Alphinity Global Equity Fund

Monthly Report November 2021

Performance[1]	Quarter %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a[2]
Fund return (net)	3.9	21.5	39.6	22.8	19.8	16.0
MSCI World Net Total Return Index (AUD)[3]	2.1	14.5	26.6	18.0	15.6	13.6
Excess return[4]	1.8	7.1	13.1	4.8	4.2	2.4

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	$217.3m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
Microsoft Corp	Info. Technology	6.2
Alphabet	Comm. Services	5.7
Apple	Info. Technology	5.4
Bank of America Corp	Financials Ex Prop	4.8
Danaher Corp	Health Care	4.4
ASML Holding NV	Info. Technology	3.9
UnitedHealth Group	Health Care	3.9
Target Corp	Consumer Disc.	3.8
Prologis	Real Estate	3.7
Keysight	Info. Technology	3.5
Total		**45.3**

Data Source: Fidante Partners Limited, 30 November 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

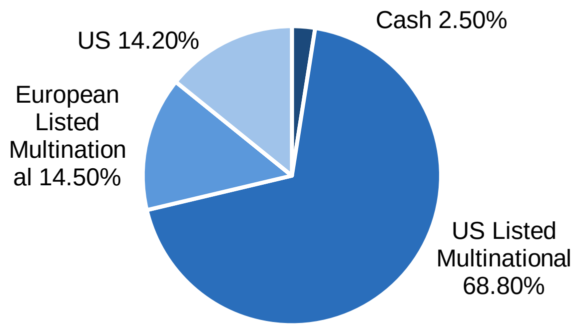
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

Discipline: A disciplined process finding quality businesses with strong earnings that are under appreciated by the market. This approach used across all Alphinity strategies has proven successful through different market cycles.

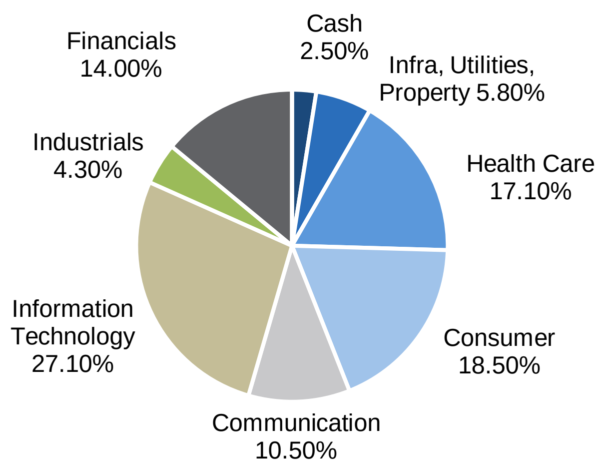
Talent: A united and deeply experienced team of global portfolio managers each with over 20 years in the industry.

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



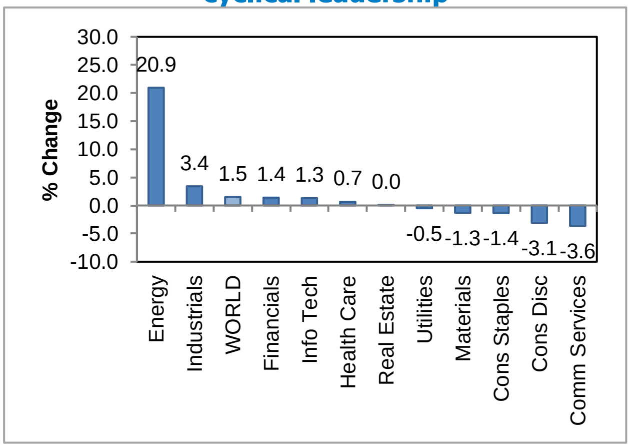
[3] From 21 December 2015 to 31 March 2019, the Benchmark was the MSCI World Equity ex Australia (Net) Index. The current index is effective from 1 April 2019.
[4] Numbers may not add due to rounding

Portfolio comment and outlook

Global growth remains above trend as we enter 2022, however growth momentum appears to have already peaked and, despite recent market jitters from the new omicron variant, valuations remain historically elevated. Hawkish comments from Chairman Powell also suggest that the US Federal Reserve (Fed) would like to accelerate tightening of monetary policy in the face of higher inflation. Taken together, this presents a relatively challenging backdrop and consequently we expect that validation from higher corporate earnings will be increasingly important for financial markets.

The third quarter reporting season was supportive, with analyst forecasts for both 2021 and 2022 global earnings rising another +1.5% over the last three months. Continued cyclical sector leadership also suggests it is still too early to get outright defensive, however the upgrade cycle is losing some of its' breadth, with not all sectors participating as strongly as before. For 2022, Energy, Industrials and Financials have experienced the strongest positive revisions, while Communication Services, Consumer Discretionary and Consumer Staples all saw downgrades on average.

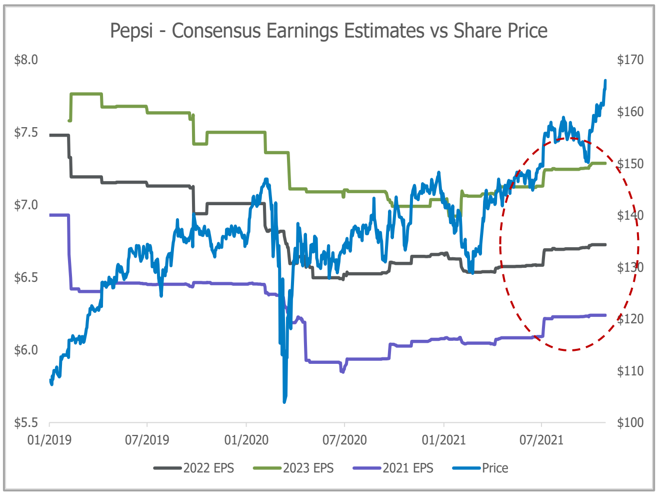
Earnings Revisions for 2022 - Continued cyclical leadership



Source: Alphinity, Bloomberg, 2 December 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 higher valuations. At the margin, the portfolio is slightly less cyclical today compared to a few months ago. In November, we took some profit in Nvidia, Blackstone, HCA, Keysight and Prologis, which have all performed strongly recently. A new position was initiated in Pepsico, a high quality, defensive with strong pricing power and under-appreciated long-term revenue growth.

Pepsi (PEP) – A high quality defensive with consistent top line & pricing power driving new EPS upgrades



Source: Alphinity, Bloomberg, 30 November 2021

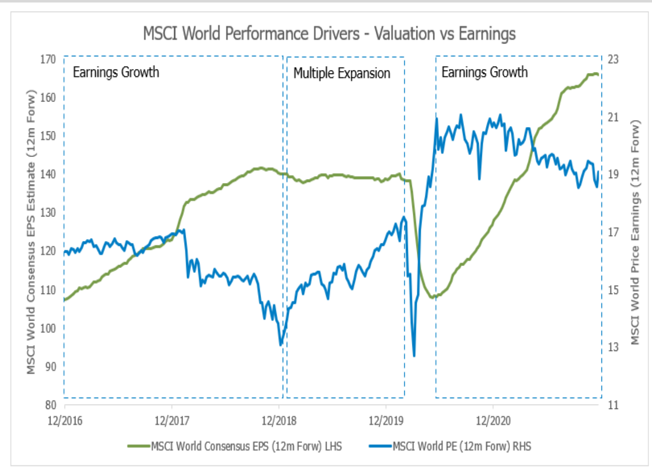
We also bought into ON Semiconductor, a leading power and sensor semiconductor manufacturer with powerful secular and cyclical tailwinds from the shift to electric vehicles.

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.

What's on our mind - Global Earnings Cycle: Waving not sinking

The MSCI World Index has rallied 93% since the Covid trough in March 2020, initially driven by a sharp multiple expansion, followed by a period of very strong earnings growth, and improving expectations. The third quarter reporting season gave enough fuel for another boost to the global earnings cycle. Global analysts are still behind the curve, but less so than before, and the relative sector picture may be slowly changing. Earnings are overall still supportive, but after nearly eighteen months of strong upgrades, many signs point to a peaking cycle. As always, we expect to find the 'truth' about the cycle through bottom-up earnings signals from global companies and will invest where we have conviction. At the margin, our portfolio is slightly less cyclical than a few months ago.

Majority of the recent market performance driven by earnings growth

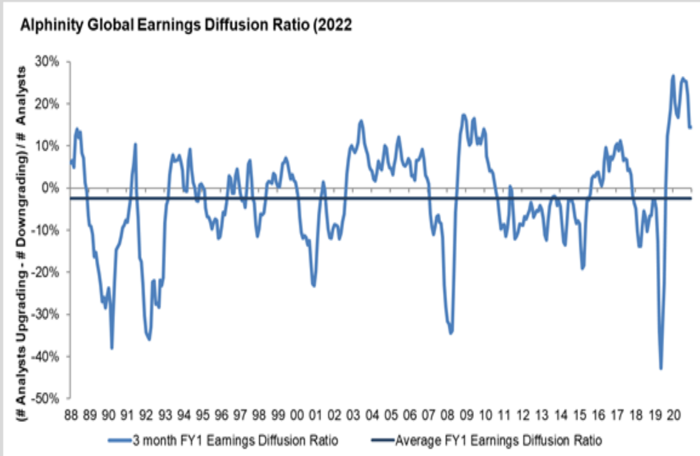


Source: Bloomberg, 2 December 2021

Global earnings revisions are waving. After softening (slightly negative) earnings revisions during September, the third quarter reporting season gave enough fuel for another leg up in the global earnings cycle during October. Global earnings expectations for 2021 however declined again slightly during November (-0.2%) but is still up +1.5% over the last 3 months. Turning our focus to 2022, numbers are smaller but also down over November (-0.1%) and up 1.5% over 3 months. However, these revision numbers were 7-8% mid-year, so it's clear that the cycle is maturing, i.e. global analysts are a step closer to capturing the full earnings power of global companies in their models. Consensus is now expecting 7% earnings per share (EPS) growth for the MSCI World index in 2021 and 8.7% in 2022.

In terms of relative sector earnings revisions, the picture is getting more mixed compared to the clear cyclical + growth leadership we have seen. Overall, 'earnings surprise' differences have flattened and gaps between sectors are smaller. Early cyclicals like Consumer Discretionary and Materials have even dropped back noticeably and are seeing negative revisions, but this is partly due to supply chain issues, which may be partly temporary. Growth sectors like Comm Services and IT continue to generate earnings upgrades, albeit slightly smaller than before. Defensives such as Staples and Utilities have been big relative laggards and continue to see negative revisions, with Health Care the outlier starting to see positive revisions, albeit marginal.

Consensus Earnings Revision Breadth – continuing to narrow



Source: Bloomberg, Alphinity, 2 December 2021

Our Global Diffusion Ratio, which measures how broadly earnings revisions occur, is giving a similar picture: earnings **upgrades** are still dominating, but the trend is narrowing to fewer stocks. This index is far from a reliable timing tool for the overall cycle but has tended to lead the actual earnings revisions – it bottomed in April 2020, and recently seems to have peaked in July 2021.

In summary, the post-lockdowns global economic recovery has played out according to the usual patterns: in 2020 price to earnings (p/e) expansion largely drove markets, and in 2021 the very strong earnings upgrade cycle took over. The big-picture future is always challenging to project, but we look set to enter 2022 with a peaking earnings cycle and valuations higher than history. At the very least, it seems clear that risks have risen. Our global equity portfolio is slightly less cyclical than a few months ago, having lost conviction in some of the earnings cases and we continue to add more defensive exposure.

For further information, please contact:

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