alphinity
INVESTMENT MANAGEMENT

Alphinity Global Equity Fund

Quarterly Report June 2020

Performance[1]	Quarter %	6 months %	1 year %	2 years % p.a	3 years % p.a	Inception % p.a[2]
Fund return (net)	1.5	-3.2	6.9	9.6	12.7	10.8
MSCI World Net Total Return Index (AUD)[3]	6.1	-3.8	4.8	8.4	10.7	9.9
Excess return[4]	-4.6	0.6	2.1	1.3	2.0	0.9

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	$37.2M
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

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.

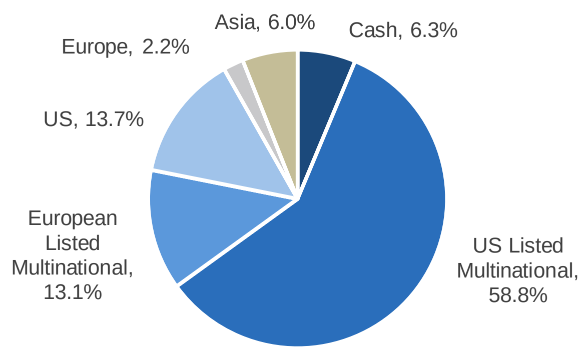
Aligned: Alphinity Investment Management is a boutique firm, strongly aligned with its clients' investment objectives and focused solely on growing clients' wealth.

Top 10 positions

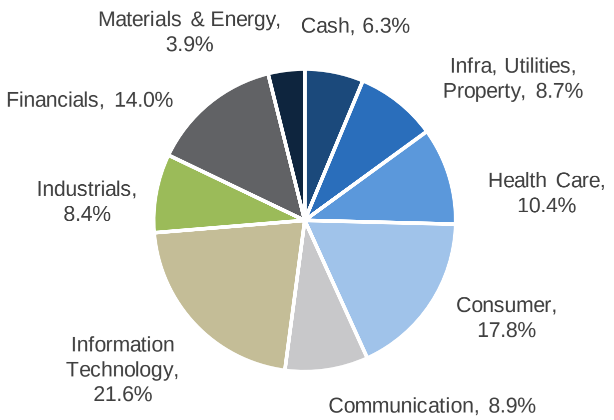
Company	Sector	%
Microsoft Corp	Info. Technology	6.0
ASML Holding NV	Info. Technology	4.0
FMC Corp	Materials	3.9
Activision Blizzard Inc	Communication Services	3.9
Nestle SA	Consumer Staples	3.8
Morgan Stanley	Financials Ex Prop	3.6
Keysight Technologies Inc	Info. Technology	3.6
Yum China Holdings Inc	Cons. Discretionary	3.3
Nike Inc	Cons. Discretionary	3.3
Alphabet Inc	Communication Services	3.3
Total		**38.6**

Data Source: Fidante Partners Limited, 30 June 2020.

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 capture

Down markets[5]	1 Yr	3 Yr	Since inception
No. of observations	4	11	16
Outperformance consistency	100%	91%	69%
Down market capture	86%	91%	93%

All markets	1 Yr	3 Yr	Since inception
Outperformance consistency	75%	75%	64%
Up market capture	96%	93%	101%

[5] Measures shown after fees. Down markets defined as a negative quarter, rolled monthly, for the index.
Data Source: eVestment, 30 June 2020.

Down market capture shows if the Fund has outperformed the benchmark during periods of market weakness, and if so, by how much. Over the past three years, the Fund return has exceeded the benchmark in 75% of all monthly rolling quarters, and 91% of down markets. It has captured only 91% of the fall in down markets. Since inception, it has captured more than 100% of up market returns.

Market comment

After one of the fastest drawdowns in history in the first quarter, enormous levels of global stimulus, easing of lockdowns and some early signs of economic recovery, together drove an equally dramatic rally in the second quarter. The MSCI World Index rose +18.8% with broad strength across most sectors and geographies, although pre-existing price leadership by U.S. mega-cap growth stocks remained firmly intact. By sector, Information Technology (+30.9%) and Consumer Discretionary (+29.7%) were by far the strongest, while more defensive sectors including Utilities (+5.4%), Consumer Staples (+8.0%) and Real Estate (+10.9%) were all relative laggards.

The S&P 500 (+20%) outperformed other major developed markets, including Europe (STOXX Europe 600: +15.4%) and Japan (Topix +11.1%). The MSCI Emerging Market Index rose +17.3%. Commodities also rallied strongly, led by Oil (+81%), Copper (+21.8%) and Gold (+12.9%). Reflecting the risk-on mood, the Australian Dollar rallied +12.6%, while the US Dollar Index fell -1.7%. The US 10-year Treasury yield closed at 67bps, broadly unchanged over the quarter.

The Global Manufacturing Purchasing Managers Index (PMI) troughed in April at -39.6, coinciding with peak lockdowns, but has improved significantly since then, albeit remaining in contractionary territory at -47.8 in June. Similarly, after a dramatic loss of over 20 million jobs in April, the US Nonfarm Payroll has improved in both May (+2.7m) and June (+4.8m). U.S. May retail sales jumped +17.7% q/q, the biggest monthly jump ever, although remaining 6.1% below the previous year.

Global earnings expectations continue to be revised lower, with consensus now expecting 2020 earnings to fall by -24%. The pace of downgrades did slow over the quarter, mirroring the improved economic outlook, although so far earnings leadership remains defensive, with 3-month revisions still relatively strongest for Utilities, Communications and Consumer Staples. In contrast, Energy, Consumer Discretionary and Industrials experienced the largest downgrades over the quarter.

Market outlook

Economic lockdowns and social distancing policies employed in response to COVID-19 have pushed the global economy into deep recession, however enormous fiscal and monetary stimulus has so far been successful in cushioning the worst of the immediate deflationary shock. Policymakers have restored liquidity to financial markets, as well as effectively delivered targeted support for businesses and the unemployed most impacted by the lockdowns. This has allowed investors to focus instead on the path to recovery, with optimism spurred on by improved economic data as restrictions have begun to ease.

Policymakers remain firmly in 'do whatever it takes' mode, with Chairman Powell recently re-affirming that: 'We're not even thinking about thinking about raising rates.' This is critical, as while we continue to believe that the global economy will continue to recover over the next 12-18 months, it's also likely that there will be many twists and turns along the way. New waves of infections across the world are presenting difficult political challenges and threaten to undermine still-fragile confidence. Initial progress on vaccines appears promising, but the ultimate timing and efficacy are impossible to predict with confidence. Against this still unusually uncertain outlook, any premature roll-back of monetary or fiscal stimulus probably represents the biggest potential threat to financial markets.

Meanwhile global earnings expectations have collapsed by >30% since the start of the crisis in February, and while the frequency of these downgrades has recently slowed, there is still little evidence of a broad and convincing earnings recovery. Furthermore, earnings downgrades are still worst in mostly cyclical sectors and price leadership has narrowed further to an increasingly small group of steadily more expensive (mostly) US mega-cap growth stocks. These are generally 'winning businesses', where COVID-19 has supercharged structural tailwinds and supported earnings expectations. While we are partly invested in this leadership (e.g. Microsoft, Activision Blizzard, ASML, Amazon), there are others where we have not invested based on fundamental and/or valuation concerns, which has hurt relative performance. A strong relief bounce in mostly lower-quality cyclical stocks also impacted performance in April.

Our portfolio positioning remains relatively defensive, reflecting similar market earnings leadership. However, we are aware that a downgrade cycle such as this one has historically created the foundation for a fresh cyclical recovery, which would eventually rotate the earnings and market leadership. So while we exited Bank of America and American Express given new fundamental headwinds, we also added new cyclical positions in HCA and Morgan Stanley where we have confidence on the earnings outlook. Similarly, we took profits in more defensive positions including LSE and Merck on valuation concerns. Market rotations against earnings leadership have usually been short and transitory, and consequently we continue to work hard to ensure we are invested in a concentrated portfolio of resilient, high-quality businesses where we have fundamental conviction that the outlook for earnings is under-appreciated.

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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