the economy holding on to the 50-year broad-based gains. We see a gradual moderation in underlying domestic inflation over calendar year-end 2024 to 3.4%, moving to 3.2% in 2025 and to 3.1% by June quarter of 2026, still above the upper central bank target level.

The RBA is expected to leave rates on hold at 4.35% for most of 2024, and assuming an improving inflation profile for service sub-components, this should provide scope for the RBA to reduce rates to 4.10% sometime in late 2024. To be followed up with a second rate cut of 25bps to 3.85% sometime in the March quarter of 2025. In summary, we see an improving domestic profile with the growth drivers in final demand switching from the public sector to the private sector.

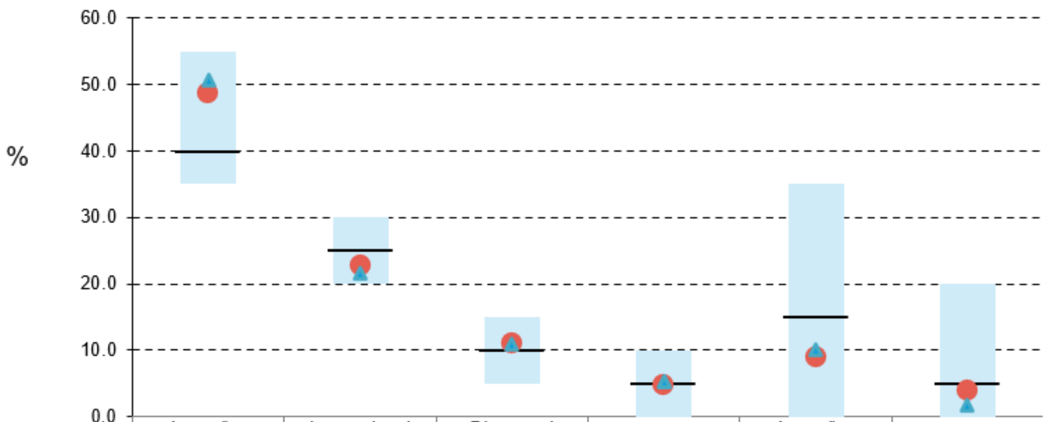
Fund Overview

Fund Return

Period	Fund Return % Gross	Fund Return % Net	Bench-mark* %	Out/Under performance % Gross	Out/ Under performance % Net
1 month	3.66	3.59	2.90	0.77	0.69
3 months	7.24	7.02	6.58	0.67	0.44
6 months	15.17	14.70	13.29	1.88	1.41
1 year	16.41	15.42	14.96	1.45	0.46
2 years pa	6.78	5.84	7.66	-0.88	-1.81
3 years pa	9.45	8.49	8.24	1.21	0.25
5 years pa	10.23	9.26	8.49	1.74	0.77
7 years pa	9.81	8.84	8.34	1.47	0.50
10 years pa	9.77	8.80	8.36	1.41	0.44
15 years pa	10.78	9.80	8.82	1.96	0.98
20 years pa	9.61	8.74	7.79	1.82	0.95
25 years pa	8.92	8.02	7.08	1.84	0.94
Since inception pa Date: July 1997	9.17	8.26	7.35	1.82	0.91

* The benchmark returns represent the neutral strategic asset allocation return.

Asset Allocation



	Australian equities	International equities	Direct and listed property	Alternatives	Australian fixed interest	Cash
Maximum range (%)	55.0	30.0	15.0	10.0	35.0	20.0
– Benchmark (%)	40.0	25.0	10.0	5.0	15.0	5.0
Minimum range (%)	35.0	20.0	5.0	0.0	0.0	0.0
● Current (%)	48.78	22.79	11.01	4.62	8.86	3.94
▲ Year ago (%)	50.68	21.50	10.80	5.33	9.98	1.70

Notes:
•1) As at 31 March 2024, hedged currency exposure amounts to 18.1%. This is made up of International shares 13.4% and Global Infrastructure 4.6%.
•2) As at 31 March 2024, the Australian Fixed Interest portfolio modified duration is 4.58 years compared to the benchmark index of 4.94 years.

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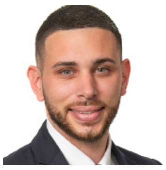

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