

Alphinity Global Equity Fund

Quarterly Report March 2018

Performance ¹	1 month %	Quarter %	6 month %	1 year %	2 years % p.a	Inception % p.a ²
Fund return (net)	-1.21	0.94	7.54	18.85	15.98	10.40
MSCI World Equity X Australia (Net) Index	-0.53	0.79	6.65	13.31	14.46	9.74
Active return ³	-0.67	0.15	0.89	5.54	1.52	0.66

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	\$1.7M
Distribution frequency	Annual

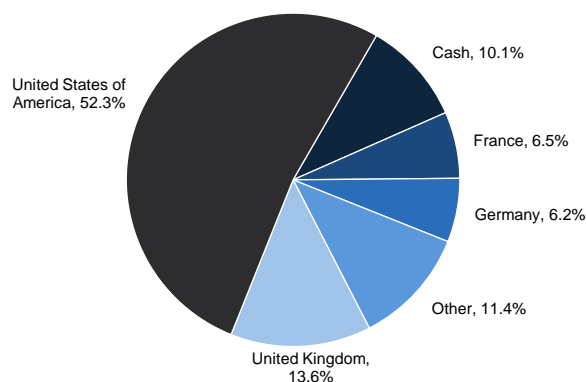
¹ The Performance Hurdle is the Reserve Bank of Australia (RBA) cash rate target.

Top 10 positions

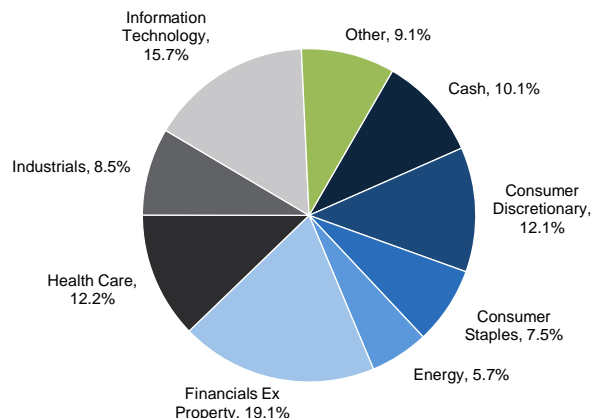
Company	Sector	Port
Pfizer Inc	Health Care	3.7%
Time Warner Inc	Cons. Discretionary	3.6%
Bank of America Corp	Financials Ex Prop	3.5%
Kering SA	Cons. Discretionary	3.2%
Vinci SA	Industrials	3.2%
Sony Corp	Cons. Discretionary	3.1%
Royal Dutch Shell PLC - B SHS	Energy	2.9%
EOG Resources Inc	Energy	2.8%
Deutsche Boerse AG	Financials Ex Prop	2.6%
UnitedHealth Group Inc	Health Care	2.5%

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 comment

Global equities, led by the US and tax reform, began 2018 strongly. However, concerns about the path of US Federal Reserve rate increases, rising inflation and some weakness in leading indicators, together unnerved investors – driving volatility sharply higher and markets lower. Rising concerns around a potential trade war with China, and potential regulatory intervention in parts of Technology, added to the weakness.

The MSCI World Index (ex-Australia) closed the quarter down by 1.6%, led by the Topix (-5.6%) and the STOXX Europe (4.7%), while the S&P 500 fell by 1.2%. Sector wise performance was mixed, with Technology (+3.2%) and Consumer Discretionary (+1.5%) both positive, while Telecom Services (-6.4%), Energy (-6.1%) and Consumer Staples (-5.8%) were all particularly weak.

US Treasury yields rose across the curve, although stronger rises at the short end saw the yield curve continue to flatten. The benchmark 10yr yield closed at 2.74% (+33 basis points). The Japanese Yen (+5.7%), Euro (+2.7%) and British Pound (+3.7%) all strengthened against the US dollar. Oil prices were volatile but still managed to close at \$70.3/bbl (+5.1%).

Global earnings revisions were positive for the quarter (+1.24), with upgrades continuing to outnumber downgrades in all regions except Europe, where a stronger currency drove expectations lower. The strongest region by far was the U.S., where tax reform turbo-charged revisions at the beginning of the quarter. By sector, revisions were especially strong in Insurance and Energy, and weakest in Telecoms and Utilities.

Market outlook

The global economy continues to perform strongly, although it appears that momentum has peaked for the time being. Manufacturing indicators, especially in Japan and the Eurozone, have led the slowdown so far, although there has also been some weakness in consumption with February retail sales disappointing in the U.S., Eurozone and Japan. Nevertheless global growth remains above trend, raising fears about inflation and faster monetary tightening in the US. This is proving to be a far more challenging backdrop for equities this year, not helped of course by growing trade tensions and recent regulatory risks within the Technology sector.

At the moment the outlook for growth, particularly in the U.S., remains robust, underpinned for this year at least by tax reform and fiscal stimulus. This suggests that the recent weakness in leading indicators reflects a levelling off in growth rates, rather than heralding a more sustained slowdown. This is likely to continue to underpin earnings growth and markets, even if recent volatility continues. However any upside surprise in inflation, especially if not combined with better growth, remains a significant and growing risk to equities. It also remains to be seen how the normalisation of monetary policy in the U.S., including the reversal of unprecedented quantities of quantitative easing, impacts bond yields and risk assets generally.

Reflecting this relatively more challenging backdrop, recent portfolio changes have tilted defensive. Cyclical exposure has been reduced through profit taking in several of our winning positions where we believe market expectations have increased and the risk-reward deteriorated – these include Ashtead, Micron and Applied Materials. New additions include Fleetcor Technologies and CA Inc. in Technology, both quality businesses where earnings expectations appear too low. A position in Exelon Corp was also established, a U.S. utility with underappreciated opportunities for rate growth.

We continue to critically assess the portfolio to manage some of these growing macro and thematic headwinds, and ensure that idiosyncratic stock risks, where we have conviction around an under-appreciated earnings cycle, remain dominant.

For further information, please contact:

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