# Alphinity Global Equity Fund

## Quarterly Report December 2017

| Performance[1] | 1 month % | Quarter % | 6 month % | 1 year % | 2 years % p.a | Inception % p.a[2] |
|---|---|---|---|---|---|---|
| Fund return (net) | -2.15 | 6.54 | 11.68 | 21.36 | 11.08 | 11.22 |
| MSCI World Equity X Australia (Net) Index | -1.71 | 5.81 | 8.49 | 13.38 | 10.64 | 10.57 |
| Active return[3] | -0.44 | 0.73 | 3.19 | 7.99 | 0.44 | 0.65 |

**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 daily return (after fees and expenses and after adding back any distribution paid) above the Performance Benchmark and the absolute return performance hurdle.[1] |
| **Buy/sell spread** | +0.25% / -0.25% |
| **Fund size** | $1.2M |
| **Distribution frequency** | Annual |

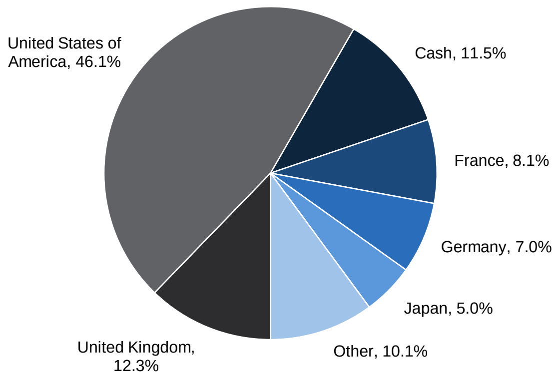
[1] The Performance Hurdle is the Reserve Bank of Australia (RBA) cash rate target.

## Top 10 positions

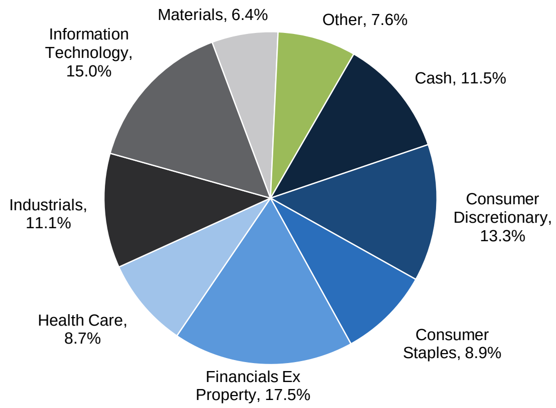
| Company | Sector | Port |
|---|---|---|
| Bank of America Corp | Financials Ex Prop | 3.6% |
| AbbVie Inc | Health Care | 3.2% |
| Kering | Cons. Discretionary | 3.1% |
| Sony Corp | Cons. Discretionary | 3.1% |
| Facebook Inc | Info. Technology | 3.1% |
| UnitedHealth Group Inc | Health Care | 3.0% |
| SAP AG | Info. Technology | 3.0% |
| Vinci SA | Industrials | 2.9% |
| ams AG | Info. Technology | 2.9% |
| DowDuPont Inc | Materials | 2.9% |

| 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. |

## Country exposure




## Sector exposure



## Market Overview

Global equity markets rallied again in the fourth quarter, and for the first time on record the global index was up in all twelve months of the year. During the quarter, markets were led by Topix (+8.5%), MSCI Emerging markets (+7.1%) and S&P 500 (+6.1%), whilst STOXX Europe lagged (+0.3%). From a sector perspective, Consumer Discretionary, Technology, Materials and Financials performed strongly. Utilities and Telecom lagged, with Utilities the only sector finishing down over the quarter.

U.S. tax reform was a clear market driver during the quarter. In December, the U.S. administration passed its tax reform package which contains a cut of the corporate tax rate to 21%. Most companies have not yet communicated a clear indication of the net earnings impact, but strategists expect at least a 5-6% boost to the aggregate market earnings per share for 2018. The passing of tax reform also re-ignited the 'reflation' trade in equity markets, with some rotation into beneficiaries such as financials and commodity-related stocks. This was combined with some signs of profit taking at the growth side of the market. Commodities had a strong final quarter of the year, with Brent Crude up +18%, copper +12%, and Gold lagging at +2%.

Macro data remained supportive during the quarter. The Global composite Purchasing Managers Index (PMI) increased another step into expansionary territory in December, from 54.1 to 54.4. The U.S. Institute of Supply Management (ISM) manufacturing index registered 59.7, a boost of 1.5 from the November reading, and the Eurozone manufacturing PMI for December was unchanged at a very expansionary 60.6. Nonetheless, inflation data remains subdued, with U.S. November core Personal Consumption Expenditure dropping back to +0.1% month on month (+0.2%). The US Federal Reserve (Fed) ended the year by hiking its benchmark rate by 0.25% to a target range of 1.25%-1.50%, which was widely expected, whilst maintaining its projection for three further hikes in the coming year.

During the quarter, the Global earnings revisions ratio improved further, rising from 1.09 to 1.14 after improvements across most regions and sectors. We are observing net upgrades in all major regions except Europe (0.91). Japan (1.63) and USA (1.13) maintained its relative leadership during the quarter, with the Equity Multiplier slightly lower (1.02). Sector-wise, the earnings leadership remains firmly with Technology, Materials and Financials, but also with Energy joining this group during the quarter on the back of the recovering oil price. Media, Health Care and Telecom remain among the weakest, with downgrades outnumbering upgrades (ratios all <0.8x).

## Market Outlook

During the quarter, company reports and our management meetings again confirmed the relative sector and stock leadership of this earnings cycle. With a few exceptions, our portfolio stocks overwhelmingly beat earnings expectations and saw continued rising estimates from broker analysts, reinforcing our conviction in company fundamentals. The current global earnings cycle started in 2016 - the fundamental trends and relative leadership of these cycles typically last for multiple years.

Nonetheless, earnings trends are never static, and our process is built to follow the cycle as it develops and matures. After strong performance of a handful of our stocks, we are mindful of pockets of higher expectations starting to creep in, and we took some selective profits during the quarter, primarily in the Technology and Industrial sectors. Although semiconductor stocks remain a key conviction overweight in the portfolio, we divested approximately 1/4 of the position during the quarter. We have also taken some profit in a couple of strongly performing capital goods stocks, as valuations push past historic peaks. At the same time, this global earnings cycle keeps presenting us with new ideas that fit the Alphinity process – stocks where we believe the earnings outlook is stronger than reflected by the market. Therefore, the freed up capital has been redeployed into growing conviction positions, primarily in the Software & Services, Energy, Chemical and Consumer Disc sectors.

The portfolio maintained its strong fundamental profile during the quarter – we are invested in stocks seeing much faster earnings upgrades than the overall market, with superior returns on equity, yet still on average trading at multiples broadly in-line with the market. As always, we continue to actively manage our exposures to sector, geographies and 'themes', in order to maximise stock specific risk, where our convictions are higher and our investment process is strongest.

Whilst the overall market backdrop remains supportive, especially the bottom-up earnings outlook, some macro downside risks are building into 2018. Many ISM and PMI surveys are around 60, which history suggests are close to peak levels. Credit spreads and volatility are both historically low, but central bank policies are set to become less accommodative from here. The U.S. yield curve continued to rapidly flatten throughout 2017 and has now reached the 50 basis point mark (10Y-2Y). If the Fed continues to hike rates in 2018-19, the yield curve appears increasingly likely to invert. Interestingly, even during the equity 'reflation' move during the quarter, the U.S. 10-year bond yield remained largely unchanged around 2.35%-2.40%, and the implied inflation expectation in the U.S. bond swap market only moved up marginally. Any rapid return of higher inflation would likely have a large impact across financial markets.


### For further information, please contact:

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