Alphinity Global Equity Fund

Monthly Report August 2021

Performance[1]	Quarter %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a[2]
Fund return (net)	17.0	31.0	41.8	18.5	19.1	16.0
MSCI World Net Total Return Index (AUD)[3]	12.1	23.0	31.3	14.5	15.5	13.8
Excess return[4]	4.9	7.9	10.4	3.9	3.6	2.1

Fund facts	
Portfolio managers	Jonas Palmqvist, Jeff Thomson, Nikki Thomas, Trent Masters, Mary Manning
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	$172.9m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
Alphabet Inc	Communication Services	6.7
Apple Inc	Info. Technology	5.5
Microsoft Corp	Info. Technology	4.8
Morgan Stanley	Financials Ex Prop	4.5
Danaher Corp	Healthcare	4.5
ASML	Info. Technology	4.2
Otis Worldwide Corp	Industrials	3.9
Target Corp	Consumer Disc.	3.9
Keysight Technologies Inc	Info. Technology	3.8
UnitedHealth Group Inc	Health Care	3.7
Total		**45.5**

Data Source: Fidante Partners Limited, 31 August 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.

[2] The inception date for the Fund is 21 December 2015

Fund features

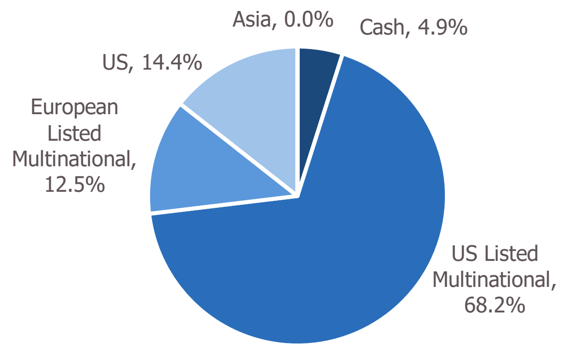
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

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.

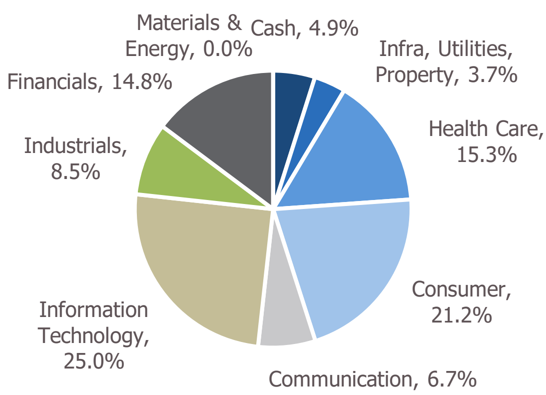
Talent: A united and deeply experienced team of global portfolio managers each with over 20 years in the industry.

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



[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.

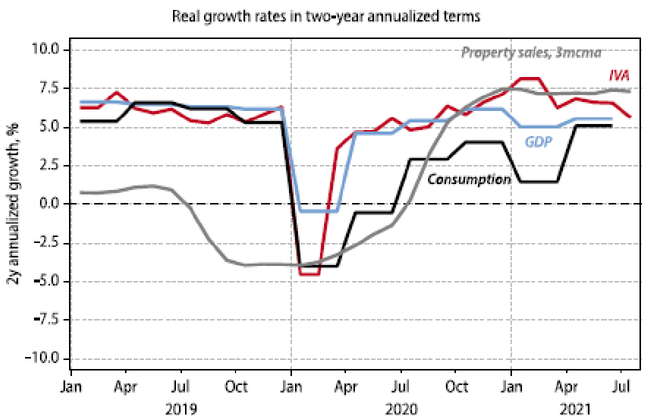
[4] Numbers may not add due to rounding

Market comment and outlook

Global equity markets continued to rally, notching up its' seventh consecutive monthly gain, driven by better than expected earnings and further dovish US Federal Reserve (Fed) commentary despite higher inflation. In Australian dollar terms, the MSCI World Index (+2.8%) was led by another strong performance from U.S. shares (S&P500 +3.4%), Japan (Topix +3.4%) and Europe (Stoxx 600 +2%), while a rebound in China (A shares +4.8%) drove strength in emerging markets, recovering from their regulatory-induced sell-off a month earlier.

Weaker economic data, including a sharp fall in U.S. consumer sentiment and softer jobs numbers, did little to drive expectations for an early withdrawal of central bank support. However, labour demand remains firm, and labour shortages are likely to remain in place, with average hourly earnings up 1.3% on the month. The Global Manufacturing Purchasing Managers Index (PMI) softened to 54.1, the third month of declines since its' peak of 56 at the end of March.

China Slowing Growth – Government intervention de-emphasize short term economic growth

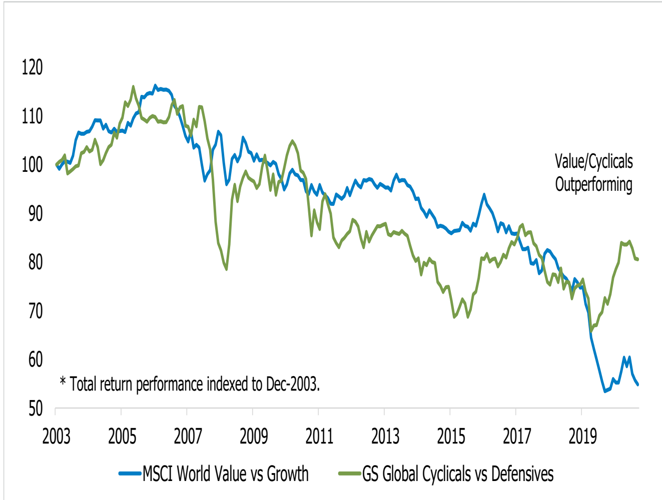


Source: GavekalDragonomics

Data out of China was also weaker, with both manufacturing and services PMIs dropping below 50. Industrial production and retail sales also missed expectations. Factors behind this slowdown include China's recent 'common prosperity' policy agenda, as well as a slowdown in steel production, the latter driving sharp falls in commodities with iron ore falling 30% in two months. Bond yields firmed after four months of declines, with the benchmark U.S. ten-year bond yield closing up 9bps at 1.31%.

The rotation out of value continued in global markets for a third month. On a global sector level, Communications (+4.4%), Technology (+4.3%) and Financials (+3.9%) outperformed, while Energy (-1.4%) and Materials (-0.4%) lagged.

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



Source: Bloomberg, GS Data 31 August 2021

The global earnings cycle continued to be positive, with 2021 earnings expectations rising another 0.9% for the overall market, and all sectors in positive territory. Across sectors, generally commodities and cyclicals showed stronger earnings momentum than defensives, but the range of outcomes has narrowed, perhaps reflecting a maturing of the cyclical recovery.

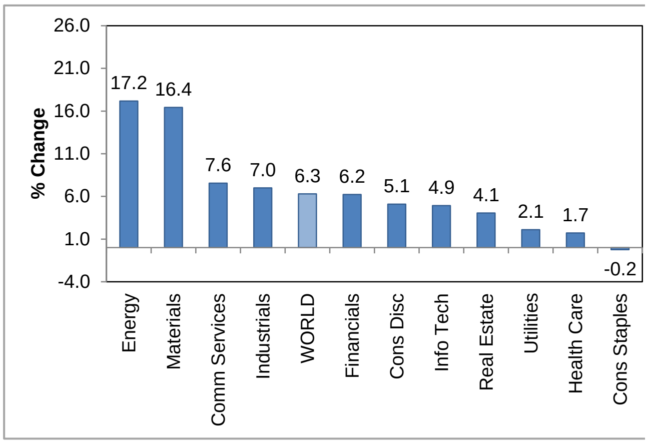
Portfolio comment and outlook

Despite recent headwinds from the spread of the Delta variant, the major global economies are continuing on their paths of economic recovery. 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. 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.

Even though economic growth expectations have come down somewhat lately, global growth still seems likely to remain well above trend for the next few quarters at least, which is overall supportive of equity markets.

The global earnings cycle also remains a positive factor for markets, with earnings expectations continuing to rise for both 2021 and 2022. In fact, all eleven global sectors saw rising earnings forecasts during August, which is typically a good indicator that we are mid-cycle, not yet end-cycle.

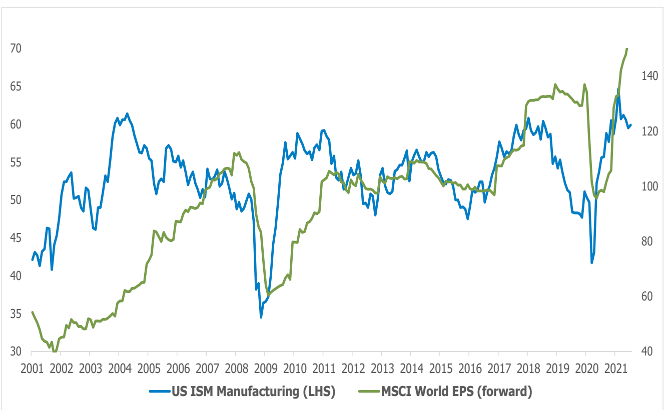
Cyclicals continue to see majority of earnings upgrades (3 Month EPS revisions)



Source: Alphinity, Bloomberg, 2 September 2021

Reflecting the current earnings leadership, the portfolio remains invested in both pro-cyclical as well as secular growth stocks. In contrast, we are still relatively less invested in traditional defensives, which are facing various earnings headwinds. However, we are conscious of remaining disciplined on both valuations and quality as we inevitably move deeper into the cycle, and we are on alert for any signs that analysts are starting to over extrapolate current cyclical trends. As always, we will keep looking for stocks with high conviction earnings cases, and let the earnings leadership guide us through the cycle, not making any sweeping global macro calls in the portfolio.

Global Earnings expectations continue to rise, whilst economic momentum has peaked



Source: Bloomberg, GS Data, 31 August 2021

During August, portfolio activity increased somewhat as the reporting season wrapped up. We sold out of Yum China, Vestas and Infineon, after good performance over the last year and losing some conviction in their respective earnings cases. Nextera was also divested due to relatively high valuation and lack of further triggers. We reduced our positions in Blackstone and Morgan Stanley after significant recent performance, acknowledging rising market expectations. We added two high quality growth stocks to the portfolio, expecting both to be in the early innings of extended earnings upgrade cycles: Apple and LVMH. We also added somewhat to our positions in Estée Lauder and Zoetis after convincing reports.

What's on our mind

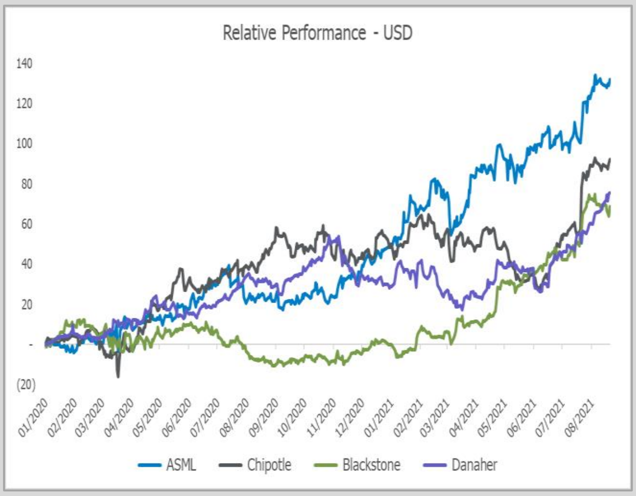
Covid Winners – Doubling up and changing the rules of the game

Eighteen months ago, the world first got introduced to COVID-19. A type of Coronavirus that caused a global pandemic, leading to lockdowns which crushed the world economy and transformed our lives, as well as the fortunes of our businesses, potentially forever. For equity investors it has also been a wild ride, with COVID propelling certain companies forward at record speed, while others suffered against stronger headwinds, resulting in the highest valuation gap in history between the winners and the rest.

The mostly well-known so called "COVID beneficiaries" include companies that benefit directly from pandemic-related demand for products such as COVID treatments (e.g. Pfizer), digital entertainment (Netflix), e-commerce (Amazon), and those that found themselves at the epicentre of a new way of living and working from home (Microsoft).

In a note we recently released on our website (COVID winners doubling up and changing the rules of the game - Alphinity) we explore a few lesser-known companies which are thriving through COVID by changing the rules of the game in their respective sectors. Blackstone, Danaher, ASML and Chipotle are four interesting Alphinity holdings, that have been doubling up on their good fortunes through innovation and investment, enjoying a permanent pull forward of pre-and post-COVID benefits. Below we share some detail on Danaher.

Relative performance to MSCI World Index since covid hit



Source: Alphinity, Bloomberg

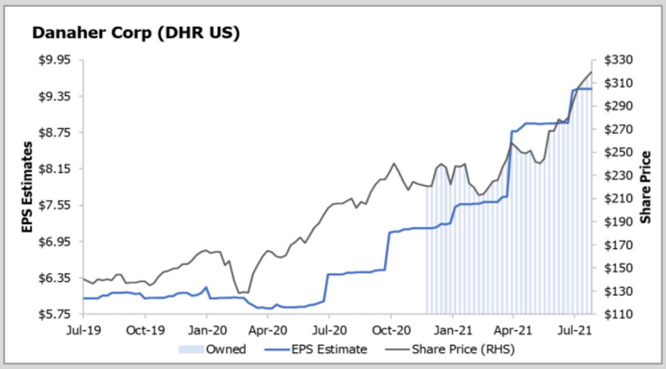
Danaher (DHR) – A high quality compounder - Biologics, Vaccines and Environmental

Who are they? DHR is one of the largest and most diversified Life Science and Environmental Tools companies. The company has leading brands in analytical instruments and consumables for life sciences research, lab diagnostics, and equipment and services used in water quality and product testing. In the last few years, DHR has spun off and divested its lower-performing industrial and dental businesses and acquired GE's life sciences business. DHR recently announced another significant acquisition within gene and cell therapy.

How have they performed during COVID? DHR's structural transformation has sharply improved organic growth, margins and cash flows. Their flawless execution over the last 12-18 months has seen both their 'base business' and COVID-related operations (vaccine & test equipment) report higher than expected sales growth and margin expansion.

Source: DHR website

View ahead: DHR has a great portfolio of businesses exposed to structural demand growth and a strong tilt to the sustainability theme, not least in bioprocessing which feeds into pharma and biofuels. Near term, the Delta strain, new variants and ongoing booster shots will continue to drive vaccine demand ahead of current expectations. Danaher sits in the category of 'high quality compounders' and acts as a good defensive in times of market turbulence.



Source: Alphinity, Bloomberg

Traveller's Tale

The Olympics could have been a disaster but ended as a triumph for Japan and a very nice outcome for Australia: sixth in the medal tally for both Gold and for total number of medals won. The evolving geopolitical landscape was clear to see with China rivalling the traditional winner of most Gold medals, the US. In fact, China was in front until the final day when the US won the gold for Women's Golf, taking it to 39 Gold, 41 Silver and 33 Bronze: 113 overall. China won 88, of which 38 were Gold. China improved on its position in Rio in 2016, while the US went backwards.

China has not traditionally been a force in global sport despite its enormous population which should be fertile ground for sporting excellence. The country's focus until recently has been more on dragging hundreds of millions of its citizens out of poverty and, that task largely done, it has only been in the past decade or so that it has become more interested in world domination in other areas.

The surprise package was Japan, although often host countries lift when they are competing at home. Hosts get preferential access to finals which helps: if you're not in the race it's hard to win a medal. But it made a strong effort winning the third highest number of Gold, 27, and 59 medals overall (41 at Rio). This put it fifth in the medal table behind the US, China, Great Britain, and Russia.

Australia came home with the sixth most medals at 46, and also the sixth most golds at 17. We also won 7 silver and 22 Bronze medals. An impressive effort and our best Olympics ever. Swimming was the best contributor, with nine Gold. Emma McKeon by herself won more medals than more than 100 countries. We couldn't find one that exactly matched her 4 Gold and 3 Bronze but she certainly did better than 29th-ranked Belgium's 3 Gold, 1 Silver and 3 Bronze. One of Belgium's Golds came at the expense of our men's hockey team, the Kookaburras, ending cruelly in a penalty shootout.

Thinking about it on a per-capita basis, which we concede is often an indicator of an inferiority complex, if China had won the same proportion as Australia, it would have 926 Gold, 381 Silver and 1199 Bronze. Maybe one day it will; the IOC might just need to come up with a few more events…

Jamaica deserves special mention: winning 4 Gold, 1 Silver and 4 Bronze from a population of not quite 3 million people is hugely impressive. But the winner is probably plucky little New Zealand. With only a fifth of the population of Australia, NZ won a third the number of the medals, coming in at #13 in the table. It won 7 Gold, 6 Silver and 7 Bronze, almost the same outcome as Canada (7, 6, 11) but it has almost eight times the population. Nice work bro!

Despite the potential for disaster, the Covid situation – for athletes at least – was well managed. There was very little infection within the village itself, but the virus was raging outside its walls. It isn't over for the people of Japan, but at least they can be proud of the show they put on for the rest of the world.

For further information, please contact:

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