Alphinity Global Sustainable Equity Fund

alphinity INVESTMENT MANAGEMENT

Monthly Report August 2021

Performance[1]	1 month %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception %[2]
Fund return (net)	5.4	-	-	-	-	18.9
MSCI World Net Total Return Index (AUD)	3.1	-	-	-	-	11.9
Excess return[3]	2.3	-	-	-	-	7.0

Fund facts	
Portfolio managers	Jonas Palmqvist, Jeff Thomson, Nikki Thomas, Trent Masters, Mary Manning
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	$5.5M
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%
Carbon Intensity (ave weighted)	19.4 (vs MSCI Benchmark 139.4)

Fund features

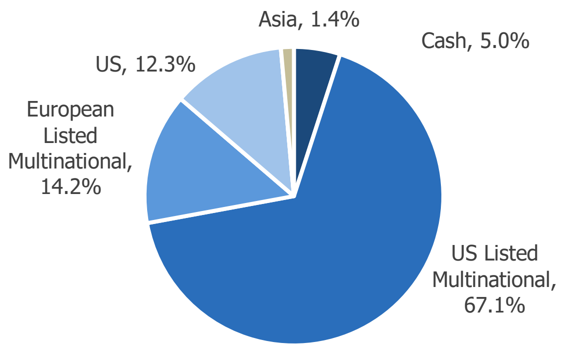
Sustainable: A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Highly diversified across sectors and regions.

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

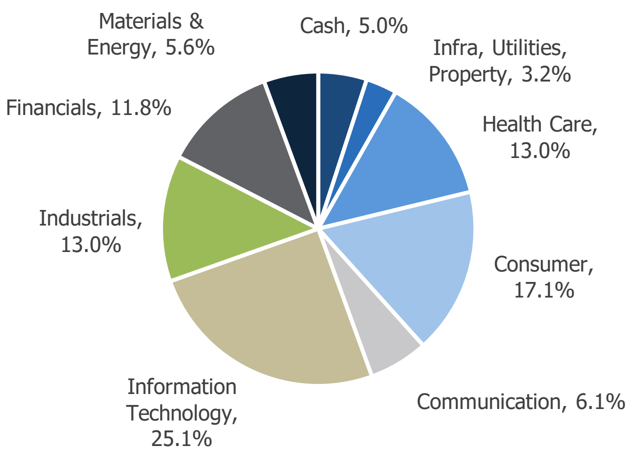


Top 10 positions

Company	Sector	%
Alphabet Inc	Communication Services	6.1
Apple Inc	Info. Technology	5.1
Microsoft Corp	Info. Technology	4.6
Danaher Corp	Health Care	4.2
Nvidia Corp	Info. Technology	3.8
ASML	Info. Technology	3.7
UnitedHealth Group Inc	Health Care	3.5
Otis Worldwide Group	Industrials	3.5
Nike Inc	Cons. Discretionary	3.5
Ball Corp	Materials	3.4
Total		**41.4**

Data Source: Fidante Partners Limited, 31 August 2021.

Sector exposure



[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.

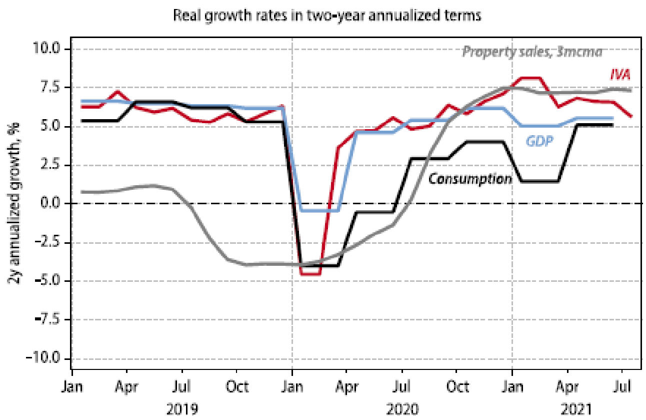
[2] The inception date for the Fund is 3 June 2021.
[3] Numbers may not add due to rounding.

Market comment and outlook

Global equity markets continued to rally, notching up its' seventh consecutive monthly gain, driven by better then 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

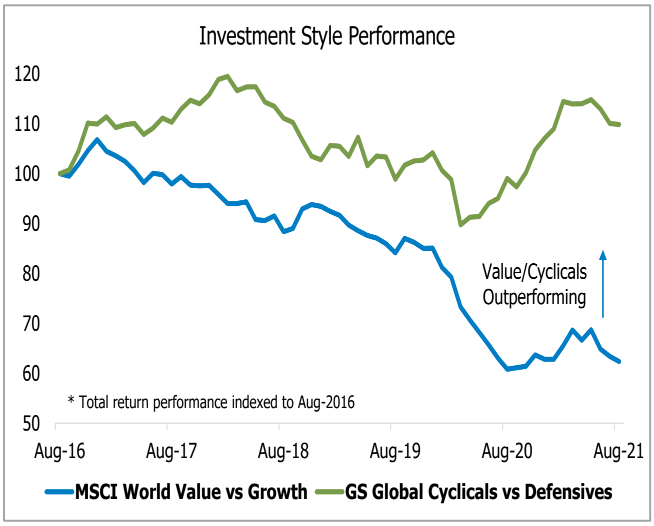


Source: GavekalDragonomics

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.

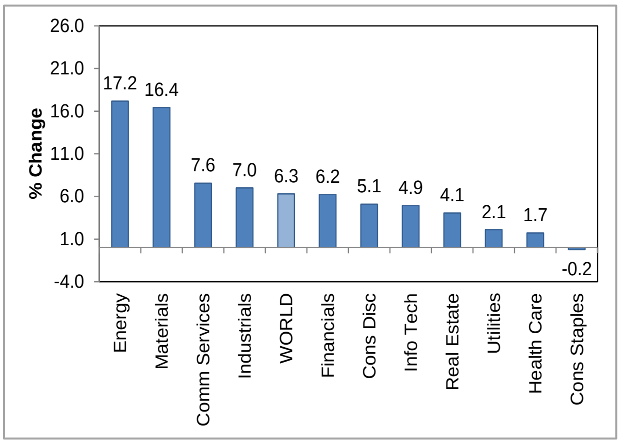
Portfolio comment and outlook

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 growth expectations have come down somewhat lately, global growth still seems likely to remain 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)

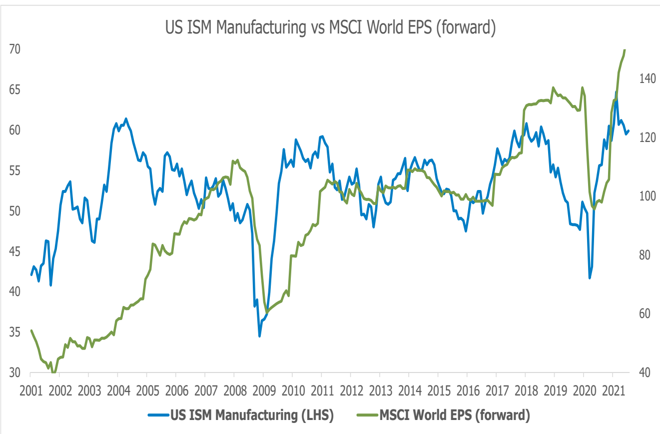


Source: Alphinity, Bloomberg, 2 September 2021

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 move deeper into the cycle.

We remain focused on finding high quality stocks within our sustainable universe, where we believe the outlook for earnings remains underappreciated, and let the earnings leadership guide us through the cycle.

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



Source: Bloomberg, 31 August 2021

During August, portfolio activity increased as the reporting season wrapped up. We sold out of Vestas and Infineon after losing conviction on the outlook for earnings, and also took some profits in Eli Lilly and DSM. Most of this capital was redeployed into Apple, which is an exceptionally high-quality business making a positive contribution to innovation, as well as social inclusion and access to knowledge, within the global information economy. We also added to existing positions in Schneider Electric, Pulte Homes, Visa and Ball Corp after strong second quarter earnings reports.

What's on our mind

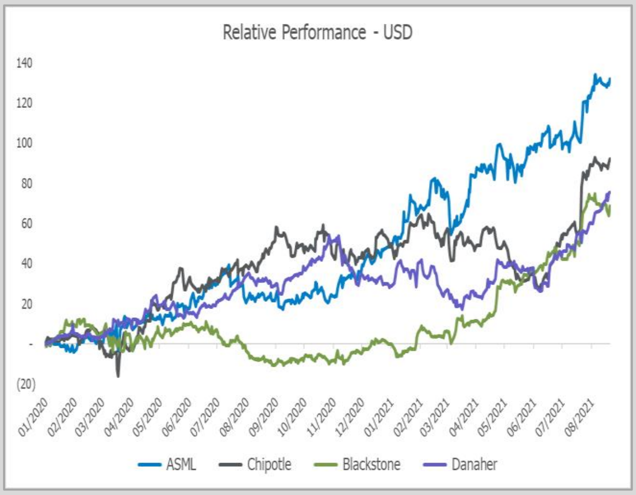
Covid Winners – Doubling up and changing the rules of the game

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 Chipotle.

Relative performance to MSCI World Index since covid hit



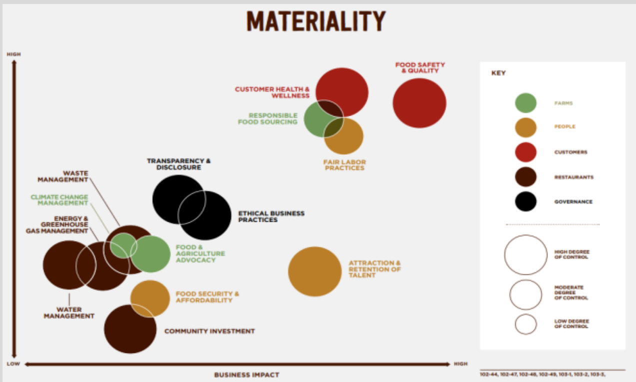
Source: Alphinity, Bloomberg

Chipotle Mexican Grill (CMG) – Mexican food in a sustainable way

Who are they? Chipotle develops and operates fast-casual, Mexican food restaurants primarily located in the USA, with more than 2,700 Chipotle restaurants throughout the US, 40 international restaurants, and 4 non-Chipotle restaurants. Revenue is derived from company-owned (not franchised) restaurants and e-commerce sales via chipotlegoods.com.

How have they performed during COVID? While the restaurant industry has obviously struggled during the pandemic, CMG managed to report exceptional results despite lockdowns and lost foot traffic. Strong sales growth (80% of digital sales retained and restaurants back at 70% pre-COVID capacity) and the new 'Chipotlane' store formats (with a drive-thru option), have seen their restaurant average unit volumes spike.

View ahead: CMG has a long runway to expand across the US and abroad, a strong balance sheet and new store formats accelerating unit growth and returns per unit. CMG is an exciting, quality company in a well-structured industry, which should be able to grow earnings by 15% p.a. for several years.



Source: Chipotle 2020 Impact Report

Chipotle - ESG & Sustainability Considerations

SDG alignment (positive)

Material ESG Factors
Labor management
Product safety and quality
Responsible sourcing
Carbon emissions
Food waste and packaging

Chipotle challenges what 'good' fast-food looks like in the industry. The company offers high-quality, affordable, and healthy Mexican cuisine contending fiercely with traditional takeaway restaurants that remain generally inactive in supporting customer health. A leader in transparency, Chipotle's menu comprises only 53 publicly disclosed ingredients containing no artificial colours of flavours. Chipotle restaurants guarantee the food is made fresh every day, holding no microwaves, freezers and even can-openers on site

Scaling responsible food systems and sourcing locally. Chipotle is collaborating through its supply chain to improve agricultural practices, being the first US restaurant brand to commit to procuring only responsibly raised meat. This transition program assists farmers on aspects such as animal welfare standards and recognised certifications including organic and hormone-free. Chipotle's aspiration is to buy local where possible, which sits around the 10% mark currently due to supply constraints by the farmers. Upon engagement, the company acknowledged that developments for a clear target to increase locally sourced food is underway.

Strong operational initiatives to manage ESG-related risks. Although Chipotle has robust management of issues including food safety, packaging, food waste and carbon emissions, the company has faced criticism for its treatment of casual workers. This escalated to a lawsuit in the city of New York as the company faced non-compliance to fair Workweek Law for unfair last-minute roster changes for casual workers. We continue to monitor how the company manages its casual employee base, however, are reassured that Chipotle has strong oversight over its restaurants as they are mostly company-owned and no longer offered as a franchise.

For further information, please contact:

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