Alphinity Global Equity Fund

Monthly Report December 2021

Performance[1]	Quarter %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a[2]
Fund return (net)	11.4	16.7	41.1	24.5	19.1	16.0
MSCI World Net Total Return Index (AUD)[3]	7.1	11.3	29.3	20.4	15.0	13.7
Excess return[4]	4.3	5.4	11.8	4.1	4.1	2.3

Fund facts	
Portfolio managers	Jonas Palmqvist, Jeff Thomson, 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	$224.3M
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
Microsoft Corp	Info. Technology	6.0
Apple	Comm. Services	5.5
Alphabet	Comm. Services	5.5
Bank of America Corp	Financials Ex Prop	4.5
Danaher Corp	Health Care	4.2
UnitedHealth Group	Health Care	4.2
Nestle	Consumer Staples	3.6
Accenture	Info. Technology	3.3
LVMH Moet Henne	Consumer Disc	3.3
ASML Holding	Info. Technology	3.1
Total		**43.3**

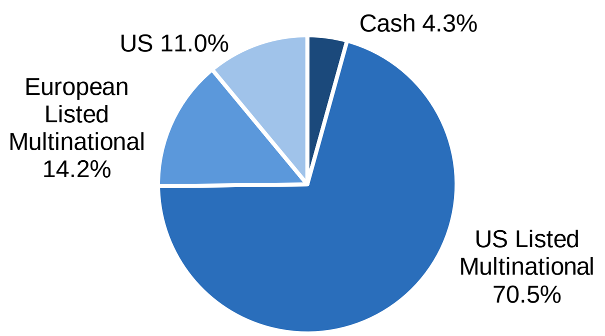
Data Source: Fidante Partners Limited, 31 December 2021

[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.

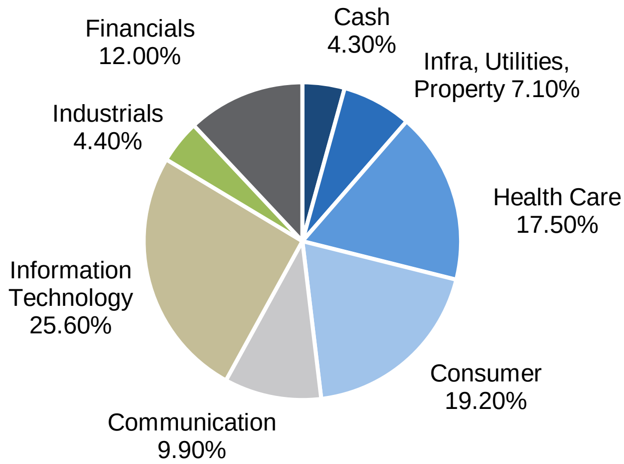
[2] The inception date for the Fund is 21 December 2015

Fund features
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, 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.

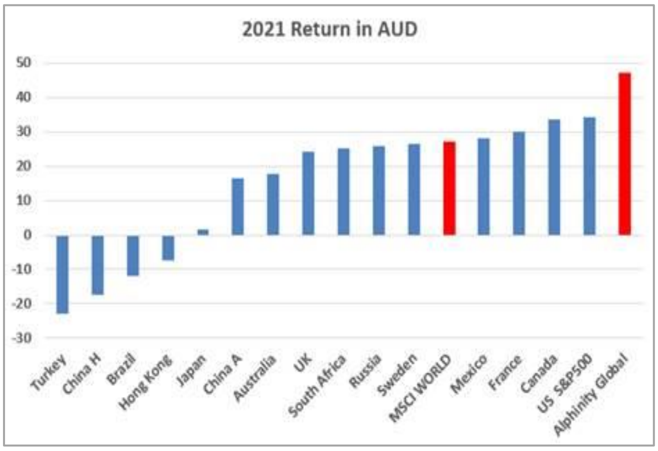
[4] Numbers may not add due to rounding

Market overview

Resilience, the 'Santa Rally' or 'priced in expectations' may be adequate terms to explain equity market performance over the December quarter, with developed markets posting gains despite having to navigate through a new Covid strain and increasing expectations for earlier interest rate hikes. The MSCI World Index gained 6.5% in the December quarter in Australian Dollar terms, with the US again driving most of the performance returning 9.7%.

Over the year emerging markets Turkey, China H shares, Brazil and Hong Kong all lost value in AUD terms, while Europe, Canada and the US all delivered returns above 20%. Emerging markets were notably weaker over the quarter and struggled to make any gains over the year as depreciating currencies, political unrest in Turkey and Brazil, and China's increased regulatory control over a number of industries led to outflows, particularly from foreign investors.

Global equity market returns 2021 (AUD)



Source: Bloomberg

Inflation continues to weigh on sentiment, with concern that central banks are behind the curve in terms of interest rate policy, that is, not raising rates soon enough to contain inflation. Fed Chair Powell took it upon himself to 'retire' the word 'transitory' when talking about inflation and the latest Fed minutes clearly state they are willing to increase rates sooner or faster than participants had earlier anticipated. Supply chain bottlenecks and labour shortages have driven input costs higher, and the US core PCE (inflation excluding food and energy) rose above 4% y-o-y, its highest level in over 30 years.

Market strength in the December quarter suggested that investors had somewhat priced in rate hike expectations, although the real test will be how stocks with expensive valuations perform under this environment, and if earnings are able to support these valuations.

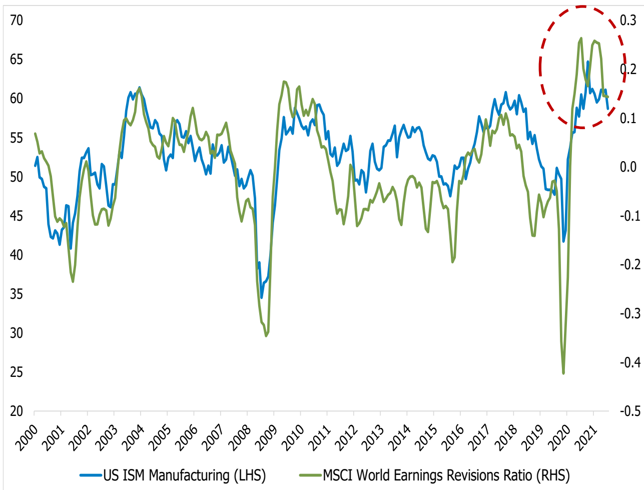
On a global sector level, Technology stocks rallied 12.1% to be the best performers while Utilities, Real Estate and Materials all posted gains above 8%. Communication services (-2.8%), Financials (2.4%) and Energy (2.7%) were the laggards.

Commodity prices were generally firm over the December quarter, although Iron Ore fell 7% to $US112/tonne, culminating in a 26% loss over the year. Conversely, Coking Coal, used in steel production, rose 6%. Base metals were quite strong, although rare earths surged higher as battery demand increased for electric vehicles. Spodumene, an ore mineral with high lithium content, rallied 130% in the December quarter, taking its yearly gain to 532%. Oil prices were fairly flat, although the quarterly move masked large monthly swings of greater than 10% in each direction as demand expectations swayed with Omicron fear and relief.

Portfolio comment and outlook

The market backdrop appears more challenging looking into 2022. The macro is defined by decelerating economic growth and policy tightening, and the bottom-up corporate angle is facing a slowing earnings cycle and elevated market valuations. Global growth does remain above trend; however, growth momentum has already peaked, and recent hawkish comments from the Federal Reserve suggest it would like to accelerate tightening of monetary policy in the face of higher inflation. Taken together, we expect that validation from higher corporate earnings will be increasingly important for equity markets and the portfolio.

Economic growth momentum and Global Earnings Revisions have peaked

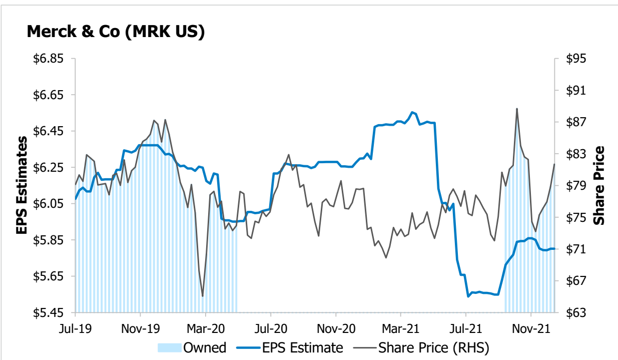


Source: Alphinity, Bloomberg, 31 December 2021

After global earnings growth of over +50% in 2021, analysts' expectations point to +7% for 2022. Earnings expectations are still rising, but the positive revisions continue to decelerate. During the quarter, forecasts for 2022 rose by just +1.4%, and the relative leadership is shifting to a less cyclical profile, with sectors such as Health Care and Property now outpacing the market. Cyclical sectors such as Consumer Discretionary and Industrials deteriorated to negative revisions in the quarter. All things considered, after a historically strong upgrade period in 2020-21, the cycle is now looking mature, and the upcoming reporting season will indicate if it is indeed actually ending. Earnings downgrades would add to market headwinds, and likely continue the shift to a more defensive/growth leadership in equities.

During the quarter, we continued to make some changes to reflect changes to our earnings convictions, and some higher valuations. At the margin, the portfolio is less cyclical today compared to a few months ago, having sold out of Pultegroup, Volvo and Target. We also gradually trimmed positions in some growth stocks which have performed very strongly for the portfolio, and where valuations have risen, such as Nvidia, Blackstone and Prologis. Generally, we maintain prudence on stock valuations, which could become a more important market factor again going forward. New positions were initiated in Pepsico, Merck, Nextera and McDonald's, all high-quality defensive growth companies with strong pricing power. We also bought into ON Semiconductor, a leading power and sensor semiconductor manufacturer, media company Netflix, as well as management and technology consultant Accenture.

Merck – Adding high-quality defensive exposure



Source: Alphinity, Bloomberg, 31 December 2021

With economic growth and monetary stimulus peaking, the earnings cycle maturing, and valuations high, investment risks are higher. 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 stock by stock earnings convictions guide us through the cycle.

What's on our mind – The Sustainability of Big Tech

Technology can be a powerful force driving progress towards the SDGs. Technology companies build out digital infrastructure, enable digital inclusion, drive innovation, enhance knowledge sharing and facilitate delivery of health and education services.

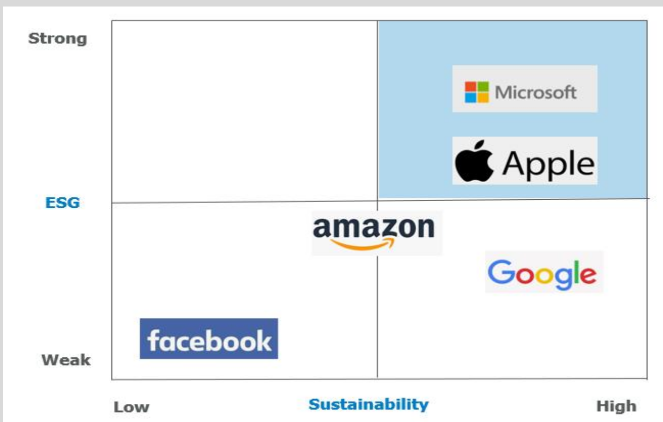
However, some the world's largest technology companies are under intense scrutiny for their immense market power, data privacy concerns, supply chain management and questionable corporate governance. This so called 'techlash' has led to a debate among investors as to whether the Big Tech stocks are sustainable and should be included in sustainable investment portfolios.

We assess the sustainability of these businesses by considering the positive and negative contribution of their revenues towards individual SDGs. A materiality factor is also applied to represent the degree of alignment with the goals. We assess ESG separately in the context of a company's operational metrics, mitigation strategies and governance practices.

In this note, global portfolio manager, Mary Manning, discusses the sustainability and ESG credentials of five of the largest and most important technology companies in the world: Apple, Microsoft, Amazon, Google and Facebook. Our analysis shows that the Big Tech companies are sufficiently differentiated on sustainability and ESG outcomes.

Our SDG analysis shows that Google has the highest SDG alignment, followed closely by Microsoft and Apple. Amazon is ranked 4th while Facebook is a distant last with a negative net score and more SDG detractors than any of its peers. Our ESG risk analysis show that Microsoft and Apple have relatively lower ESG risk, Amazon and Google are medium risk, and Facebook is high risk. Full note can be accessed on our website: The sustainability of big tech - Alphinity

Sustainability/ESG Matrix for Big Tech



Source: Alphinity

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