Monthly Report December 2021

Performance[1]	3 months %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception %[2]
Fund return (net)	10.4	18.1	-	-	-	25.3
MSCI World Net Total Return Index (AUD)	7.1	11.3	-	-	-	16.2
Excess return[3]	3.3	6.9	-	-	-	9.1

Fund facts

Portfolio managers	Jeff Thomson, Mary Manning, Jonas Palmqvist, Trent Masters.
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	$22.7M
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%
Carbon Intensity (ave weighted)	17.9 (vs MSCI Benchmark 131.9)

Top 10 positions

Company	Sector	%
Microsoft Corp	Info. Technology	6.1
Apple Inc	Info. Technology	5.9
Alphabet	Communication Services	5.9
UnitedHealth Group Inc	Health Care	5.0
Danaher Corp	Health Care	4.4
ASML Holding NV	Info. Technology	4.0
Prologis Inc	Real Estate	3.6
Accenture	Info. Technology	3.5
Tesla Inc	Consumer Disc	3.5
Schneider Electric	Industrials	3.4
Total		**45.3**

Data Source: Fidante Partners Limited, 31 December 2021

Fund features

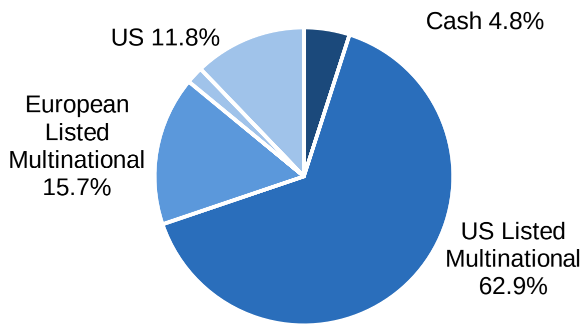
Sustainable: A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Diversified across sectors and regions.

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.

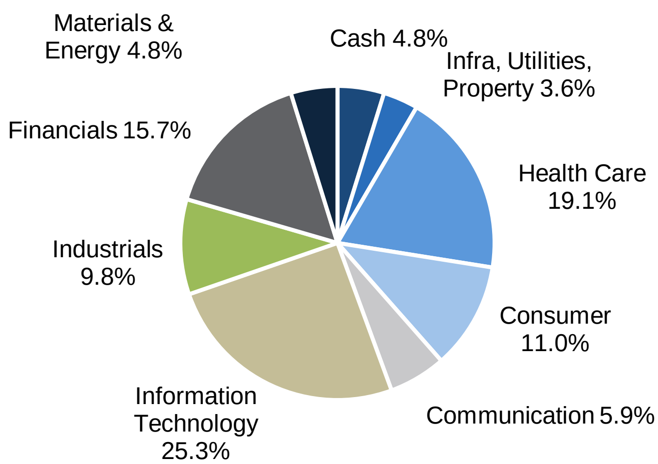
Talent: A united and deeply experienced team of global portfolio managers each with over 20 years in the industry.

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.

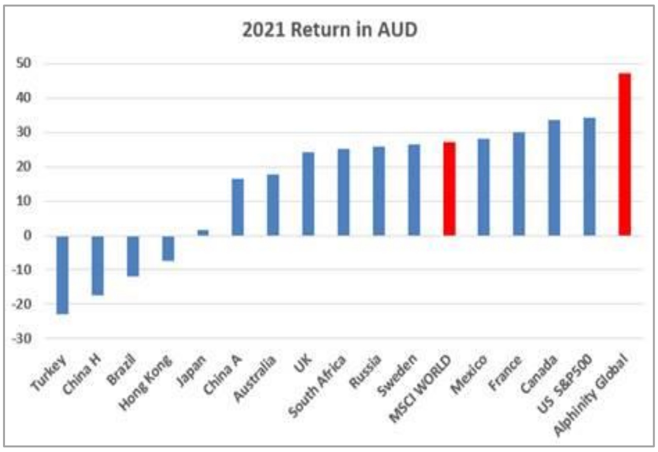
[2] The inception date for the Fund is 3 June 2021.
[3] Numbers may not add due to rounding.

Market 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 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.

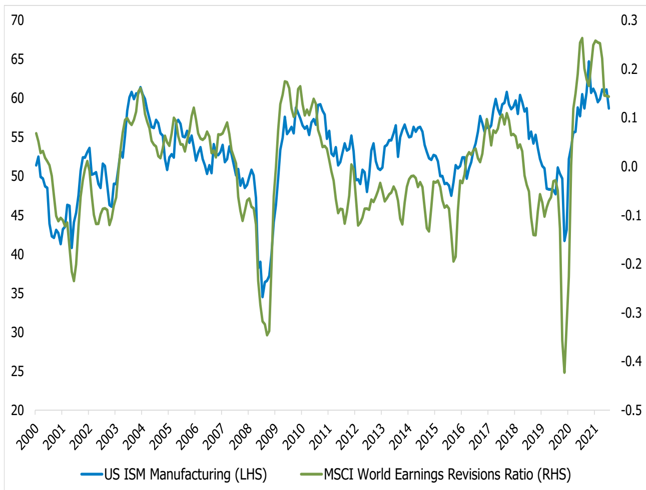
On a global sector level, Technology stocks rallied 12.1% to be the best performers while Utilities, Real Estate and Materials all posted gains above 8%. Communication services (-2.8%), Financials (2.4%) and Energy (2.7%) were the laggards.

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

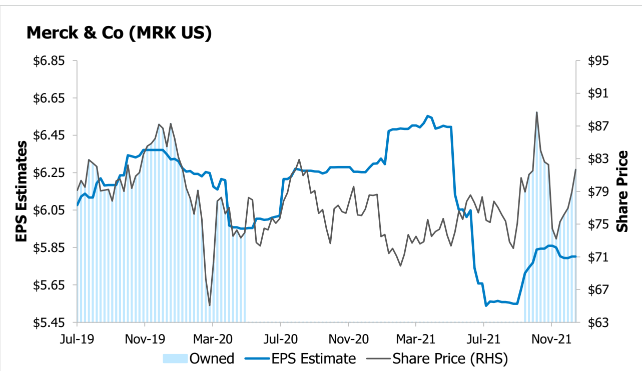
After global earnings growth of over +50% in 2021, analysts' expectations point to +7% for 2022. Earnings expectations are still rising, but the positive revisions continue to decelerate.

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.

Generally, we are increasingly cautious about stock valuations, which overall look extended versus history after a strong rally in global equities. During the quarter, we took some profit in positions including HCA, Prologis and S&P Global. We also made some changes to reflect lower conviction on the outlook for earnings growth in a few stocks. At the margin, the portfolio is less cyclical today compared to a few months ago, having sold out of Volvo, Pultegroup and Deere. We also exited HelloFresh and MercadoLibre on higher input cost pressures and growing macro headwinds to earnings. Visa was sold after disappointing FY22 guidance which drove consensus earnings estimates lower.

New positions were initiated in several high quality, sustainable, growth companies, where we believe the outlook for earnings remains underappreciated. These include Agilent Technologies, a global leader in life sciences, Accenture and Tesla. We also bought into defensive global healthcare provider, Merck & Co, leading staffing business, Recruit, and motor manufacturer Daimler, which following the spinoff of Daimler Trucks trades on a forward PE of only ~6x, significantly undervaluing its' premium electric vehicle strategy.

Merck – Adding high-quality defensives



Source: Alphinity, Bloomberg, 31 December 2021

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

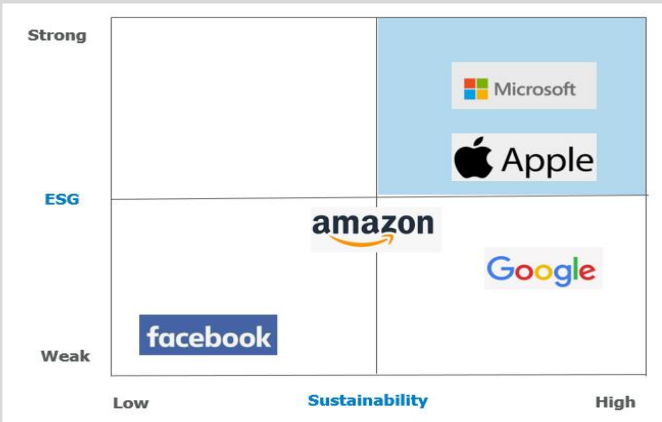
Technology can be a powerful force driving progress towards the SDGs. Technology companies build out digital infrastructure, enable digital inclusion, drive innovation, enhance knowledge sharing and facilitate delivery of health and education services.

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 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.

Sustainability/ESG Matrix for Big Tech



Source: Alphinity

Our 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.

Full note can be accessed on our website: [The sustainability of big tech - Alphinity]

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This material has been prepared by Alphinity Investment Management Limited (ABN 94 002 835 592, AFSL 234668) Alphinity, the investment manager of the Alphinity Global Sustainable Equity Fund. Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (**Challenger Group**) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. Alphinity and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, Alphinity and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the *Banking Act 1959* (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (**Challenger ADI**) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.