alphinity INVESTMENT MANAGEMENT

Monthly Report October 2021

Performance[1]	3 months %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception %[2]
Fund return (net)	4.2	-	-	-	-	17.6
MSCI World Net Total Return Index (AUD)	1.6	-	-	-	-	10.3
Excess return[3]	2.6	-	-	-	-	7.3

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	$6.8M
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%
Carbon Intensity (ave weighted)	20.1 (vs MSCI Benchmark 138.9)

Top 10 positions

Company	Sector	%
Microsoft Corp	Info. Technology	6.5
Alphabet Inc	Communication Services	6.0
Apple Inc	Info. Technology	5.0
UnitedHealth Group Inc	Health Care	4.4
ASML Holding NV	Info. Technology	4.3
Prologis	Real Estate	4.2
Danaher Corp	Health Care	4.1
Lowe's Cos Inc	Cons. Discretionary	4.0
Keysight Technologies Inc	Info. Technology	3.8
Tesla	Consumer Disc	3.6
Total		**45.8**

Data Source: Fidante Partners Limited, 31 October 2021.

Fund features

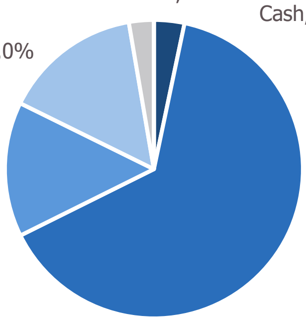
Sustainable: A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Highly diversified across sectors and regions.

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.

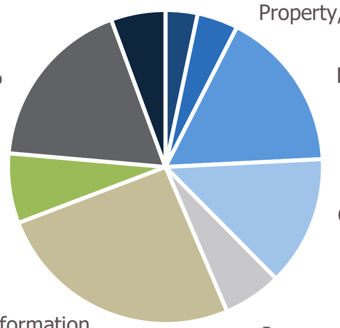
Talent: A united and deeply experienced team of global portfolio managers each with over 20 years in the industry.

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



[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.

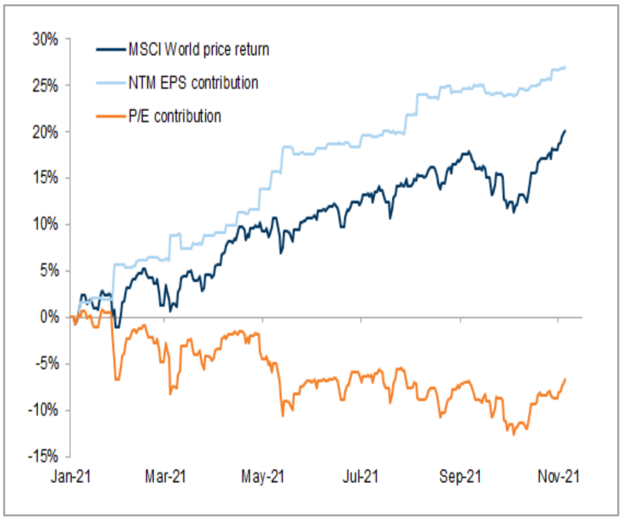
[2] The inception date for the Fund is 3 June 2021.
[3] Numbers may not add due to rounding.

Market comment and outlook

Global equity markets resumed their 2021 rally in October, with the MSCI World Index (AUD) up 1.4%, although the headline move masked a wide divergence between stronger developed markets and weaker emerging market performance. Equities withstood a rise in bond yields, particularly in shorter dated maturities, as the market seemingly priced in U.S. bond tapering and the gradual withdrawal of central bank liquidity.

While earnings have been the main driver of returns for most of 2021, the current leg of the rally has been largely driven by rising valuations. Higher valuations might become a speed limit for returns over the long term, but near term low real rates coupled with ongoing strong flows into equities help explain the continued rerating witnessed in global Equities.

Recent MSCI World equity returns driven by multiple expansions



Source: Goldman Sachs, FactSet, Bloomberg

U.S. stocks (S&P 500 +2.8%) drove global performance, while Brazil (-13.4%) Korea (-6.3%) and China A shares (-3.9%) dragged emerging markets lower for various reasons including political instability, rising inflation and some further Covid outbreaks in parts of Asia.

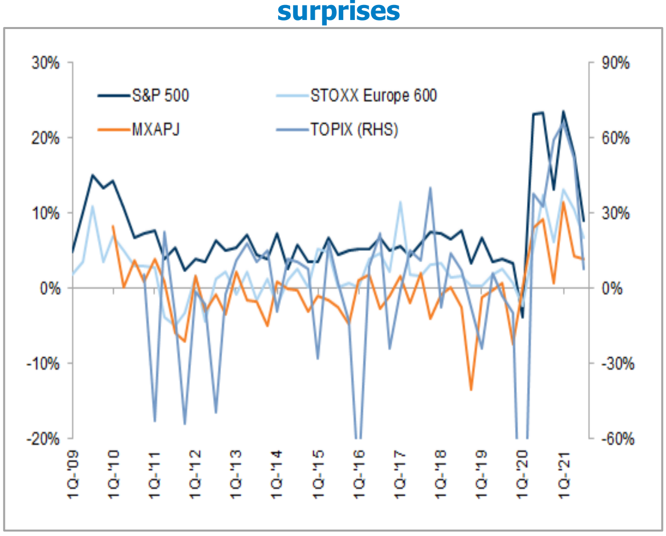
Economic data was generally supportive of the continued recovery, with good jobs data in the U.S. (non-farm payrolls +531k vs expectations of 450k) and expanding global services and manufacturing purchasing managers indicies (PMIs) helping to offset weaker industrial production and manufacturing PMI in China, where supply side reforms continue to dampen growth.

U.S. 10-year bond yields rose 4 bps to 1.55%, although the biggest moves were seen in shorter dated bonds, most notably in Australia where 3-year yields rose 91bps to 1.22% as the RBA effectively abandoned yield curve control. Crude oil rose 11% to USD84/bbl, while iron ore lost another 8% to USD110/t.

Cyclical and growth leadership continued with Consumer Discretionary, Energy and Technology stocks leading market performance, while more defensive sectors including Healthcare and Consumer Staples lagged. Communication Services was the weakest group, despite strong performances from Netflix (+8.6%) and Alphabet (+6.9%). Leading the group lower were Snap (-32%), Pinterest (-16%) and Twitter (-15%) as privacy changes and supply chain outlook reduced ad demand at Snap, and weaker user growth led to a sell-off in Twitter post its earnings release.

Third quarter earnings generally beat expectations at the top and bottom line, with positive revisions to 2021 consensus over the last four weeks highest in Energy (+7.1%) and Financials (+3.3%), while Consumer Discretionary (-1.7%) was the weakest. Despite supply chain disruptions and cost inflation, companies mostly managed to successfully navigate margin pressures through pricing, although margin headwinds will mostly persist into 2022.

3Q Earnings season delivered above-average EPS surprises



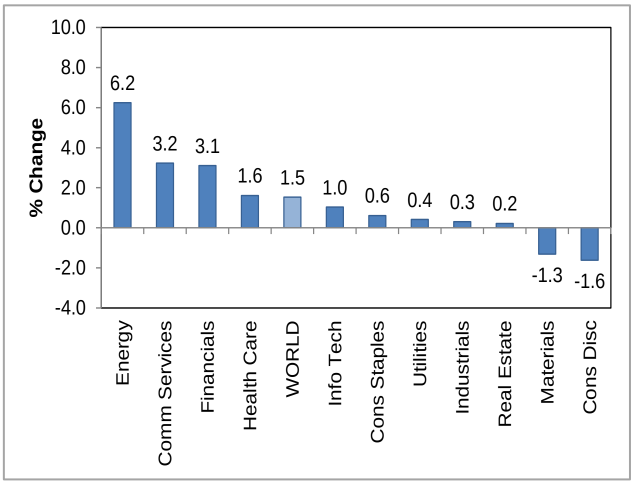
Source: Goldman Sachs, FactSet, Bloomberg

Portfolio comment and outlook

Global growth is likely to remain above trend as we enter 2022, however momentum appears to have already peaked, and is set to slow in several major economies including the U.S. and China. With equity markets rising to historically high valuation multiples, validation from earnings is increasingly important for the overall market.

The third quarter reporting season was supportive, with analyst forecasts for 2022 global earnings rising another +1.5% during October. However, the upgrade cycle is losing some of its breadth, with not all sectors and companies participating as strongly as before. The relative earnings leadership still sits with cyclical and growth companies, but some early cyclical sectors such as Consumer Discretionary, Materials and Industrials have recently weakened.

Earnings surprises have rolled over but Global Earnings Revisions still at historic highs



Source: Alphinity, Bloomberg, 1 November 2021

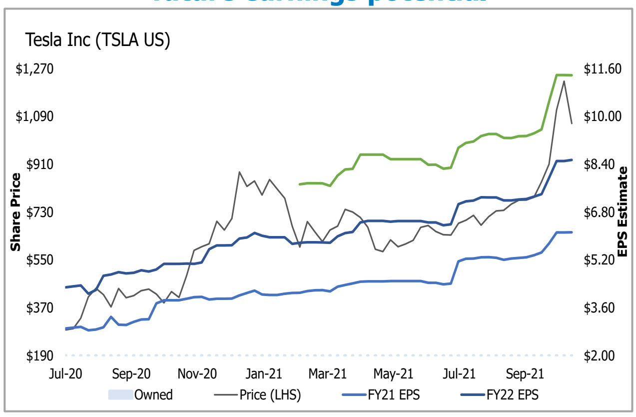
While we have largely maintained our portfolio bias to growth and cyclical stocks, we have continued to make some changes to reflect the maturing cycle and rising valuations.

At the margin, the portfolio is less cyclical today compared to a few months ago. In October, we exited positions in PulteGroup, Volvo, Deere, Hellofresh and Visa, having lost conviction in the earnings outlooks. We also trimmed positions including Trane, Otis, Nvidia and Alphabet after strong performance.

On the other hand, we initiated new positions in high quality, growth stocks Accenture, Tesla and Merck, and also added to Microsoft after a strong report.

With economic growth and monetary stimulus peaking, the earnings cycle maturing, and valuations high, investment risks appear to be rising. We intend to keep an open mind about the outlook, with a strong bench of stocks for different growth and market outcomes. We will continue to let earnings leadership, on a stock by stock basis, guide us through the cycle.

Tesla – Only profitable, listed pure play EV company with very strong top line growth and future earnings potential



Source: Alphinity, Bloomberg, 11 November 2021

What's on our mind

Alphinity ESG & Sustainability Report FY21 – Modern Slavery and Human Rights

We are proud to present Alphinity's first ESG and Sustainability Report. This report is an accumulation of the effort we have made in responsible investing across all our Funds for more than a decade and highlights:

- our overall approach to ESG integration and active ownership
- key engagement outcomes from the past year
- our views on emerging and influential sustainability thematics like climate change and modern slavery
- SDG outcomes from our two sustainability strategies.

In this monthly, we include a summary of our analysis and findings on Modern Slavery risks in our investments. You can find the full report on our website: Alphinity ESG and Sustainability Report 2021 - Alphinity

Modern Slavery and Human Rights

We strongly support the United Nations Guiding Principles on Business and Human Rights and we expect our investee companies to do the same. We believe that instances of modern slavery exist extensively throughout global supply chains and require a concerted effort by all members of the global economy to eradicate this issue.

As investors, we have a responsibility to ensure, to the greatest extent possible, that modern slavery does not occur in the companies in which we invest, including in their supply chains. We measure a company's ability to manage modern slavery risks within their supply chains and operations based on governance and oversight, existing policies, and management strategies that enables them to identify and respond to incidences as they arise.

In FY21 we completed the following activities related to managing modern slavery in our investments:

- **Engagement:** We engaged extensively on this issue with companies that we held during the year.
- **Investor collaboration:** We became a signatory to the Investors Against Slavery and Trafficking (IAST) in October 2020.
- **Risk identification:** We completed a risk assessment to identify companies in our portfolios that presented a high level of risk within their upstream supply chains, downstream value chains, and/or operations (see the case study below for outcomes and highlights).
- **Internal awareness raising**: We participated in the United Nations Global Compact annual forum and the RIAA annual conference, which both included presentations on modern slavery. We also organised an internal training session to better understand the implications of the Australian Modern Slavery Act.
- **Expertise:** Melissa Stewart joined the Sustainable Fund Compliance Committee in FY21. Melissa is a human rights lawyer, with past roles at the United Nations, NGOs, government, and private sector, and has specific expertise in modern slavery.

Looking ahead to FY22, we will continue to focus on modern slavery as a material risk to our investment practices, and develop specific actions plans for high-risk companies that we own.

FY21 Enhancements: Understanding modern slavery risks in our investments

To understand the exposure to modern slavery and human rights risks across our investments, in FY21 we developed a bespoke modern slavery assessment methodology to analyse the risk exposure of our holdings across our domestic and global portfolios, addressing three key risk categories:

1. **Upstream supply chain risks**: risks related to supply chain components, including key high-risk commodities, which support product development, manufacture, and company operations.

2. **Downstream value chain risks**: risks related to the application and use of a company's products or services. For example, risks to the financial sector through lending practices.

3. **Operational risks**: risks associated with employees and/or contract workforce, operational locations including factories and distribution centres, and overall working conditions.

Key insights and outcomes (combined Australian & global equities)

136	Companies analysed across three key risks
25%	of companies present a high risk in at least one of the risk areas
63%	of companies have operational assets in a high risk region

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10%	of companies have more than 15 operational assets in high risk regions
10%	of domestic and 17% of global companies have a medium or high downstream value chain risk.
40%	of companies are exposed to potential operational risk through contract or labour hire workforces

Sector level outcomes across three risk areas

The technology (including communications) and banking sectors are particularly exposed to downstream value chain risks through the possible use of their equipment and financial services to aid modern slavery or human rights violations. For example, there have been reports that sophisticated technology equipment is being used for mass-surveillance and control in the Xinjiang region in China.

Industrials, consumer discretionary, and consumer staples are the sectors most exposed to supply chain risks. This is largely due to the extensive supply chains, high reliance on factories in regions of concern and use of high-risk commodities like cocoa, fish, rice, and cotton.

Globally listed equities have a slightly elevated risk of human rights and modern slavery compared to Australian listed equities across all three risk categories. This is mainly because of their global operations and scale.

Australian equities generally produce more detailed disclosures on modern slavery and human rights risks and management than global equities. We attribute this to the very detailed requirements of the Australian Modern Slavery Act.

Next steps

In FY22, we will complete this assessment methodology by including a set of best practice management indicators that aim to measure the quality and effectiveness of a company's response to modern slavery risks.

Example management indicators include, having a supplier code of conduct in place, the use of supply chain audits, integration of modern slavery risk management at Board level, and participation in industry initiatives to manage complex commodity supply chains.

Case Study – Daimler

DAIMLER

Risk Exposure	Supply Chain - High

Management

Daimler is striving for best practice in modern slavery due diligence regarding raw material procurement. A leader in EV technologies, Daimler procures components and services from ~60 000 direct suppliers based across Europe, North America, and Asia. Among the 10,000 raw materials sourced, lithium, mica and cobalt are examples of critical EV constituents with high modern slavery-related risks.

Risk Exposure	Value Chain - Low

Management

Daimler has set itself apart on transparency and supplier collaboration, demonstrating industry leadership to address modern slavery in manufacturing. In 2020 it conducted 658 on-site audits. As these suppliers' service others, this action has flow on impacts to improve the whole industry. It requires all suppliers to fulfil human rights due diligence obligations in accordance with the UN Guiding Principles on Business and Human Rights.

Risk Exposure	Operations - Med

Management

Daimler has identified and disclosed raw materials and services whose use, extraction or further processing pose potentially critical human rights risk. Approximately 24% of these have currently been assessed with the aim of assessing 70% by 2025. The company's approach is to engage through projects in the local community, rather than abandon high risk regions such as the Democratic Republic of Congo.

For further information, please contact:

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