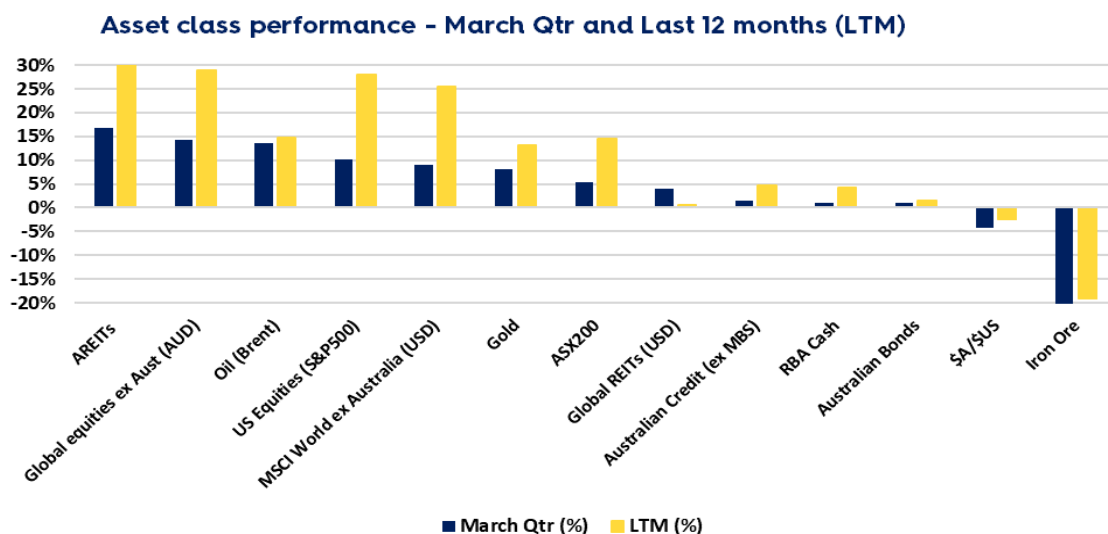


QUARTERLY SUMMARY

MARKET SUMMARY

- Equities rallied** – Strong corporate results, resilient economic data and hopes of rate cuts continued to support global equity markets. In local currency terms, the ASX200 (+5.3%) underperformed the US S&P500 (+10.2%) and the MSCI World ex Australia Index (+8.7%) but outperformed the MSCI Asia Pacific ex Japan Index (+1.6%) during the quarter. In \$A terms, the MSCI World ex-Australia Index rose 14.3%. Australian property securities (AREITs) were a standout performer rising 16.75%.
- Bonds steady in Australia but fell in the US** – The Bloomberg AusBond Composite 0+Y index gained 1.03% outperforming global peers. Australian 10-Year bond yields were broadly unchanged at 3.96%, while US 10-Year bond yields rose by 31bps to 4.20%. The market has adjusted their view on the number of US rate cuts expected this year from six to three given resilient economic data and sticky services inflation. Resilient economic conditions continue to [support credit markets](#).
- Australian Economic activity** – The Reserve Bank of Australia (RBA) held the cash rate steady at 4.35%. Labour market was solid, but is slowing, and inflation data was softer than expected. The RBA reacted with a less “hawkish” tone on monetary policy. Retail sales data was soft. Consumer confidence edged up from low levels.
- Global economic activity** – Global Manufacturing indicators troughed. The US Federal Reserve (Fed) kept rates steady at 5.25-5.5%. Investors wound back their expectations for US rate cuts in 2024 due to resilient economic indicators along with signs of sticky inflation in the services sector pricing in ~75bp of rate cuts versus 150bps in December. The European Central Bank (ECB) indicated they could cut rates in June following lower than expected inflation and subdued economic growth. Chinese economic data looks to have troughed. Manufacturing data is improving; however, property sector investment remains subdued.
- USD strength** – The US dollar rose against most major currencies. The \$A dropped 4.27% against the US Dollar to close at 65.21c.
- Commodities: Steel-making commodities fell** – Subdued Chinese construction activity along with seasonal weakness hurt steel and steel making commodities. Steel prices (US Hot rolled coil -24% and Chinese HRC - 8.1%) fell impacting iron ore (-26.8%) and Hard Coking Coal (-24.5%). Conversely oil (brent) rose 13.5%, gold shone rallying 8.1% and base metals edged higher.



Source: Equity Trustees



AFLPA PRA PORTFOLIO PERFORMANCE – AS AT 31 MARCH 2024

The investment objective of the AFLPA PRA is to maximise the net (after fees and taxes) earnings of the funds at the acceptable level of risk, having particular regard to protecting the long-term capital value of the investments. The assets of the AFLPA are managed as 4 individual sub funds with each of the sub funds having their own individual investment objectives and associated investment strategy.

For more information on the investment strategies, please see the AFLPA PRA Handbook.

	3 Months	1 Year	3 Year (p.a.)	Since Inception (p.a.)	Inception Date
AFLPA Conservative Option ^{1,2}	3.4%	8.6%	3.1%	4.8%	31/08/2012
CPI + 1% ^{3,4}	0.8%	5.1%	6.1%	3.7%	
AFLPA Balanced Option ^{1,2}	5.5%	11.6%	4.3%	4.8%	31/08/2016
CPI + 2.5% ^{3,4}	1.2%	6.6%	7.6%	5.5%	
AFLPA Growth Option ^{1,2}	6.2%	12.6%	6.0%	8.4%	31/08/2012
CPI + 4% ^{3,4}	1.6%	8.1%	9.1%	6.7%	
AFLPA High Growth Option ^{1,2}	8.5%	17.3%	6.9%	8.5%	31/08/2013
CPI + 4.5% ^{3,4}	1.7%	8.6%	9.6%	7.2%	

¹EQTAM commenced management of the AFLPA PRA from 1st May 2022

²For periods prior to 1st May 2022, the performance is based on data provided to EQT by previous investment managers

³CPI related benchmarks are based off the current AFLPA investment objectives for each strategy

⁴CPI is on a one period lag

OUTLOOK

Persistent services inflation and solid nearer term economic growth has seen the market re-price their expectation for rate cuts. The market now expects somewhere between 1 to 2 interest rate cuts in the US commencing in 4Q24. Expectations for domestic interest rate cuts from the RBA are somewhat similar.

While corporate earnings revisions for CY24 have continued to be flat to down, equity markets have risen strongly over 1Q24 due to a positive re-rating of earnings being reflected in higher price to earnings (PE) multiples. Equity valuations are sitting in mildly expensive territory.

We have felt that economic growth would weaken in many developed markets into the back half of the year as the cumulative impact of higher cost of living and interest rates crimp consumer spending. This may prove to be too pessimistic and possibly reflects an underestimation of the enduring post COVID “live now” philosophy. However, it does still seem a reasonable outcome and one which is seemingly not priced into the current “soft landing” PE multiples of the market. Further, geopolitical risks remain, and the Chinese economy is still having to carry ongoing weakness in the important (albeit increasingly less so) property market.

Consequently, in the face of this market optimism we are somewhat curmudgeonly sticking to our assessment that market conditions will get increasingly difficult over the remainder of 2024, skewed to the second half. Our asset allocation positioning is therefore somewhat defensive with modest overweights to cash and sector positioning as follows:

Equities – we remain modestly underweight equity markets from a tactical asset allocation perspective due to the perceived asymmetry between the current positive sentiment versus the crystallising of any or all the risks identified above. While portfolio holdings are all assessed on our fundamentally driven Quality at a Reasonable Price (QARP) process we would consider the portfolio overall to be “defensively” positioned.

Fixed Income – Recent repricing of yield curves and moves in the 10-year-bonds to ~4.5% represents an opportunity to add to this asset class and increase duration within portfolios.



Equity Trustees and the AFLPA encourage members to seek advice from a qualified financial adviser to determine what, if any, investment options a member may be entitled to choose are appropriate to a member's individual circumstances.

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