'As goes January…

Monthly comment – January 2014

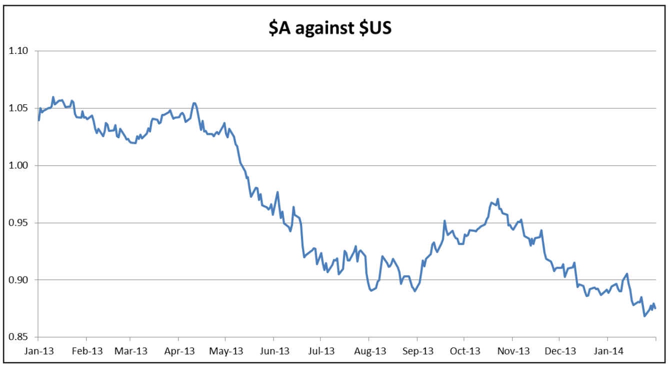
Alphinity Wholesale Concentrated Australian Share Fund

'As goes January…

Market comment

…so goes the rest of the year'. So goes one market aphorism which, like many aphorisms, may be true in the long run but has little bearing on any particular year. Having enjoyed a couple of very good years in the equity market we hope January's poor performance is not indicative of how 2014 will play out, and the fundamentals as we see them (aggregate market valuation and likely earnings trends) suggest that 2014 should be another year of decent positive returns, but a 3% down month is not a good start. We take some consolation from the fact that January is a notoriously tricky month: northern hemisphere residents are largely frozen in and those in the southern are largely at the beach, so trading volumes tend to be very thin. Earnings season is under way in the USA but yet to kick off here so most local companies are in an information vacuum – other than those who are obliged to inform the market when they find something nasty in the year end accounts. The thin market exaggerates the reactions to any news.

Global markets were also tricky in January: very few significant markets were positive and the worst were quite negative: Hong Kong and Japan were both off more than 5% and Chinese H-shares (those available to non-Chinese holders) were down close to 10% in their own currencies. The soft $A cushioned offshore returns somewhat but even so, Europe was generally closest to break-even while Emerging Markets continued to suffer. Late in the month the US Federal Reserve announced a further 'tapering' – reduction in the unusual monetary stimulus program – which led to further losses in Emerging Markets currencies, to the extent that Turkey and South Africa felt compelled to raise interest rates sharply. Most commodity prices fell in January, with oil off 3%, base metals about 4% on average and iron ore 6%. Gold however, which fell by almost 30% during 2013, rose by 3%.



Fund details

Alphinity Wholesale Concentrated Australian Share Fund	
APIR code	HOW0026AU
FUM ($A million)	15.4
Asset allocation	Australian equity: 98.4%, Cash: 1.6%

Portfolio comment

The portfolio underperformed a little in January. While there were some significant share price movements across the market, there were few individually significant contributors or detractors to the Fund's performance. Positions in ANZ Bank and electronics retailer JB Hi Fi both hurt returns modestly but there were no positives to speak of.

Fund performance* – as at 31 January 2014

	1 month (%)	Quarter (%)	1 year (% p.a.)	2 years (% p.a.)	3 years (% p.a.)	Since inception (% p.a.)
Alphinity Wholesale Concentrated Australian Share Fund	–3.7	–3.5	13.2	19.1	9.5	11.7
S&P/ASX 200 Accumulation Index	–3.0	–3.5	11.1	15.5	7.8	9.6

* **Returns are calculated after fees have been deducted, assuming reinvestment of distributions. No allowance is made for tax. Past performance is not a reliable indicator of future performance.** The Fund changed investment manager and investment methodology on 12 July 2010, at which time Alphinity Investment Management commenced managing the Funds and started the transitioning of the portfolios to a structure consistent with Alphinity's investment views. The transition was completed on 31 August 2010. Therefore, the inception date for the returns for the Funds is 1 September 2010. For performance for previous periods please contact Fidante's Investor Services team on 13 51 53 (during Sydney business hours).

Top 5 active overweight positions as at 31 January 2014

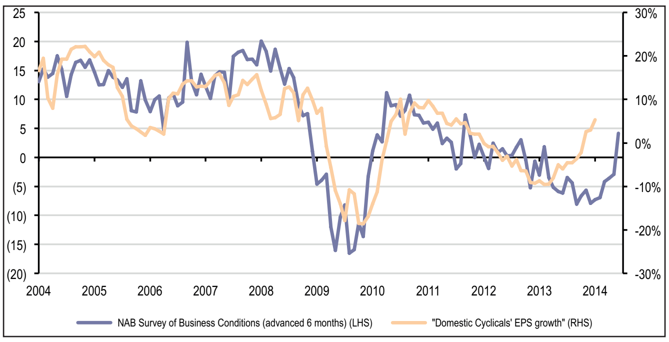
Alphinity Wholesale Concentrated Australian Share Fund

Issuer name	Index weight	Active weight
Australia and New Zealand Banking Group Ltd	6.5%	5.5%
BHP Billiton Ltd	9.2%	5.2%
Insurance Australia Group Limited	1.0%	3.3%
Telstra Corporation	5.0%	3.3%
Westpac Banking Corporation	7.5%	3.1%

Market outlook

The Australian share market has largely been moving sideways since the beginning of October, albeit with increased volatility. This is not too surprising given the significant re-rating of the market that has taken place over the last 18 months, and the uncertainty the Fed's tapering has created around the outlook for the US economy and equity market. The US equity market, in our view, is unlikely to provide the strong lead for global equity markets in 2014 that it did last year, so even though the Australian equity market is not particularly expensive, we will require a degree of earnings growth to move higher this year. Encouragingly, as chart 1 suggests, there are positive signs emerging that earnings growth will be better than the lacklustre performance of recent years. The lower currency looks like it will provide a decent tailwind when translating Australian companies' overseas earnings back into $A. Arguably even more encouraging, the domestic economy finally appears to be responding to the interest rate cuts Reserve Bank's and perhaps also the more stable political situation.

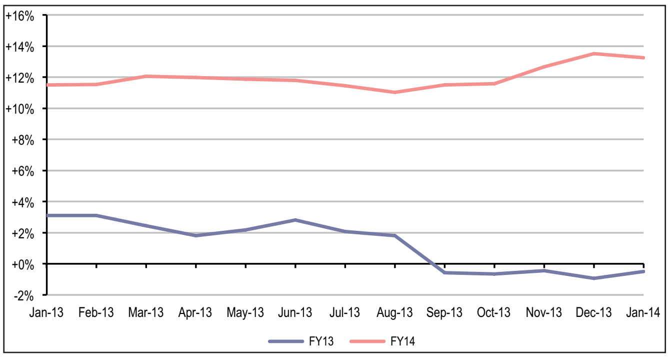
Chart 1: NAB Survey of Business Conditions vs Earnings Growth of Domestic Cyclicals



Source: IBES, NAB, UBS

This, together with a recovery in Resources earnings driven by the lower $A, volume growth and cost reductions has so far seen a better progression of earnings growth for FY14 compared to last year (see chart 2).

Chart 2: The progression of aggregate Australian Market consensus earnings growth



Source: UBS

The Australian interim reporting season is currently underway. We are cautiously optimistic that it will provide further evidence of an improved earnings growth outlook, which will support our expectation of another year of good returns for the Australian equity market.

Portfolio outlook

After strong absolute and relative performance both for the quarter and the full year it is always useful to take stock and reassess the positions in the portfolio. Indiscriminate selling of last year's winners and buying its losers is seldom a wise strategy but strong share price performance can lead to heightened expectations that eventually become difficult to beat, while improving industry fundamentals and internally-generated improvement can change the outlook for companies which have struggled in the past. The broadening of the earnings recovery discussed above also suggests that new opportunities are presenting themselves. Over the last few months we have increased our exposure to select opportunities in domestic cyclical (Nine Entertainment) and resource stocks (Rio Tinto and Arrium), and our largest sector underweights to our benchmark are in defensive sectors Consumer Staples and Health Care. Overall the portfolio remains well diversified with solid earnings momentum, better profitability (Return on Equity) and stronger balance sheets than the overall market. We believe the portfolio is well placed to continue to deliver attractive returns in the coming year, however the imminence of reporting season will enable a further and more informed evaluation of the portfolio over the course of February.

BTW

Technology has changed our lives a lot in recent decades but also has been a significant deflationary force in consumer goods, the extent of which we often forget. US journalist Steve Cichon recently found a 23-year-old newspaper which contained a full-page ad from Radio Shack, the US electronics chain, showing 15 electronic gadgets. As he looked at the goods for sale, it struck him that most of the functions performed by those products in 1991 could be satisfied by his mobile phone. Even at the discounted prices advertised, he would have had to spend more than $US3,000 in the dollars of the day (the equivalent of more than $US5,000 today) to do what an iPhone with a few apps can now handle in most cases much better and/or much more conveniently. These include a CB radio (remember those?), a VHS camcorder, a PC with software, a clock radio, a telephone answering machine and a voice recorder. The only things he couldn't replicate were a radar detector – which have largely been outlawed in any case – and the speakers with a 'massive 15inch woofer'.

Source: Buffalo News

Traveller's tale

Alphinity stayed fairly close to home during January but Stephane did make a personal trip to the later rounds of Asia Pacific's Grand Slam event, the Australian Open Tennis, to see bouncing Czech Tomas Berdych be defeated by Swiss slogger Stanislas Wawrinka. He ended up sitting behind someone famous: former tennis great John Alexander, now a federal politician. This meant that when broadcaster Channel 7 mis-identified Alphinity's own Stephane Andre as former world No 1 Roger Federer, one of our eagle-eyed service providers (that is stockbroking service, not tennis) captured it on TV.

The real Roger was knocked out of the competition relatively early, without having to face his compatriot in the finals. Swiss pride was salvaged by Wawrinka's victory and that normally-reserved country proceeded to go Stan-mad. The mayor of Saint-Barthelmy (his home town, population 783) temporarily re-named the town 'Stan-Barthelmy'.

The Swiss newspapers went to town: 'Stantastic. Wawrinka represents like few athletes popular values such as reliability, work, and modesty' said one. Another waxed even more lyrical: 'The triumph of work, courage and humility. All those who hope one day to reach for the sun without burning their wings have now found their guiding star.' While we wouldn't go quite that far, Stan did play pretty well!

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