

Alphinity Global Equity Fund

Quarterly Report September 2019

Performance ¹	1 month %	Quarter %	1 year %	2 years % p.a	3 years % p.a	Inception % p.a ²
Fund return (net)	0.3	6.0	12.7	16.3	18.0	12.8
MSCI World Net Total Return Index (AUD) ³	2.0	4.6	9.2	14.8	15.0	11.9
Active return ⁴	-1.7	1.4	3.6	1.5	3.0	0.9

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 From 21 December 2015 to 31 March 2019, the Benchmark was the MSCI World Equity ex Australia (Net) Index. The current index is effective from 1 April 2019.

⁴ Numbers may not add due to rounding

Fund facts	
Portfolio managers	Jonas Palmqvist, Lachlan MacGregor, Jeff Thomson, Nikki Thomas
APIR code	HOW0164AU
Inception date	21 December 2015
Investment objective	To outperform the MSCI World Net Index (AUD).
Management fee	1.00% p.a.
Performance fee	10% of the Fund's daily return above the Performance Benchmark ¹ and only paid if performance is above the absolute return Performance Hurdle during the performance period ² .
Buy/sell spread	+0.25% / -0.25%
Fund size	\$51.5M
Distribution frequency	Annual

¹The Performance Benchmark is the MSCI World Net Total Return Index (AUD). Performance is calculated after fees and expenses and adding back distributions.

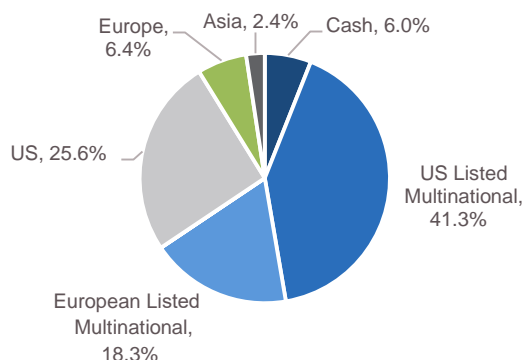
²The Performance Hurdle is the Reserve Bank of Australia cash rate target. If the hurdle isn't met, positive relative performance is carried forward to the next period.

Top 10 positions

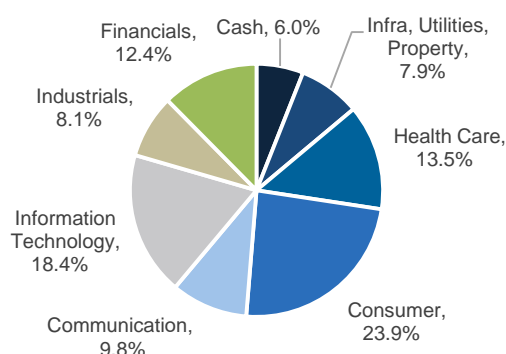
Company	Sector	Port
Alphabet Inc	Communication Services	5.1%
Microsoft Corp	Info. Technology	4.7%
Roche Holding AG	Health Care	4.3%
McDonald's Corp	Cons. Discretionary	4.2%
Bank of America Corp	Financials Ex Prop	3.9%
Mondelez International Inc	Consumer Staples	3.9%
UnitedHealth Group Inc	Health Care	3.6%
ASML Holding NV	Info. Technology	3.5%
FleetCor Technologies Inc	Info. Technology	3.3%
Target Corp	Cons. Discretionary	3.1%

Fund features
Concentrated: An actively managed, concentrated portfolio of 30-45 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.
Discipline: A disciplined process finding quality businesses with strong earnings that are under appreciated by the market. This approach has proven successful across different market cycles.
Talent: A united and deeply experienced team of global portfolio managers each with over 20 years in the industry.
Aligned: Alphinity Investment Management is a boutique firm, strongly aligned with its clients' investment objectives and focused solely on growing clients' wealth.

Country exposure



Sector exposure



Market comment

The outlook for global growth continued to deteriorate over the quarter, mostly driven by increased concern about various geopolitical risks including rising trade tensions. This eroded corporate confidence and slowed business investments. In the U.S. the ISM Manufacturing Purchasing Managers' Index (PMI) fell sharply in both August and September, dropping firmly into contractionary territory (below 50).

In contrast, the unemployment rate dropped to only 3.5%, the lowest reading since December 1969. Nonfarm payroll growth remained positive, albeit somewhat below expectations. Initial jobless claims also remained low, although the Conference Board consumer confidence index fell to 125.1 in September (from 134.2 the month before) suggesting some impact from trade tensions. There was a similar picture elsewhere, with both the Eurozone and Chinese manufacturing surveys remaining below 50, albeit with some stabilisation in China.

In response global central banks continued to lower policy rates, including cuts from the US Federal Reserve (Fed), European Central Bank and Reserve Bank of Australia, amongst others. The Fed also stopped reducing its balance sheet, while the European Central Bank re-initiated quantitative easing. The benchmark US 10-year yield dropped 34bps to close at 1.67%, with an inverted yield curve raising recessionary fears.

Global equity markets were broadly flat over the quarter (in USD), although leadership remained with the U.S. (S&P 500 +1.2%) and more defensive, bond-proxy type sectors including Utilities (+5.8%), Real Estate (+3.6%) and Consumer Staples (+3.6%). In contrast cyclical sectors including Energy (-6.7%), Materials (-4.1%) and Industrials (-1%), as well as emerging markets (-4.2%), all struggled. Hong Kong was especially weak (Hang Seng: -8.6%), impacted by ongoing social unrest.

Reflecting the weaker macro outlook, expectations for corporate earnings growth also continued to be revised lower throughout the quarter. Three-month earnings revisions are negative in every region and every sector in the world, with the sole exception of Healthcare which is only just positive. Relative earnings leadership also remains firmly defensive, with cyclical sectors including Energy, Materials and Industrials experiencing the largest downgrades.

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Market outlook

The macro backdrop is challenging, with increasingly complex geopolitical risks beginning to erode business confidence and corporate investments. This is mostly about trade tensions between the U.S. and China, however Hong Kong social unrest, Brexit and the Middle East have also played a role. At this point it is difficult to separate the lasting economic signal from all the noise, but it has clearly started to have a significant negative impact on the global growth outlook through corporate earnings, investments and confidence.

As an offset, the U.S. consumer remains healthy with low unemployment and wage growth continuing to underpin spending. That said, so late in the economic cycle, there is a growing risk that weaker corporate confidence may ultimately begin to erode consumption. It is encouraging that monetary policy response has begun, although more is probably needed, including fiscal stimulus, before a recovery occurs.

The global earnings cycle remains weak, with downgrades still clearly outnumbering upgrades, however further deterioration from here would likely require outright economic recession. Of more importance for our portfolio is that the relative leadership remains on the defensive side of the market, and in fact this trend has strengthened further lately.

Reflecting this leadership, the portfolio remains overall positioned in mostly defensive, quality and growth stocks, where we continue to see many of the strongest earnings ideas. We are watching valuations of these stocks carefully, but are comfortable with current levels which are generally driven by strong, idiosyncratic earnings upgrade stories. At the same time, we continue to look for bottom-up signs from cyclical companies that their earnings outlook is improving, but we have not yet built conviction that such a change is imminent. During the quarter, portfolio changes were driven by quarterly reports and our recent research trips. We initiated a position in Blackstone as we see a multi-year underappreciated earnings story to play out ahead. Our position in Merck was increased following a strong report. We trimmed our holdings in Walt Disney (taking some profits) as well as exited both Royal Dutch Shell and DBS (weakening earnings outlook). We sold out of Sony as our investment case had been achieved, as well as United Rentals since the earnings outlook deteriorated in line with the overall cycle.

Unless otherwise specified, any information contained in this publication is current as at the date of this report and is provided by Alphinity Investment Management Pty Limited ABN 12 140 833 709 AFSL 356 895 (Alphinity), the investment manager of the Alphinity Global Equity Fund ARSN 609 473 127 (**Fund**). Fidante Partners Limited ABN 94 002 835 592 AFSL 234 668 (**Fidante Partners**) is the responsible entity and issuer of interests in the Fund. The information in this publication should be regarded as general information and not financial product advice, and has been prepared without taking into 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 and consider the Product Disclosure Statement (PDS) and any additional information booklet (AIB) for the Fund before deciding whether to acquire or continue to hold an interest in the Fund. A copy of the PDS and AIB can be obtained from your financial adviser, our Investor Services team on 13 51 53, or on our website www.fidante.com.au. Please also refer to the Financial Services Guide on the Fidante Partners website. Past performance is not a reliable indicator of future performance. Neither your investment nor any particular rate of return is guaranteed. The information contained in this document is not intended to be relied upon as a forecast and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy, nor is it investment advice. If you acquire or hold the product, we, Fidante Partners or a related company will receive fees and other benefits which are generally disclosed in the PDS or other disclosure document for the Fund. Neither Fidante Partners nor a Fidante Partners related company and its 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.