Alphinity Global Equity Fund

Monthly Fact Sheet August 2018

Performance[1]	1 month %	Quarter %	6 month %	1 year %	2 years % p.a	Inception % p.a[2]
Fund return (net)	4.64	7.37	10.33	25.60	20.04	13.24
MSCI World Equity ex Australia (Net) Index	4.14	9.25	12.06	24.29	16.98	13.05
Active return[3]	0.50	-1.88	-1.73	1.31	3.06	0.19

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, Nikki Thomas
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	$40.1M
Distribution frequency	Annual

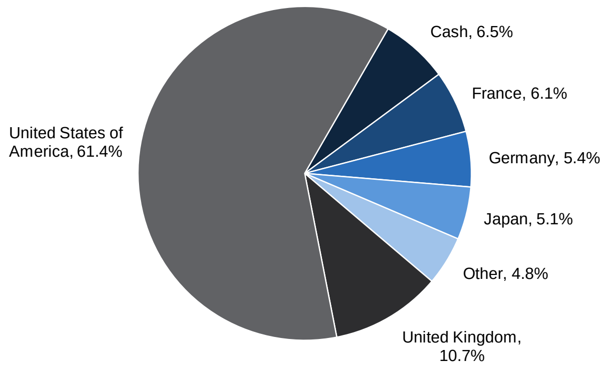
[1] The Performance Hurdle is the Reserve Bank of Australia (RBA) cash rate target.

Top 10 positions

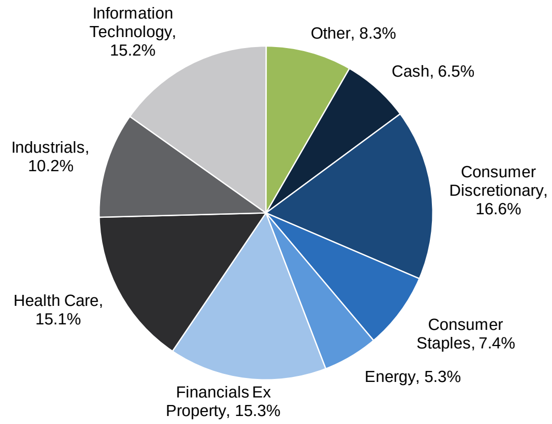
Company	Sector	Port
SAP SE	Info. Technology	3.9%
Royal Dutch Shell PLC	Energy	3.9%
Pfizer Inc	Health Care	3.5%
UnitedHealth Group Inc	Health Care	3.4%
Alphabet Inc	Info. Technology	3.3%
Splunk Inc	Info. Technology	3.3%
Kering SA	Cons. Discretionary	3.1%
Amazon.com Inc	Cons. Discretionary	3.1%
Target Corp	Cons. Discretionary	3.0%
Vinci SA	Industrials	3.0%

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

Another positive month for the MSCI World Index (+1.0%) conceals a more mixed underlying picture. All the performance came from the US (S&P 500 +3%) versus marked underperformance in Europe (STOXX Europe 600: -2.4%), UK (FTSE 100: -4.1%) and Emerging markets (MSCI EM: -2.9%). These moves reflect an increased divergence in regional fundamentals, with US data generally remaining strong, while growth elsewhere continues to slow – not helped of course by escalating trade tensions and market turmoil in Turkey. The US labour market remains particularly robust, with Nonfarm Payroll growth in July (+157k) and an unemployment rate of only 3.9%. The August Purchasing Managers Index (PMI) did ease slightly from the previous month (55 vs 55.7), but nevertheless remains close to its recent highs. In contrast, the focus in Europe was on Brexit, Italian politics and potential contagion from Turkey. While the Eurozone composite PMI increased modestly to 54.4 in August, core inflation remains low at only 1% year over year (y/y). The Italian 10y bond yield widened a further 51 basis points to close at 3.23% and the Euro (-0.76%), Pound (-1.25%), Yen (-0.74%) and Australian dollar (-3.2%) all weakened against the US dollar. A collapse in the Turkish Lira (-33%) drove widespread currency and equity weakness across Emerging Markets (EM's), with high current account deficit countries such as Argentina, South Africa and Indonesia particularly hard hit. Brent crude oil rose 4.3% during the month.

Global earnings revisions remained negative in August, although US revisions turned sharply positive after a good earnings season. By sector there were noticeable improvements in Health Care and Real Estate, while Energy fell sharply. On a 3-month basis only five out of 16 sectors are in positive territory.

Market outlook

US growth is likely to remain relatively good for the foreseeable future. Growth is running at an annualised pace of over 4%, the consumer is strong and unemployment is near 50-year lows. With fiscal policy likely to provide a further boost in the second half and the US Federal Reserve's (Fed's) favoured measure of inflation (PCE) at +2.0% y/y, further rate hikes in the near term still seem highly likely.

Unfortunately this is setting up a negative feedback loop for the rest of the world, where a rising US dollar and tightening financial conditions are an increasing headwind. While much of Turkey's problems are idiosyncratic in nature, the risk of contagion to other EM's is real and rising, suggesting other stress points are likely to manifest over time.

Against this backdrop the outlook for Fed policy into 2019 and beyond will become increasingly important. It's likely that we are moving into a different part of the cycle and Fed decisions will become more challenging as real rates move into positive territory. There is a growing risk that the Fed over-tightens as it underestimates the cumulative delayed impact of past hikes. A lot will also depend on how trade tensions develop and whether China succeeds in easing liquidity conditions and stimulating growth again.

Reflecting these headwinds, our stock selection has continued to tilt the portfolio defensive over the last few months. We initiated a new position in Roche, which is seeing positive revisions from new products after years of headwinds from patent expiries'. Target was another new position during the month, which subsequently reported strong results with quarterly traffic growth of 6.4% - the strongest since at least 2008. Management guidance suggests a deceleration in the second half to +4.8%, which appears overly conservative given the exceptionally strong momentum in the business.

Other entries included Amazon, while funding was provided by profit taking in United Health, Thermo Fisher Scientific and Children's Place. Positions in Teck Resources, EOG and Mastec were also pared back to reflect cyclical headwinds. Splunk was a strong contributor to performance after a good earnings report.

For further information, please contact:

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