

Alphinity Global Equity Fund

Quarterly Report March 2021

Performance ¹	Quarter %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a ²
Fund return (net)	6.5	12.5	18.2	13.9	14.7	12.4
MSCI World Net Total Return Index (AUD) ³	6.3	12.5	23.8	13.1	13.6	11.6
Excess return ⁴	0.2	0.0	-5.6	0.8	1.1	0.8

Fund facts	
Portfolio managers	Jonas Palmqvist, 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	\$85.3M
Distributions	Annually at 30 June
Min. Investment	\$10,000
Max. cash position	20%

Fund features
Concentrated: A long only, concentrated portfolio of 25-45 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	%
Alphabet Inc	Communication Services	5.5
Bank of America Corp	Financials Ex Prop	5.1
Microsoft Corp	Info. Technology	5.0
Morgan Stanley	Financials Ex Prop	4.9
Target Corp	Cons. Discretionary	3.7
Nvidia Corp	Info. Technology	3.7
Teck Resources Ltd	Materials	3.5
Infinion Technologies AG	Info. Technology	3.4
Amazon.com Inc	Cons. Discretionary	3.4
Keysight Technologies Inc	Info. Technology	3.3
Total		41.6

Data Source: Fidante Partners Limited, 31 March 2021.

Past performance is not a reliable indicator of future performance.

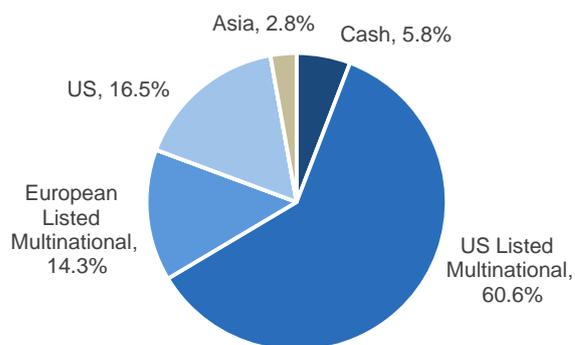
¹ Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

² The inception date for the Fund is 21 December 2015

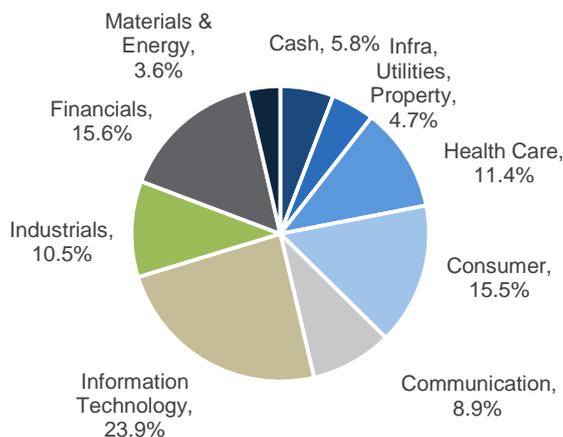
³ From 21 December 2015 to 31 March 2019, the Benchmark was the MSCI World Equity ex Australia (Net) Index. The current index is effective from 1 April 2019.

⁴ Numbers may not add due to rounding

Geographical exposure



Sector exposure



Market capture

Down markets ⁵	1 Yr	3 Yr	Since inception
No. of observations	2	8	16
Outperformance consistency	100%	88%	69%
Down market capture	63%	79%	88%

All markets	1 Yr	3 Yr	Since inception
Outperformance consistency	33%	56%	58%
Up market capture	72%	89%	97%

⁵ Measures shown after fees. Down markets defined as a negative quarter, rolled monthly, for the index.

Data Source: eVestment, 31 March 2021.

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 56% of all monthly rolling quarters, and 88% of down markets. It has captured only 79% of the fall in down markets. Since inception, it has captured 97% of up market returns.

Market comment

Global equities rose to new highs in the first quarter, with the successful roll out of vaccines, US Congress approval of another \$1.9trn in fiscal stimulus and a still dovish message from the Federal Reserve together driving optimism that growth is likely to recover strongly in 2021. Inflation expectations and bond yields both continued to rise to new post-COVID highs. The 10-year US Treasury yield closed at 1.74% versus 0.91% at the start of the year. Reflecting the improved outlook, the CRB All Commodity Index also rose by 14.2% in the quarter, with Oil (Brent Oil +22.7%) and Copper (+13.5%) notably strong.

While there was some volatility in data releases over the first three months, mostly reflecting some regional variation in virus-related restrictions, the overall pattern continued to be supportive of a broad recovery in global growth. The Global Manufacturing and Services Purchasing Managers' Indices (PMI's) both hit new highs in March (55.0 and 54.7 respectively), with most forward-looking business surveys also rising strongly. US Nonfarm Payrolls have continued to be positive throughout the period, driving the unemployment rate down to 6.2%. US CPI has also recovered strongly from a low of only 0.1% y/y in May 2020 to +2.6% y/y in March.

The rise in bond yields helped drive further outperformance in Financials and cyclical stocks more broadly. The best-performing sectors were Energy (+22.2%), Financials (+13.4%) and Industrials (+7.9%), with Consumer Staples (-0.4%), Utilities (+0.7%) and Health Care (+0.9%) all lagging. This price performance closely mirrors similar earnings leadership, where Energy, Materials and Financials have enjoyed the strongest positive earnings revisions over the last three months, while relatively defensive sectors such as Consumer Staples, Utilities and Real Estate have all lagged. Earnings expectations for the MSCI World Index remain positive, rising 5.6% over the last three months.

Market outlook

The outlook for growth and inflation, and the associated impact on bond yields, is likely to continue dominating investor debate for the next several months. In the near term at least it's clear that the global economic cycle continues to build in strength, with positive vaccine-related news adding to an already strong recovery in corporate earnings. Meanwhile policy makers remain highly supportive, with no apparent appetite to begin reigning in fiscal or monetary stimulus in any of the larger global economies, despite inflation expectations moving higher.

Nevertheless, it's undeniable that markets have already re-rated significantly, valuations are higher than normal and current investor positioning looks somewhat extended. Given the unique re-opening dynamics, combined with significant levels of stimulus, this cycle is also likely to run hotter but also potentially shorter than normal. Leading indicators such as credit spreads remain positive, however investors will need confirmation from a further recovery in corporate earnings to validate higher valuations. It also remains to be seen whether near term inflationary pressures, exacerbated by various manufacturing and logistic supply constraints, will persist and broaden requiring an earlier than expected policy response. The probability of higher corporate taxes and more active regulatory intervention also appear to be rising. The strong market rally has clearly raised risks and we would expect periods of elevated market volatility this year as all of this plays out.

Against this backdrop, while recent stock changes and overall portfolio positioning continue to reflect current cyclical leadership, which remains apparent from both a price and earnings perspective, we are also conscious of remaining disciplined on both value and quality. During the quarter we added positions in US homebuilder Pultegroup and German automotive company Daimler, both with a number of cyclical and structural growth drivers trading at an attractive valuation. These were financed mainly through the sale of more defensive stocks including American Tower, Mondelez and Reckitt Benckiser. Aena, FMC and Adobe were sold for idiosyncratic reasons and in each case reflect weaker conviction on the outlook for earnings growth. Meanwhile, we have generally maintained positions in our highest conviction growth stocks, which still have some of our best earnings stories for 2021 and beyond. Taking advantage of recent stock price moves, we also made minor changes to a few positions during the quarter such as Nvidia, Prologis, Nestle, Danaher and Alphabet (added), as well as Eli Lilly, Lumentum, Vestas Wind, Trane and ASML (trimmed).

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