

# **Alphinity Global Equity Fund**

## **Quarterly Report June 2018**

Performance <sup>1</sup>	1 month %	Quarter %	6 month %	1 year %	2 years % p.a	Inception % p.a <sup>2</sup>
Fund return (net)	1.56	5.64	6.63	19.08	18.48	11.72
MSCI World Equity ex Australia (Net) Index	2.33	5.53	6.37	15.39	15.09	11.08
Active return <sup>3</sup>	-0.76	0.11	0.26	3.69	3.38	0.63

#### Past performance is not a reliable indicator of future performance.

<sup>&</sup>lt;sup>3</sup> 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. <sup>1</sup>		
Buy/sell spread	+0.25% / -0.25%		
Fund size	\$2.3M		
Distribution frequency	Annual		

<sup>&</sup>lt;sup>1</sup> The Performance Hurdle is the Reserve Bank of Australia (RBA) cash rate target.

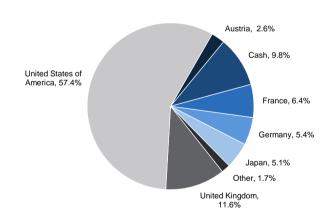
## **Top 10 positions**

Company	Sector	Port
Royal Dutch Shell PLC	Energy	4.4%
Pfizer Inc	Health Care	4.0%
UnitedHealth Group Inc	Health Care	3.6%
SAP SE	Info. Technology	3.6%
Kering SA	Cons. Discretionary	3.3%
Vinci SA	Industrials	3.1%
Merck & Co Inc	Health Care	2.9%
Bank of America Corp	Financials Ex Prop	2.7%
Thermo Fisher Scientific Inc	Health Care	2.7%
Northrop Grumman Corp	Industrials	2.6%

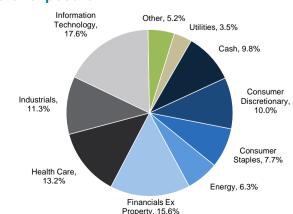
# **Fund features Diversification:** Access to overseas investment opportunities offering diversification for an equities portfolio. High conviction: Actively managed, high conviction approach. Robust investment process: Global application of Alphinity's disciplined and comprehensive investment approach.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

## **Country exposure**

global equities.



## **Sector exposure**



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

The inception date for the Fund is 21 December 2015



#### **Market comment**

Global equities were flat (-0.1% in USD terms) in the second quarter, but with some noticeable divergence between regions. U.S. equities were relatively strong, with both S&P 500 (+2.9%) and Nasdaq (+6.3%) rising. Europe fell during the quarter (-2.7% in USD), similar to Japan (-0.3%). The clearest weakness during the quarter was seen in Emerging Markets, which fell -8.7%. The main cause was tightening financial conditions, as the USD strengthened a significant 5% in the quarter. There were signs of rising currency stress in Argentina, Brazil, Turkey and Argentina.

The view that global, synchronised growth has peaked spread across markets in the quarter, causing the rise in U.S. bond yields to slow down (10-year rose from 2.74% to 2.86%), and the U.S. 10Y/2Y yield curve to flatten further from 47 basis points to 32 basis points. Equity sector leadership mirrored these trends, with Banks, Insurance and Diversified Financials the weakest. The best global sectors were Energy, Tech and Healthcare. Brent Crude continued its recovery during the quarter, rising another 16% to \$79 per barrel. The Organisation of the Petroleum Exporting Countries June meeting led to an announcement of increased supply by the cartel, but merely enough to compensate for ongoing shortfalls in Venezuela, Iran and Libya.

Global leading macro indicators were overall a bit weaker in the quarter, but still at supportive levels. In Europe, Industrial Production, Purchasing Managers Indices and Consumer Confidence were overall slightly below forecasts, even though expectations were showing some signs of catching up with reality towards the end of the quarter. The U.S. economy continued to outperform the rest of the world in the quarter, with the relative gap widening. The quarter ended with U.S. Manufacturing ISM bouncing back above 60 and a solid employment report.

The global earnings cycle is also still supportive, but we did see a slowing down during the quarter. The number of company downgrades outnumbered upgrades for the first time since early 2017. Excluding Emerging Markets, which saw a rapid deterioration in the quarter, developed markets companies' are still seeing more upgrades than downgrades, but the margin is getting thin. From a regional perspective,

the U.S. holds a clear leadership in terms of earnings upgrades as well, with all other major regions now seeing a negative revisions ratio. From a sector perspective, Energy strengthened its leadership during the quarter, followed by more defensive sectors Property and Health Care. The Materials sector also remains in positive territory, even though June was weaker. Telecom and Consumer Staples continued to see some of the weakest global earnings trends, whereas Banks saw the most rapid deterioration of all sectors during the quarter.

#### Market outlook

As expected, this year is presenting a more challenging and uncertain environment for equity markets compared to last year. Global economic growth remains above trend but momentum is slowing, with many global leading indicators peaking earlier in the year. This is met by early steps from central banks to normalise monetary policies after years of unprecedented, accommodative measures. We would expect these two forces to continue to create market volatility, and the situation is clearly not helped by the growing trade and tariff war between the U.S. and the rest of the world.

Nevertheless, on the ground we continue to find many interesting investment ideas for our concentrated, earnings focused stock picking approach. Most of our portfolio stocks continued to see significant, strong earnings upgrades during the quarter. We were more active in the portfolio during this quarter as we decided to invest in some new, interesting opportunities, primarily in the U.S. Overall, the portfolio changes we made tilted slightly to quality, growth and defensive. In Financials, we invested in two quality, structural growth stocks, S&P Global Inc. and Nasdag Inc. We added Disney to the portfolio on the back of its attractive bid for Fox as well as earnings bottoming out for its ESPN network, and Northrop Grumman after the stock's recent pull back. During the quarter we exited some holdings as we concluded the risks were rising around their earnings outlooks. These were mainly cyclicals, such as KBC and Prudential in Financials, Wacker Chemie in Materials, and Applied Materials in Tech. We added slightly to our Energy sector exposure as we believe the stocks' earnings potential is under appreciated by the market.

#### For further information, please contact:

Fidante Partners Investor Services | p: 13 51 53 | e: info@fidante.com.au | w: www.fidante.com.au

Unless otherwise specified, any information contained in this publication is current as at the date of this report and is provided by Fidante Partners Limited ABN 94 002 835 592 AFSL 234 668 (Fidante Partners) the issuer of the Alphinity Global Equity Fund ARSN 609 473 127 (Fund). Alphinity Investment Management Pty Limited ABN 12 140 833 709 AFSL 356 895 (Alphinity) is the investment manager of the Fund. It should be regarded as general information only rather than advice. It has been prepared without taking account of any person's objectives, financial situation or needs. Because of that, each person should, before acting on any such information, consider its appropriateness, having regard to their objectives, financial situation and needs. Each person should obtain the relevant Product Disclosure Statement (PDS) relating to the Fund and consider that PDS before making any decision about the Fund. A copy of the PDS can be obtained from your financial adviser, our Investor Services team on 13 51 53, or on our website www.fidante.com.au. If you acquire or hold the product, we and/or a Fidante Partners related company will receive fees and other benefits which are generally disclosed in the PDS or other disclosure document for the product. Neither Fidante Partners nor a Fidante Partners related company and our respective employees receive any specific remuneration for any advice provided to you. However, financial advisers (including some Fidante Partners related companies) may receive fees or commissions if they provide advice to you or arrange for you to invest in the Fund. Alphinity, some or all Fidante Partners related companies and directors of those companies may benefit from fees, commissions and other benefits received by another group company.