

Monthly Report – May 2021

Alphinity Concentrated Australian Share Fund

Sell in May?

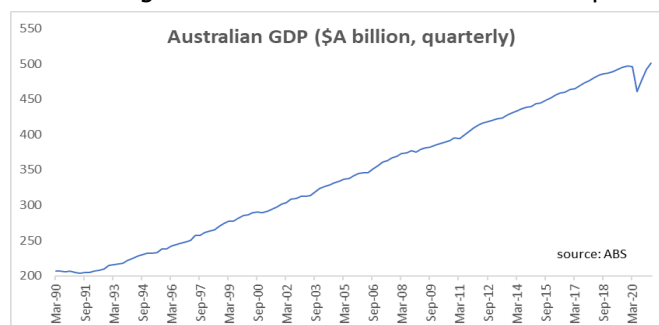
Market comment

There's an old adage in the share market: "Sell in May and go away, come back on St Ledger's Day" (September 15). Like most of these little pieces of wisdom, it works every time except for when it doesn't. Last year it would have been a poor move: between 1st May and 15th September the local market was up by more than 12%. Will it work this year? We'll let you know on St Ledger's Day. Originating in England, it was possibly also aimed at giving people in the City a clear run at the summer social and sporting calendar – Ascot, Lords, Wimbledon, Cannes and so on – without that little bother of the markets to worry about. Those fixtures were largely absent last year thanks to the plague; we are not sure how it will pan out in 2021. The UK is bravely trying to get back to normal with plans to progressively remove restrictions from its citizens in June, new Covid strains notwithstanding.

The Australian share market (ASX300 including dividends) edged higher by 2.3% in May, bringing the rise for the five months so far of 2021 to 10.5%. May was a bit like a mini-reporting season with a number of conferences and results from companies with odd balance dates providing a lot of noise for the market. Our market lagged some of its major western peers a little: most European markets rose by between 3 and 6% and Canada by 5%, although it outperformed the US. The broad S&P500 was up only 0.7% and the tech-focused Nasdaq fell 1.5% as some heat came out from some of the high-flyers. Japan fell slightly as another wave of the virus took hold there.

Commodity prices continued their recent strength, the bulks especially. Iron ore had a wild ride, starting the month at \$US180 and spiking to \$240 before China put some calming measures in, discouraging speculators and bringing the price back down to \$190 at the end of the month. Coal however rose sharply: thermal coal (for power generation) rising 27% and metallurgical coal (for use in steel making) 38%. Gold rose 7.5% in the month and most base metals were firmer, although only by a few per cent. Oil was also slightly higher.

Economic news for Australia continues to be positive. National accounts for the March quarter showed that the economy grew at a respectable 1.8% clip and has now fully recovered the Covid slump that took place this time last year, a feat few countries around the world have managed. This can largely be attributed to extremely strong resource prices and volumes, and the huge amount of government stimulus that has been expended.



The 2021-22 Federal Budget was delivered during the month and the impact of the strong domestic recovery and high commodity prices on government revenues was a much better outcome than was expected just six months ago. Notwithstanding, the budget deficit forecast of \$106 billion is still extremely high at 5% of GDP. We are fortunate to have gone into the Covid crisis with relatively low levels of debt but this will take net debt from 30% of economic output currently to about 40% by 2025, from which point it should start to trend down.

Portfolio comment

The Fund performed a little better than the market in May. The Afterpay yoyo went in our favour this month: it was the best individual contributor to fund performance (by not owning it). Our holdings in major bank Commonwealth Bank and global insurer QBE were the only other contributors of note. On the other side of the ledger our position in ventilator manufacturer Fisher & Paykel Healthcare and not owning major bank Westpac both cost a small amount of performance in the month.

Performance*	1 Month %	Quarter %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception^ % p.a.
Fund return (net)	2.4	9.4	28.4	9.3	11.4	10.4	10.8
S&P/ASX 200 Accumulation Index	2.3	8.5	28.2	9.9	10.1	8.8	9.2

*Returns are calculated after fees have been deducted, assuming reinvestment of distributions. No allowance is made for tax. Past performance is not a reliable indicator of future performance. **Source: Fidante Partners Limited, 31 May 2021.**

^The Fund changed investment manager and investment methodology on 12 July 2010, at which time Alphinity Investment Management commenced managing the Fund and started the transitioning of the portfolios to a structure consistent with Alphinity's investment views. The transition was completed on 31 August 2010. The inception date for the returns for the Fund is 1 September 2010. For performance relating to previous periods, please contact the Fidante Partners Investor Services team on 13 51 53 during Sydney business hours.

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Market outlook

Economic data and corporate earnings news over the last month have been consistent with our view that both the global and domestic economies continue to recover strongly. However, with the recovery now more than a year old and highly accommodative monetary policy settings unchanged over that period, we feel that a peak in economic growth rates and financial liquidity is approaching. How investors will react will likely depend on whether it also coincides with a peak in bond yields. We think the latter is improbable given ongoing inflation concerns and what is still a solid growth outlook.

The Covid pandemic continues to provide challenges. While the success of the vaccination rollout in the US and the UK in particular is very encouraging, and the easing of restrictions in both countries is supportive of a further broadening of economic activity, infection rates are showing few signs of easing in many developing countries. While this tragic development has so far not caused any slowdown in global economic activity it is, in addition to inflation, a key risk we need to monitor. Australia's strict containment policies have provided their own challenges from an economic perspective, with the recent Melbourne lockdown another setback. Based on previous episodes, once it ends the rebound should be relatively swift but it provides more support to our view that the changes in consumer spending we have seen since the pandemic hit may be with us for longer than many investors currently expect.

While the Australian market's earnings multiple remains above long term levels strong corporate earnings growth should see the market well supported. Higher bond yields remain the key risk to the overall market for now, particularly to the more highly-priced sectors.

Portfolio Outlook

With a macro environment which continues to look incredibly strong by almost any measure but a bond market that for now appears to be primarily driven by the US Federal Reserve Bank's aggressive buying of bonds (and, as a result, very low yields), we believe continued focus on company fundamentals, in particular those that can deliver earnings growth ahead of investors' current expectations, remains the correct strategy to pursue. This has held us in good stead over many years and delivered solid outperformance over the past year despite some highly volatile financial market conditions.

Short term earnings upside is still strongest in the Resource sector and, increasingly, the Energy sector. While we have prudently trimmed our exposure to Resources somewhat we still see potential for them to deliver further outperformance over the balance of the year. Increasingly, however, we expect that relative performance will primarily be driven by company-specific factors.

Share prices of both "Covid winners" and "Covid losers" are now discounting a relatively swift return to pre-pandemic conditions. And while on balance we think the return to normal might well take longer to play out, we believe the store roll out opportunities for portfolio holdings such as Super Retail Group and Domino's Pizza Enterprises sit in contrast with the more challenged longer-term competitive positions of international travel-related companies such as Flight Centre and shopping mall operators such as Scentre Group, neither of which we own.

Company-specific factors such as these will most likely turn out to be far more important drivers of earnings versus market expectations - and thus individual share performance - than what is (hopefully) the last phase of the Covid pandemic. This will be refreshing, as the ability to pick all of the twists and turns of Covid is not something at which we, most investors, corporates or Governments have proved very adept.

Top five active overweight positions as at 31 May 2021	Index weight %	Active weight %
BHP Group Limited	7.0	5.1
Commonwealth Bank Of Australia	8.8	2.9
National Australia Bank Limited	4.4	2.8
Woolworths Group Ltd	2.6	2.4
Macquarie Group Ltd	2.6	2.2

Asset allocation	31 May 2021 %	Range %
Securities	98.1	90-100
Cash	1.9	0-10

Source: Fidante Partners Limited, 31 May 2021.

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BTW

Action in the crypto space hotted up even more in May. The great Elon Musk must have read our piece last month as he abruptly ceased accepting Bitcoin to pay for his cars for environmental reasons, although he implied that he would hold on for now to the Bitcoin Tesla already owned. His confidence in that particular cryptocurrency had clearly taken a hit and so did the Bitcoin price which crumbled from the \$US63,000 it reached in April, in the initial aftermath of Tesla's buying, to \$US34,000 at the end of May. So much for it being a store of value. The other traditional "store", gold, rose sharply (about 6%: that's sharp for gold) during May – so possibly there's been a bit of switching between the two by some speculators.

Elon hasn't completely lost faith in the crypto concept though: in an appearance on the influential US financial news show Saturday Night Live he declared himself the Dogefather, although he also caused some concern by describing Dogecoin as "a hustle". He has spoken about Dogecoin in the past and seems to be positioning it as a more responsible cryptocurrency. We're sure he's aware of that coin's history: it started out as a joke. In the early days of crypto, way back in 2013, a couple of IT developers in Oregon USA wanted to establish an alternative to Bitcoin. They did it with just a few hours of work, taking from a meme the mis-spelling of "dog" and the image of an adorable Japanese breed of dog.



They said at the time: "Dogecoin is an open source peer-to-peer digital currency, favored by Shiba Inus worldwide." Now it is a \$US50 billion joke. Dogecoin was trading at about 50c at the end of May but there are more than 100 billion of the coins out there. In that sense the scarcity which gives Bitcoin some of its (questionable) value – that a maximum of 21 million can ever be issued – is completely absent. The upside however is that if Dogecoin were to be used for transactions, it would be a lot cheaper, quicker, and far less power-consumptive than Bitcoin. It wasn't designed that way – the founders admitted that power usage wasn't considered at all – but it is, so maybe Elon is onto something.



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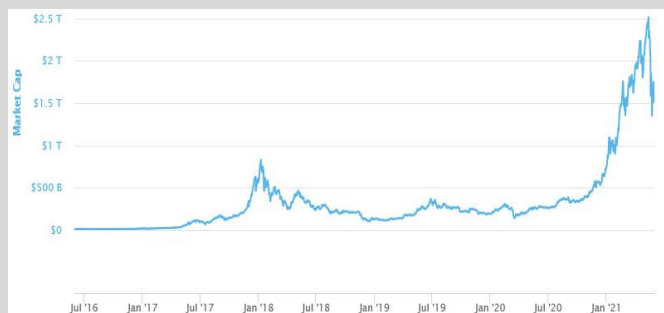
There were another two crypto developments in May. The first was the establishment of another joke coin called Shiba Inu – a joke on a joke – which quickly became worth a few billion dollars, even at the tiny fraction of a cent at which it trades. Its website says: "Once upon a time, there was a very special dog. That dog was a shiba inu, and this dog inspired millions of people around the world to invest money into tokens with the dog's image on it." It also has subsidiary coins known as Leash and Bone. It seems to have the aim of killing Dogecoin.

The second was \$ASScoin. The ASS part stands for Australian Safe Shepherd and its image is just as adorable as the shiba inu. The link with Australia is highly tenuous: the breed of dog and nothing else. We're not sure where the "safe" bit comes in, possibly to infer security and to enable its edgy acronym. Australian Shepherd dogs are quite popular in North America apparently.



\$ASScoin describes itself as a "community driven fair launch token that thrives on memes". We've not yet seen a compelling use case for it over the myriad other coins out there but plenty of people must have because in its first month in existence it apparently attracted 272,000 holders. It is hard to argue any scarcity for this coin, there is a maximum issuance number of ten thousand trillion (1 with 16 zeros). Should be enough.

If it's that easy to create an asset supposedly worth billions of dollars from nothing, one might ask why isn't everyone launching new coins? Seems like they are. Look out for the new Alphinitycoin soon. There are now 10,385 coins being tracked by coinmarketcap.com which at the end of May had a total market value (i.e. number of coins times the spot price of those coins) of more than \$US1.5 trillion. It reached \$US2.5 trillion during the month, as the chart below shows, before Bitcoin and its ilk corrected.



Traveller's Tale

Autonomous vehicles have been the big unrealised automotive promise of the last decade. While there have been some advances, it would still take a fairly brave person to put their complete trust in a couple of tonnes of steel and glass travelling at speed being controlled by a computer. You need to have an enormous amount of faith that the person who programmed the thing (a) knew what they were doing, and (b) had envisaged all the permutations and combinations of events that can take place on the roads and had coded them in.

Still, there are some people who have that confidence. Tesla is the carmaker with the boldest claims about its vehicles' self-driving ability, to the extent that it has named the function Autopilot. Some of its customers have placed possibly too much faith in it however, and a number of people in the USA have crashed or even been killed by either falling asleep at the wheel or not paying enough attention to the road and running into something or someone. Some might consider this to be Darwinian, yet still it happens.

It happened again this month, in California. A 25-year old in a Tesla was stopped by police and arrested for being in the back seat while his car drove itself on the freeway.

The story didn't say how they stopped the car, but it did say it was the second time the man had been caught. He'd been stopped a few weeks before for the same thing, fined and had his car impounded. He immediately went and bought another Tesla and started doing the same thing, recording it on video for his YouTube account. We're not sure how a 25 year old has enough money to buy not one but two Teslas, but then again California is a strange place. Maybe his YouTube channel has been very successful.

The man seemed fairly blasé about all the fuss he had created and the danger in which he was putting himself and other road users. "It's actually very normal for me to sit in the back. When I sit in the back seat, it's like a magical experience ... to see self-driving cars finally work... like, it's not really that serious because I'm not really breaking any laws, I'm not dangerously operating the car."

The police begged to differ however, [saying](#) he had been "arrested without incident and booked into Santa Rita Jail on two counts of reckless driving and disobeying a Peace Officer. The Tesla was towed from the scene for evidence and this incident remains under investigation." It remains to be seen if the reality of jail makes him think twice about doing it again.



For further information, please contact:

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

Fidante Partners Adviser Services | p: 1800 195 853 | e: bdm@fidante.com.au | w: www.fidante.com.au

Alphinity Investment Management | w: www.alphinity.com.au

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