Alphinity Global Equity Fund

Quarterly Report June 2017

Performance[1]	1 month %	Quarter %	6 month %	1 year %	2 years % p.a	Inception % p.a[2]
Fund return (net)	-2.36	5.43	8.67	17.80	-	7.11
MSCI World Equity X Australia (Net) Index	-2.64	3.62	4.51	14.73	-	8.32
Active return[3]	0.27	1.81	4.17	3.07	-	-1.21

Past performance is not a reliable indicator of future performance.

[1] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

[2] The inception date for the Fund is 21 December 2015

[3] Numbers may not add due to rounding

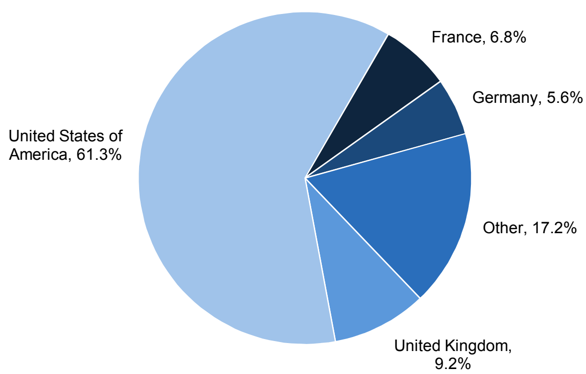
Fund facts	
Portfolio managers	Jonas Palmqvist, Lachlan MacGregor, Jeff Thomson
Inception date	21 December 2015
Investment objective	To outperform the MSCI World ex Australia Net Total Return Index.
Management fee	1.00% p.a.
Performance fee	10% of the Fund's return above MSCI World ex Australia Net Total Return Index.
Buy/sell spread	+0.25% / -0.25%
Fund size	$0.1M
Distribution frequency	Annually

Fund features
Diversification: Access to overseas investment opportunities offering diversification for an equities portfolio.
High conviction: Actively managed, high conviction approach.
Robust investment process: Global application of Alphinity's disciplined and comprehensive investment approach.
Experienced investment team: Managed by a team of experienced investment professionals who specialise in global equities.

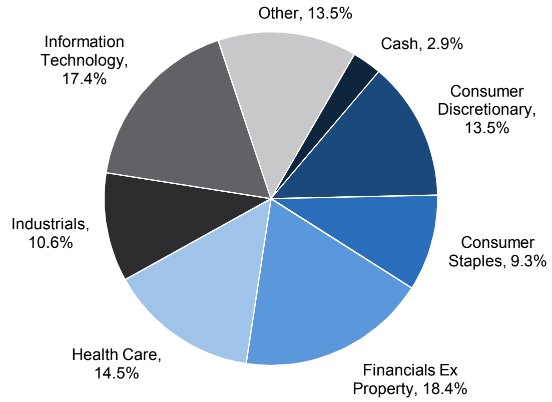
Top 10 positions

Company	Sector	Port
Facebook Inc	Info. Technology	4.3%
Bank of America Corp	Financials Ex Prop	4.1%
Time Warner Inc	Cons. Discretionary	3.5%
Stanley Black & Decker Inc	Industrials	3.4%
AbbVie Inc	Health Care	3.4%
Northrop Grumman Corp	Industrials	3.2%
Celgene Corp	Health Care	3.1%
Micron Technology Inc	Info. Technology	3.0%
Applied Materials Inc	Info. Technology	3.0%
EOG Resources Inc	Energy	2.8%

Country exposure



Sector exposure



Market comment

The MSCI World Index delivered its fifth consecutive quarter of positive returns adding 3.6%. A subdued US dollar helped the MSCI Emerging Market Index (MXEF) once again surpass developed markets with a gain of 5.5%. Through the period, the S&P500 reached an all-time high, but couldn't hold the level through to the end of the quarter. European equities underperformed modestly as a bond market sell-off late in the quarter acted as a headwind.

Among GICs sectors, Healthcare was the runaway leader for the quarter (+7.1%) after US Senate Republicans released a draft bill to replace Obamacare, and the surge in biotechnology shares showed no signs of slowing. Biotech appeared to be benefiting from recent reports suggesting efforts by the Trump administration to rein in drug prices would not be as harsh on the industry as expected. In contrast, the energy sector underperformed sharply -5.7%, as oil collapsed by 8.5%. Higher production in the US and Canada, and an unexpected surge in product from Libya and Nigeria have largely offset cuts made by the Organisation of the Petroleum Exporting Countries.

In economics, the Federal Open Market Committee appeared unfazed by the slew of weak inflation prints, believing it to be temporary as the tightening labour market is expected to put upward pressure on prices in the coming months. US 1Q real Gross Domestic Product (GDP) was revised up from 1.2% to 1.4% in June, driven by strong consumer spending growth which grew at 1.1% up from the previously reported pace of 0.6%. US Consumer confidence also jumped from 117.6 in May to 118.9. In Europe, the European Central Bank revealed their optimistic stance on growth and inflation and expected tapering to start early next year. Policy rates were unchanged and net asset purchases at the monthly pace of 60bn are intended to run until the end of 2017, or beyond, if necessary. Lastly, China's economic activity data pointed towards a steady near-term growth path. MSCI also announced the inclusion of China A-shares in the Emerging Market Index from May 2018.

Market outlook

Despite some weakness in parts of the 'hard' macro data such as GDP growth, consumption and inflation recently, we are still seeing a firmer, co-ordinated global economic recovery this year. This has been reflected in both strong equity markets and improved earnings growth. In fact the first half of 2017 was the fourth best first-half return for the MSCI ACWI index since it began in 1988, rising 10.3%, of which almost 4% in the second quarter alone. The strength from earnings revisions still outnumbered the potentially negative impact on equity valuations from higher interest rates, as indicated by the relative calm we saw around the Federal Reserve's 25 basis points hike in June.

The 3-month global earnings revisions ratio was close to 1.0 for the quarter, indicating there were as many upgrades as downgrades. This level has historically indicated a positive outlook for global equity markets. All three major Developed Market regions were above 1.0, with Japan (1.28) slightly ahead of Europe and USA (1.14 and 1.13). From a sector perspective Financials, Industrials and Tech led the way, with Telecom and Consumer Staples the weakest.

Some commentators have been surprised by the relative share price leadership between sectors in the second quarter, but we believe it overall reflects the relative earnings leadership and valuation opportunities fairly well. Finance, Health Care, Tech and Industrials had the biggest sector gains, with Energy and Telecoms the weakest (and in fact were the only sectors with negative performance in the quarter). In a disciplined way, our investment process looks for future earnings upgrades which are not yet reflected in the share price, and is clearly supported by this continued strong connection between earnings and performance.

Overall, our portfolio stocks delivered very encouraging earnings reports in the quarter, both in terms of beating expectations and seeing further positive earnings revisions post report. This confirmed our view that we are in the early stages of a cycle with new earnings leadership, which typically last for multiple years. Our portfolio consists of approximately 40 undervalued quality stocks at the right stage in their earnings cycles, and we continue to fine tune it in line with this developing earnings cycle. We are finding plenty of attractive, global investment opportunities under our process.

After strong performance, we took some profits in our Technology holdings this quarter, but remain slightly overweight the sector, in particular Semiconductors at a stock level. We also maintained our overweight position to banks, both in USA and Europe, still seeing triggers for further earnings upside and fundamental revaluation. We started adding selectively to a few Health Care stocks, where a sell off mid-quarter didn't reflect the earnings outlook. From a regional perspective, we did take some stock specific profits in a couple of European holdings within Consumer Disc and Industrials, whilst adding somewhat to investment ideas based in Japan. In terms of overall risk exposure, the portfolio remains firmly dominated by stock selection, with limited risk taken to sector, country or currency exposures.

For further information, please contact:

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