

Alphinity Global Equity Fund

Quarterly Report September 2018

Performance ¹	1 month %	Quarter %	6 month %	1 year %	2 years % p.a	Inception % p.a ²
Fund return (net)	-0.04	5.68	11.63	20.05	20.81	12.83
MSCI World Equity ex Australia (Net) Index	0.55	7.35	13.29	20.82	18.14	12.89
Active return ³	-0.59	-1.68	-1.66	-0.77	2.68	-0.06

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

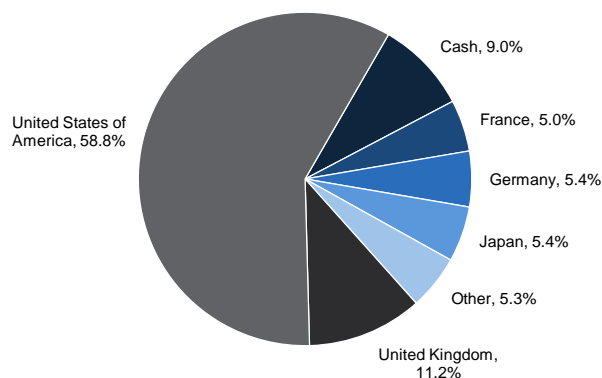
¹ The Performance Hurdle is the Reserve Bank of Australia (RBA) cash rate target.

Top 10 positions

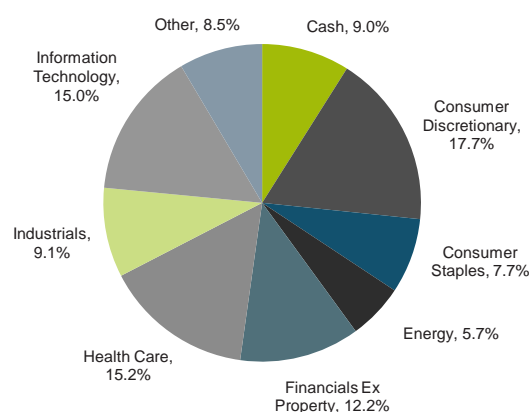
Company	Sector	Port
Royal Dutch Shell PLC	Energy	4.1%
SAP SE	Info. Technology	4.0%
Alphabet Inc	Telecommunication Services	3.9%
Pfizer Inc	Health Care	3.7%
Bank of America Corp	Financials Ex Prop	3.3%
Amazon.com Inc	Cons. Discretionary	3.1%
Target Corp	Cons. Discretionary	3.0%
Vinci SA	Industrials	3.0%
Walt Disney Co/The	Telecommunication Services	2.9%
Sony Corp	Cons. Discretionary	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 comment

The MSCI World index had another positive period, rising 4.7% during the third quarter (in USD). The underlying picture was more mixed, with the US clearly leading the way (S&P 500 +7.2%), Europe lagging (DJ Stoxx +0.9%) and Emerging Markets continuing to struggle (MSCI EM -2.0%).

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 some market turmoil in Italy, Turkey and Argentina. The US labour market remains particularly robust, with the September unemployment rate falling to 3.7%, touching 50-year lows. The latest Institute of Supply Management Manufacturing (61.3) as well as Markit Manufacturing Purchasing Managers Index (PMI) (54.7) remained clearly supportive. This assisted in widening the US 10y bond yield by 20 basis points to 3.06% during the quarter, with an additional 15 basis point rise so far in October. The trade weighted USD (DXY) also strengthened slightly, adding to current trends of global financial tightening.

In contrast, the focus in Europe was on Brexit, the Italian budget and potential contagion from Turkey. The Eurozone composite PMI was unchanged at 54.5 in September, largely supportive, but core inflation remains low at around 1% year over year. The Italian 10y bond yield widened by 48 basis points in the quarter and has continued to rapidly rise in October as the Italian government appears to be challenging EU budget constraints. Global earnings revisions weakened, with the 3-month ratio falling to 0.86 in September, indicating that downgrades now outnumber upgrades across equity markets. The US remains the strongest (1.13) following another positive reporting season, with all other regions now Telecom, Consumer Staples and Consumer Discretionary were at the opposite end.

Market outlook

US growth is likely to remain relatively good for the foreseeable future, with strength on the corporate as well as consumer side of the economy. The US Federal Reserve (Fed) hiked rates another 0.25% in September and appears highly likely to continue on this path.

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. The risk of contagion to more Emerging Markets is rising. Against this backdrop the outlook for Fed policy into 2019 will become increasingly important. It's likely we've moved into a different part of the cycle where Fed decisions will become a lot more difficult as real rates move into positive territory. Financial markets are showing tentative signs of moving from an environment where rising bond yields is a positive, reflecting economic growth and inflation, to one where it may be a negative – signalling a hawkish Fed and risk asset devaluation.

Consequently our stock selection has overall continued to tilt to the defensive and large caps during the quarter. We initiated two new positions in Health Care, Roche and Allergan. This was partly funded by some profit taking in Merck and UnitedHealth. Within Consumer Discretionary, we increased our US exposure through Target, but also added multinationals McDonald's and Amazon.com, both with highly interesting earnings situations shaping up. In Technology, we made a noticeable switch from our long time holding in Facebook into Alphabet, whose earnings outlook and risk profile appears far more attractive.

For further information, please contact:

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

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