Alphinity Global Equity Fund

Quarterly Report March 2020

Performance[1]	Quarter %	6 months %	1 year %	2 years % p.a	3 years % p.a	Inception % p.a[2]
Fund return (net)	-4.6	-0.6	11.7	11.8	14.1	11.1
MSCI World Net Total Return Index (AUD)[3]	-9.3	-5.6	4.0	8.1	9.8	8.9
Excess return[4]	4.7	5.0	7.7	3.7	4.3	2.1

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 excess return of the Fund above the Performance Benchmark (MSCI World Net Return Index (AUD)) and only paid if performance is above the Performance Hurdle (Reserve Bank of Australia cash rate target). Any negative or unpaid performance is carried forward to the next period.[1]
Buy/sell spread	+0.25% / -0.25%
Fund size	$23.9M
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
Microsoft Corp	Info. Technology	5.5
Roche Holding AG	Health Care	4.3
Merck & Co Inc	Health Care	4.2
NextEra Energy Inc	Utilities	4.0
Nestle SA	Consumer Staples	4.0
Mondelez International Inc	Consumer Staples	3.9
Keysight Technologies Inc	Info. Technology	3.8
ASML Holding NV	Info. Technology	3.8
Activision Blizzard Inc	Communication Services	3.5
Lumentum Holdings Inc	Info. Technology	3.1
Total		**40.1**

Data Source: Fidante Partners Limited, 31 March 2020.

Fund features

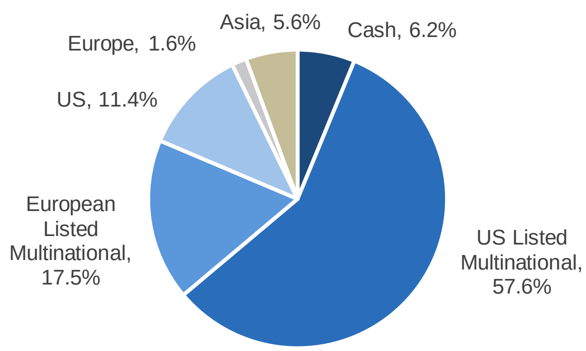
Concentrated: A long only, concentrated portfolio of 30-45 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

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.

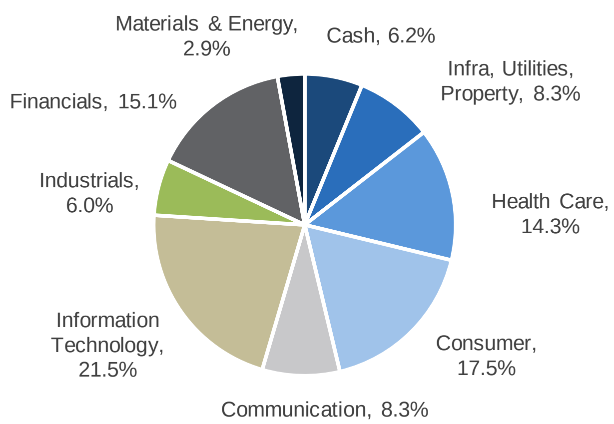
Talent: A united and deeply experienced team of global portfolio managers each with over 20 years in the industry.

Aligned: Alphinity Investment Management is a boutique firm, strongly aligned with its clients' investment objectives and focused solely on growing clients' wealth.

Geographical exposure



Sector exposure



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

Market comment

In a challenging quarter for financial markets, the Covid-19 virus pushed global equities significantly lower. The MSCI World Index fell 21.4% (USD), with notable weakness in all major markets including the U.S (S&P 500: -20.0%), Europe (Stoxx Europe 600: -23.0%), Japan (Topix: -18.5%) and developing markets (MSCI Emerging Markets: -23.9%). The sell-off was also broad-based by sector, although predictably cyclicals including Energy (-45.4%), Financials (-32.3%) and Materials (-27.0%) were weakest, while Healthcare (-12.0%), Information Technology (-13.3%) and Consumer Staples (-13.7%) all performed relatively better.

Economic data released towards the end of March began to reflect the enormity of the impact. Most notable was the extraordinary increase in US initial jobless claims to over 6m in the final week of the quarter. The Chinese Manufacturing Purchasing Managers' Index (PMI) fell to a historical low of 35.7 in February, before recovering in March as virus related restrictions began to ease somewhat. Oil prices also corrected sharply given the shock to demand and a failure of OPEC+ to agree on supply cuts (Brent Oil: -66%). Safe-haven currencies including the US Dollar (+2.8%) and Japanese Yen (+1%) rallied, while the British Pound (-6.3%), Euro (-1.6%) and Australian Dollar (-12.7%) all fell.

The benchmark US 10y treasury yield fell sharply to close at an historic low of 67 basis points (bps), as markets moved to price in recession and the associated monetary stimulus from central banks across the world. The Fed cut policy rates by 150bps and effectively deployed a 'do whatever it takes' approach to backstop financial markets and support growth. Policy measures involved the re-initiation of quantitative easing, as well as various programs to inject liquidity into the commercial paper, repo and money markets, as well as stimulate lending to small and mid-sized enterprises (SME's) and initiate dollar swap lines with other central banks. Governments have also moved quickly to support the economy, including a $2.2trillion fiscal stimulus package (10% of Gross Domestic Product) in the US.

Analysts have generally been slow to revise earnings estimates given the speed of the economic collapse, but it's no surprise that negative earnings revisions have accelerated across the market, with pre-existing defensive sector leadership reinforced. Nevertheless, sell-side estimates still appear significantly too optimistic given the depth of the economic recession.

Market outlook

Covid-19 is a significant negative shock to the global economy, with second quarter GDP likely to contract well into the double digits for most major economies. In response, the speed and scale of policy reactions from central banks, regulators and governments have generally surprised positively. Global monetary stimulus at more than 6% of global GDP has already superseded that of the global financial crisis. Fiscal support has also been significant, especially in the U.S., although more will likely be needed given the severity of the downturn. So far these measures have been successful in averting a systemic financial crisis, and somewhat mitigate the hit to growth, however the length and severity of the recession will ultimately be driven by the trajectory of the virus itself, and the associated social-distancing policy responses. These are complex medical and political questions, which introduce unusually high uncertainty to the outlook for growth.

We currently believe the most likely outcome is a 'U-shaped' economic recovery into 2021, as social distancing policies are progressively relaxed, and confidence gradually returns. Nevertheless, it's important to acknowledge significant tail-risks associated with either a longer than expected shut down, or indeed faster than expected progress on treatment protocols and/or vaccines. We also expect that the virus will continue to develop on different timelines in each country, depending on their respective policies.

Global equities have of course already moved quickly to discount at least some of the recessionary outlook. Analysts are also beginning to catch-up fast, aggressively downgrading earnings estimates for 2020 and driving our global diffusion index down to historic lows. Although we still expect further significant downside to estimates as we move through first quarter earnings season, the odds of at least some stabilisation increases beyond that. Diffusion indicators aren't precise market-timing tools, but they are an important pre-requisite for a trough of the cycle and markets.

The Fund entered 2020 aligned with existing, mostly defensive, earnings leadership, and so the immediate focus has been an assessment of the first order earnings impact from supply chain disruptions, travel bans and the collapse in global rates. In this context we have either exited or reduced positions in Diageo, Fleetcor, Airbus, Safren, Bank of America, Walt Disney, Lloyds and American Express. In contrast we have used recent weakness to continue to build positions in stocks where our conviction around earnings remains high, including Blackstone, Prologis, Nestle, Keysight and Merck. We also initiated new positions in Berkeley Group, CME, Aon, Ping An, Nike and Seagate Technologies.

Our portfolio remains relatively defensively positioned, exposed to stronger earnings outlooks, higher quality and trades at a slight premium to the market. The situation remains fluid and while new risks have certainly materialised, we also see new opportunities emerging. We will continue to re-assess the earnings outlook and balance sheet strength for all our positions, as well as actively research and refresh our 'bench' of potential investments to prepare us for different macro outcomes. While there are currently few signs of a sustainable near-term improvement, the extreme level of pessimism, combined with extraordinary stimulus, suggest that the market recovery, when it comes, may be as sharp and chaotic as the recent sell-off.

For further information, please contact:

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