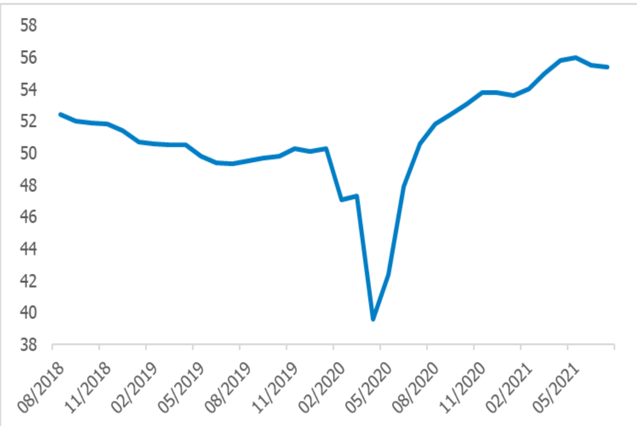
Alphinity Global Sustainable Equity Fund

Monthly Fact Sheet July 2021

Market comment and outlook

Global equity markets continued to rally in July, spurred on by falling bond yields and strong second quarter earnings reports in both the U.S. and Europe. In AUD terms, the MSCI World Index gained +3.8%, with both the US (S&P 500: +4.4%) and Europe (STOXX Europe 600:+4.2%) outperforming amongst Developed Markets. In comparison, Emerging Markets were significantly weaker, triggered by concerns about the Covid Delta variant, as well as increased Chinese regulatory scrutiny of the Technology and Education sectors, which precipitated an 8.2% fall in Hong Kong stocks and 3.5% loss in China A-shares.

Global Manufacturing PMI softened in July

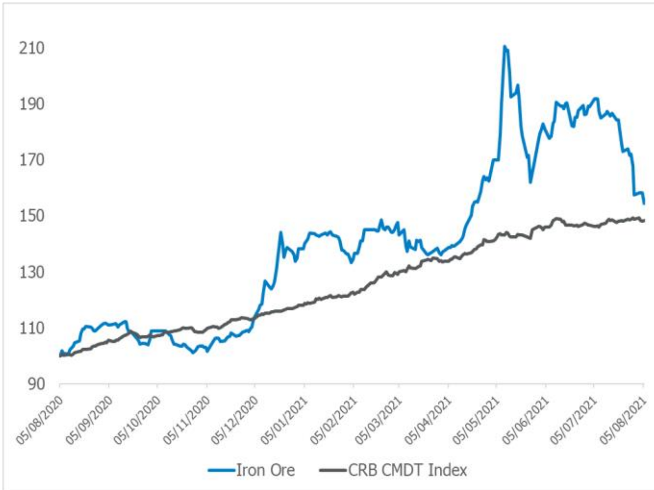


Source: Bloomberg, JPM data, 31 July 2021

Economic data released in July was more mixed. The Global Manufacturing Purchasing Managers Index (PMI) softened to 55.4, versus its' peak of 56 at the end of March, with industries including Semiconductors, Autos and Homebuilders highlighting capacity constraints and supply chain shortages of inputs like microchips, raw materials and labour. The June US CPI print came in at +5.4% y/y, or +4.5% y/y excluding food and energy, both well above expectations. The Fed left policy rates and their bond buying program unchanged, with Chairman Powell wanting to see a stronger labour market before tapering. The CRB All Commodities Index rose 1.1%, although this masked a significant fall in iron ore (-15.4%) as China curbed steel output. The benchmark 10-year bond yield fell 25bps to close at 1.22%.

The falling yield environment contributed to Growth outperforming Value, reversing recent cyclical market leadership, with Healthcare (+3.7%) and Technology (+3.5%) among the strongest sectors, while Financials (-0.3%) and Energy (-6.4%) both lagged. In relative contrast, earnings leadership through another strong, and better than expected, reporting season largely retained its' cyclical bias.

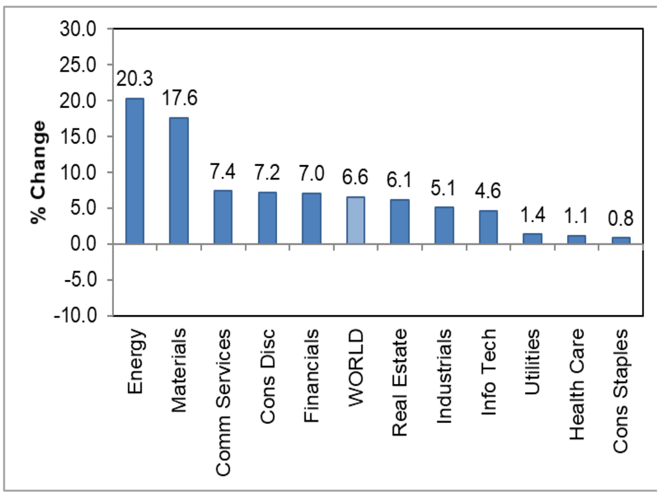
Commodity index rose despite Iron Ore seeing a significant fall



Source: Bloomberg, 8 August 2021

Despite growing concerns about the impact of higher input costs and supply constraints, earnings in the U.S. grew an impressive +101% y/y, which was 15.9% higher than consensus. A similar story played out in Europe, with 33% of companies beating on earnings, and 16 sectors out of 24 beating on margins. Overall, in July, global earnings expectations were revised upwards for both 2021 (+3.2%) and 2022 (+2%), with revisions strongest in Energy and Communications, and relatively weakest in defensive sectors including Consumer Staples and Real Estate (albeit still positive).

Cyclicals continue to see majority of earnings upgrades (3 Month EPS revisions)

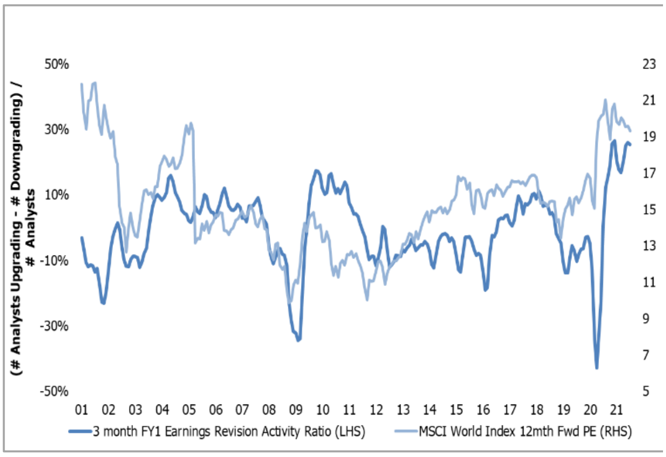


Source: Alphinity, Bloomberg, 2 August 2021

Portfolio comment and outlook

Re-opening of many major economies has driven a powerful recovery in growth, which is now broadening out despite fears around the Delta variant and some new mobility restrictions in some parts of the world. Meanwhile policy makers have remained generally supportive despite some initial talks about tapering, with little apparent appetite to significantly reign in fiscal or monetary stimulus in any of the larger global economies. It's clear that strong inflationary forces are currently in play, however at this stage they appear mostly transitory, in-line with the view of the Federal Reserve.

MSCI World PE vs EPS Revisions activity



Source: Alphinity, Bloomberg, 2 August 2021

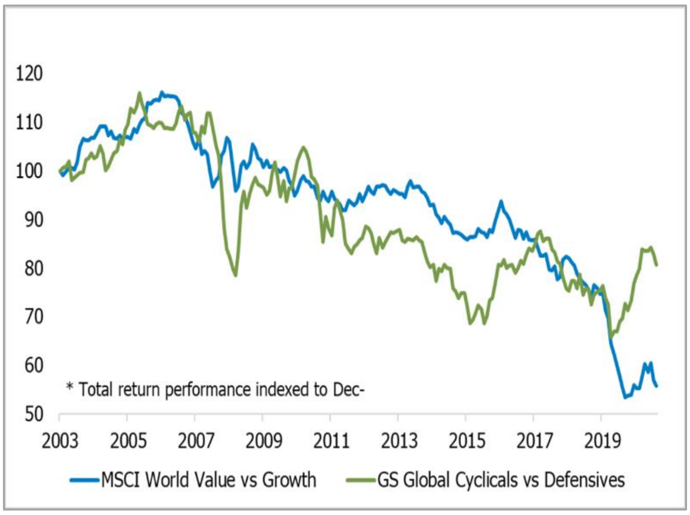
But, of course, this supportive backdrop is now relatively well understood by investors. Equity markets have already rallied strongly, and while corporate earnings have also surged back in-line with growth, this has been needed to justify elevated valuations. In this context, it's understandable that concerns have grown about a potential triple peak in growth, inflation and stimulus, which combined with the spread of the new Covid 'Delta' variant, has tamed the cyclical rally and sent bond yields sharply lower.

Nevertheless, while the most explosive part of the recovery is now behind us, we remain relatively optimistic about the economic outlook. European growth in particular looks set to accelerate over the next few months as vaccine rates continue to improve and economies re-open further. Overall, global growth still seems likely to remain above trend for the next few quarters at least, and policy removal will occur far slower than historically.

As a consequence, and also reflecting current earnings leadership, we have largely maintained our pro-cyclical bias, albeit continuing to shave some positions reflecting the maturing cycle and rising valuations. We are conscious of remaining disciplined on both valuations and quality as we move deeper into the cycle. During the month we took some profit in Nvidia, and also reduced positions in AIA, Infineon and ING reflecting lower conviction on the outlook for earnings. We increased our investments in Otis, HelloFresh, Prologis and Keysight, where we continue to have high conviction.

As a reminder, we have remained invested in our favourite, most sustainable, high-quality growth stocks through the cyclical recovery, which continue to be some of our strongest earnings stories. In contrast, we remain relatively less invested in defensives, which are still facing various earnings headwinds. We are on alert for signs that analysts have over extrapolated current cyclical trends, with overly bullish expectations one of the classic end-of-cycle signals. As always, we will let the earnings leadership guide us through the cycle and avoid making sweeping, lower probability global macro calls in the portfolio.

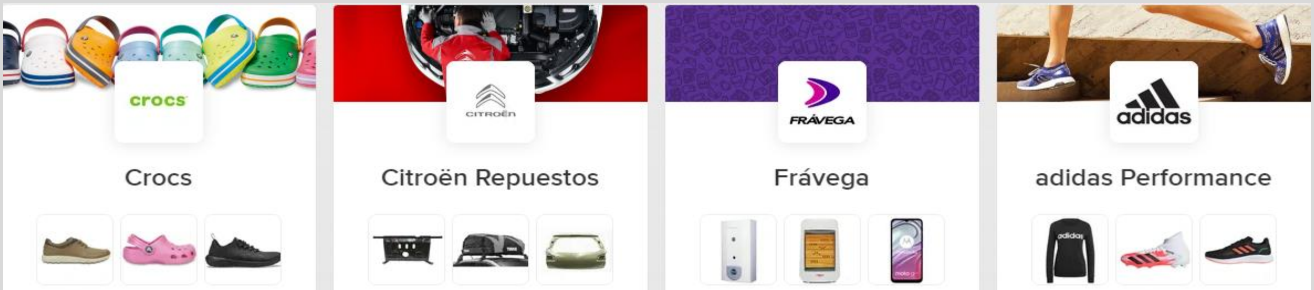
Global Cyclicals/Defensives YoY Total Return vs Global Value/Growth



Source: Bloomberg, GS Data, 31 July 2021

What's on our mind - Stock in focus

MercadoLibre – The largest e-commerce and payments eco-system in LatAm



MercadoLibre (MELI US) is the largest e-commerce and payments eco-system in Latin America (LatAm) with a market cap of approximately $87 billion. The company is present in 18 different countries with approximately 90% of GMV generated in Brazil, Argentina and Mexico.

MELI's e-commerce business operates as a marketplace selling 3rd party goods (3P). The company has an impressive 32% market share in LatAm and over the past 5 years has grown revenues at a compound annual growth rate of over 40%. Mercado Envios is the company's shipping service which has achieved impressive economies of scale through cooperation with local carriers, state of the art warehousing services and proprietary technology that drives down delivery costs.

MELI's payments business started as a complement to the marketplace business but has grown to include a suite of platforms, MercadoPago, MercadoFondo and MercadoCredito, all of which facilitate the democratization of payments and financial inclusion in LatAm. The combination of MELI's dominant e-commerce platform, outstanding logistics business and growing payments expertise creates a very strong and network effect which is difficult for competitors to replicate.

Earnings Leadership

MELI reported exceptionally strong 2Q21 result on August 4th. Net revenue growth spiked by 103% YOY (in local currency terms) coming in 15% ahead of consensus. Operating profit margin came in at 9.8%, the highest level since 2Q20 and well ahead expectations. The stock rose 14% in response to these strong results. Management did point to tougher comps ahead given post-COVID reopening dynamics in LatAm, but also highlighted ongoing strength in user engagement and fulfillment speed.

MercadoLibre - ESG & Sustainability Considerations

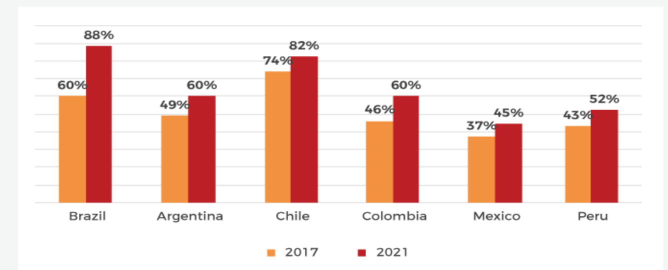
SDG alignment (positive)

SDG alignment (negative)

Financial Inclusion

The penetration of bank accounts in LatAm has increased significantly in the last 5 years. This increase can be attributed to the need for financial support during the COVID-19 pandemic and the rise of Fintech solutions in the region.

Penetration of bank and fintech accounts (2017 – 2021)



Source: Americas Market Intelligence, 1 March 2021: Latin America Payments 2021 – the good, the bad and the Ugly.

MELI's fintech platforms support its network by providing payment solutions, point-to-pay technology and credit extension. Alphinity spoke to members of the MELI sustainability team in March 2021 who highlighted that there are still more than 300 million people outside of the banking system in LatAm. Although approximately 70% of MELI's merchants have bank accounts, only 25% have access to credit. Providing credit to these underbanked merchants is a major opportunity for MELI. In 2020, $500 million of loans were provided to medium and small businesses in LatAm, with 46% of these granted to women-owned businesses.

MELI has strong policies and practices around ethics and corruption, privacy and data protection, predatory lending, and supporting customers through hardship. This is an area that requires ongoing monitoring, especially as the Fintech area of the business continues to grow.

Regarding waste and consumption, MELI currently uses 100% FSC certified cardboard that is made up of at least 40% recycled content. During 2020 they also rolled out trials of compostable and bioplastic bags. They have also introduced a 'sustainable' section of their online stores, dedicated to sellers with sustainable products. MELI has also committed to purchase 100% renewable energy for their largest distribution centres in Brazil and Mexico in 2021.

Environmental Impact

The main environmental issues associated with MELI is resource use. Online shopping and distribution typically require significant amounts of packaging, may encourage wasteful purchasing practices, and uses energy in warehouses, distribution centres and transport.

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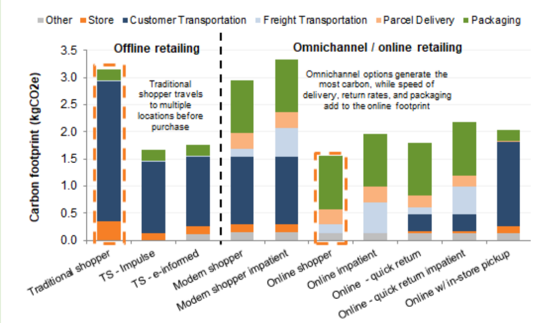
Carbon footprints of various consumer purchasing habits



Source: Goldman Sachs, 30 April 2021: The ESG case for E-commerce

We believe that the financial inclusion and social benefits MELI provides for small scale sellers, and the wider population in Latin America, outweigh the negative impact of packaging and waste from their e-commerce business. This negative impact is also reduced by their ongoing commitment to sustainability and efforts to improve their environmental practices.

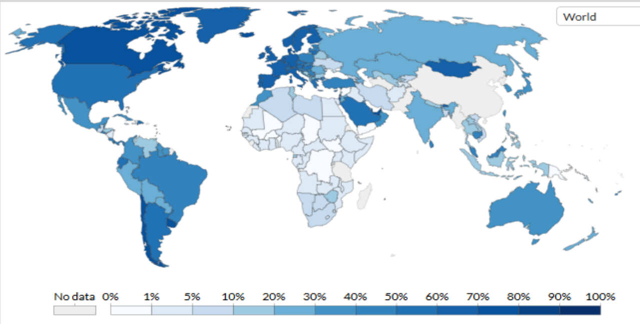
BTW

The head of the US Centre for Disease Control said this month that the Delta variant of Covid-19 is "one of the most infectious respiratory viruses we know of". It is now the dominant strain in the US, accounting for 90% of infections there, wreaking havoc in communities with low vaccination rates. There seems to be a political divide, with states that had most strongly supported ousted President Trump making up many of the vaccine-resistant regions. This seems a little odd considering one of the things of which Trump should be most proud is the way his administration drove the effort to develop the vaccines in 2020: one would think his supporters would also support the vaccines that were developed, but it seems not.

This time last year there were overflowing emergency wards in countries like the USA, UK and Italy, shortages of ventilation equipment and essential gasses, thousands of deaths daily – including of many health professionals caring for the infected – and so on, it is clear just how far the world has come. A year ago there was no vaccine and many experts were pointing out that no one had ever developed a successful vaccine for a coronavirus.

Equally, no one had ever thrown such immense resources at developing a vaccine for a coronavirus and, in an incredible triumph of medical science, by November last year several had been developed and proven. Approval was fast-tracked in some countries. The first was administered in the UK in December and by the end of July, only eight months later, 4.1 billion doses have been given worldwide; more than a billion people, almost 15% of the world's population, have been fully vaccinated and many more are only a jab away from being the same.

The vaccines however have not been evenly distributed. Those who developed the vaccines and had the biggest emergencies – especially US and Europe – have achieved very good coverage but less-developed countries are lagging. The chart below from ourworldindata.org shows first doses, which provide some coverage and indicate an intent of full vaccination, and the African continent has had very little. China apparently has a good level of coverage but is loath to disclose its numbers. It is also suffering Delta outbreaks in some cities. Countries that didn't suffer the worst impacts of the disease – ourselves and New Zealand, Taiwan, Vietnam and Thailand for instance – ended up scrambling for allocations.



There are glimmers of hope, however. The first piece of good news is that, despite a resurgence of infections in many other places, Covid hospitalisation and deaths in highly-vaccinated populations are substantially lower than was the case before the vaccines were available. This suggests that the vaccines currently being used in most places are working, even against Delta. The second piece is that vaccination supply is ramping up rapidly. Until quite recently some sections of our population has been reluctant to be vaccinated and, for those who were willing, not enough supply of the "right" sort of vaccine after a misguided but highly-effective campaign against the AstraZeneca vaccine in the media and even by some health professionals.

This is particularly unfortunate because of all the vaccines the Anglo-Swedish AstraZeneca seems to have the best ethical framework. It was developed by company with Oxford University but, unlike all the US vaccines, AZ took the moral stand at the start of the pandemic that it would not seek to profit from it. AZ is selling it to governments all around the world at cost and even donating some to poor countries. It is also allowing various parties around the world to make it, and since March it has been produced in vast quantities in Australia by portfolio holding CSL. It is therefore a "cheap" vaccine, selling for between $2 and $4 per dose in different parts of the world.

By contrast, Pfizer has charged what the market will bear, meaning $20-50 per dose according to some sources (actual prices are top secret). This is what you might expect a commercial operation to do, especially one which developed a whole new way of making vaccines, but it's not as noble as AZ has been. When you multiply those high prices by the ~15 billion doses that will be required to vaccinate the world, before you start factoring in the inevitable booster shots, the difference is stark. In the latest US earning season Pfizer reported record earnings and its share price jumped sharply. Same with Moderna.

Back home, as larger quantities become available in coming weeks we can look forward to the supply issue disappearing; and the reality of an easily-spread but preventable illness and the suffering and death it can cause, not to mention the great inconvenience, mental stress and financial loss resulting from lockdowns, seems to be solving the demand issue. All of a sudden people are clamouring for their jabs so the confluence of adequate supply and intense demand should result in a much higher vaccination rate within months. Our shading on the map should become a darker blue reasonably quickly.

Will it be enough to ease up on the draconian international travel restrictions we are living under? We can only hope. While not being able to go anywhere was quite pleasant for a while, we are all starting to develop itchy feet and keen to get back out there. If we can achieve strong take-up rates who knows, we might be back winging our ways around the world again in 2022.

Performance[1]	1 month %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception %[2]
Fund return (net)	6.4	-	-	-	-	12.8
MSCI World Net Total Return Index (AUD)	4.0	-	-	-	-	8.5
Excess return[3]	2.4	-	-	-	-	4.3

Fund facts	
Portfolio managers	Jonas Palmqvist, Jeff Thomson, Nikki Thomas, Trent Masters
APIR code	HOW1000AU
Inception date	3 June 2021
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	$1.4M
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

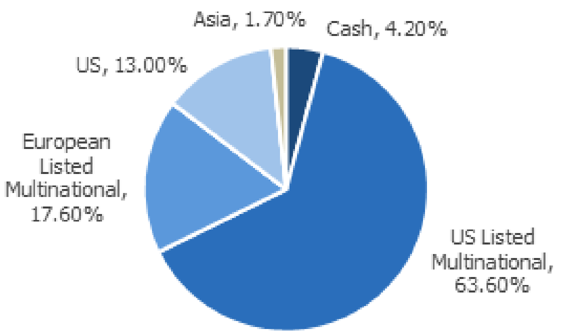
Company	Sector	%
Alphabet Inc	Communication Services	6.1
Microsoft Corp	Info. Technology	4.8
Danaher Corp	Healthcare	4.3
Nike Inc	Cons. Discretionary	3.9
Otis Elevators	Industrials	3.7
ASML	Info. Technology	3.7
Nvidia	Info. Technology	3.7
Lowe's Cos Inc	Cons. Discretionary	3.5
S&P Global	Financials	3.4
Trane Technologies	Industrials	3.4
Total		**40.5**

Data Source: Fidante Partners Limited, 31 July 2021.

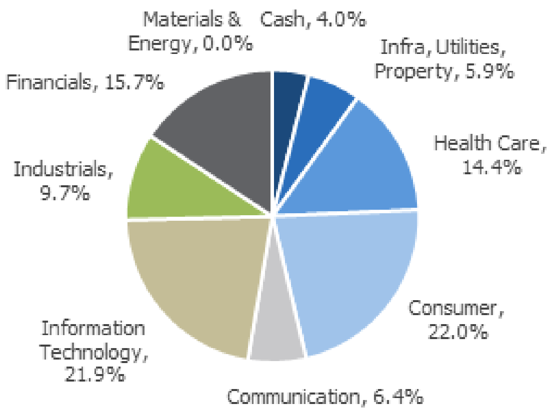
[1] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance.
[2] The inception date for the Fund is 3 June 2021.
[3] Numbers may not add due to rounding.

Fund features
Sustainable: A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Highly diversified across sectors and regions.
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



For further information, please contact:

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