alphinity INVESTMENT MANAGEMENT

Monthly Report January 2022

Performance[1]	3 months %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception %[2]
Fund return (net)	0.6	4.9	-	-	-	18.3
MSCI World Net Total Return Index (AUD)	3.0	4.6	-	-	-	13.5
Excess return[3]	-2.4	0.3	-	-	-	4.7

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	$23.2M
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%
Carbon Intensity (ave weighted)	16.7 (vs MSCI Benchmark 138.7)

Top 10 positions

Company	Sector	%
Apple Inc	Info. Technology	6.7
Alphabet	Comm. Services	6.2
Microsoft	Info. Technology	6.1
UnitedHealth Group Inc	Health Care	5.4
Danaher Corp	Health Care	4.7
Prologis Inc	Real Estate	4.1
Merck & Co	Health Care	3.6
ASML	Info. Technology	3.5
Tesla Inc	Consumer Disc	3.3
Accenture	Info. Technology	3.2
Total		**46.7**

Data Source: Fidante Partners Limited, 31 January 2022

[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.

Fund features

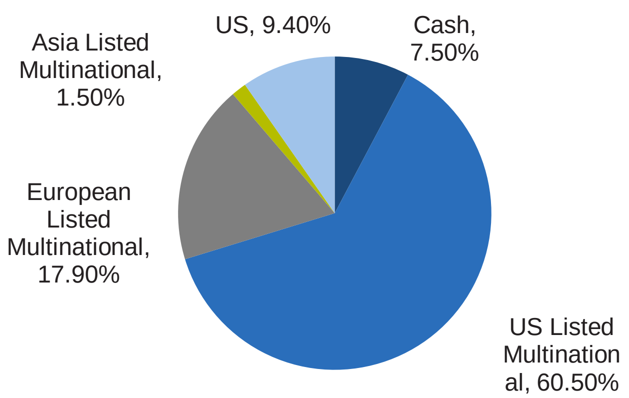
Sustainable: A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Diversified across sectors and regions.

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.

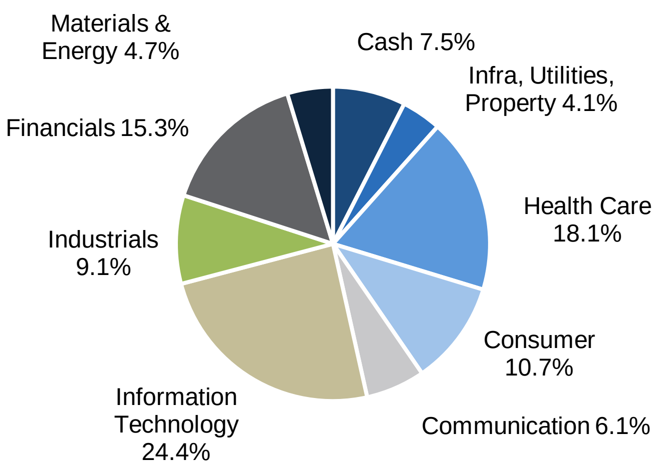
Talent: A united and deeply experienced team of global portfolio managers each with over 20 years in the industry.

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



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

Market overview

It's as if "last drinks" was called and the party music stopped with the new year celebrations as the penny finally dropped that the world's most anticipated rate hiking cycle might be bad for companies trading on expensive valuations. Throw into this mix rising supply and labour shortages in many markets, and energy prices soaring on Russia/Ukraine tensions, and the menu was set for the first meaningful market correction since the onset of Covid almost two years ago, particularly in the high growth part of the market. In AUD terms, the S&P 500 Index fell 2.4%, and the tech heavy Nasdaq lost 6.2% (AUD). A surge in commodity prices helped lift some emerging markets which outperformed developed markets in aggregate over the month.

The first stocks to get hit were the frothiest, those inflated by hype and hysteria and for which valuation either doesn't make sense or doesn't exist. These include the various "meme stocks", cryptocurrencies and un-profitable technology companies. With those went the $A which fell 2.5c to $US0.70 at the end of the month. As we approached full capitulation mode, broader parts of the market became caught up in the sell-off, including higher quality tech, consumer and healthcare stocks, some of which might prove to be great buying opportunities as their valuations normalise.

A volatile 4Q21 earnings season for the FAANG

Stock	4Q Earnings	1Q Guidance	1D Stock Price Reaction
facebook	Miss	Miss	-26.4%
Apple	Beat	No guidance	+7.0%
amazon	Beat	In line	+13.5%
NETFLIX	Beat	Miss	-21.8%
Google	Beat	No guidance	+7.5%

Source: Alphinity Bloomberg

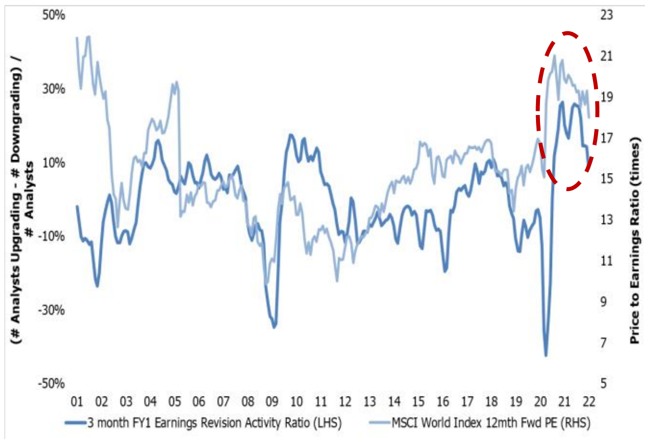
With the fourth quarter earnings season underway, results have driven a large performance dispersion within the market. This was particularly true within the so-called FAANG stocks. Misses by Facebook and Netflix were offset by beats in Amazon, Apple and Google, with significant price reactions leading to 30% performance differentials between the winners and the losers. The severity of the moves shows that profitability remains a key concern to the market.

Energy stocks were the stand-out performer at a sector level (+18.8% in AUD), as inflows into the sector were boosted by rising Russian/Ukrainian tensions and higher oil and gas prices. The only other positive sector was Financials, which gained 3.6% driven by expectations for accelerated rate increases and rising bond yields. Technology (-5.7%), Consumer Discretionary (-5.7%) and Healthcare (-4.6%) were the worst performers. Earnings revisions are strongest in Energy, while at a regional level the US continues to lead over the past three months.

Portfolio comment and outlook

The market backdrop is defined by policy tightening, elevated market valuations and a likely slowing of both economic and earnings growth. While global growth remains above trend, momentum has likely already peaked, and recent comments from the US Federal Reserve signal a hawkish pivot and a clear intention to accelerate tightening of monetary policy in the face of higher inflation. Taken together, this presents a more challenging environment for financial markets, and we expect that validation from higher corporate earnings will be even more important for equities and our portfolio this year.

MSCI World EPS Revision Breadth vs Forward PE – Earnings support waning



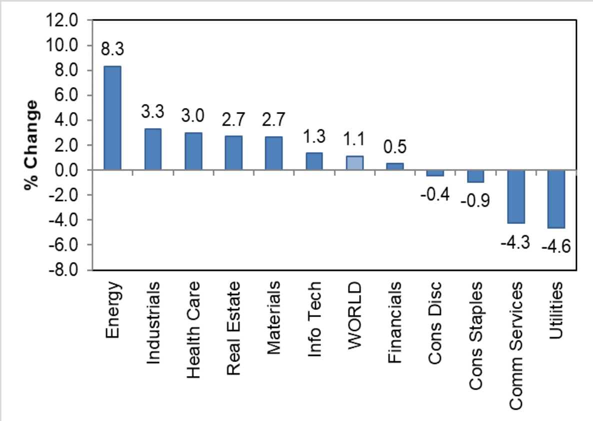
Source: Alphinity, Bloomberg, 31 January 2022

After 2021 earnings growth of +57% for the MSCI World (ex Australia) Index, analysts currently expect growth to slow to only +8% in 2022. Fourth quarter earnings have so far beaten analyst expectations on average, and while expectations for 2022 earnings have inched 0.4% higher over the last four weeks, relatively mixed forward guidance has seen a marked deceleration in both the magnitude and breadth of these revisions. Ongoing supply chain and labour costs have reduced visibility for management teams.

Relative earnings leadership has also begun to shift, with defensive sectors including Health Care and Property beating the market over three months, while Consumer Discretionary is lagging. After an extraordinarily strong post-Covid earnings recovery, the cycle now appears to be maturing with risks starting to shift to the downside.

Negative earnings revisions would add to market headwinds, and likely accelerate the shift towards more defensive, quality leadership.

2022 3-Month Earnings Revisions - Earnings leadership is shifting more defensive



Source: Alphinity, Bloomberg, 2 February 2022

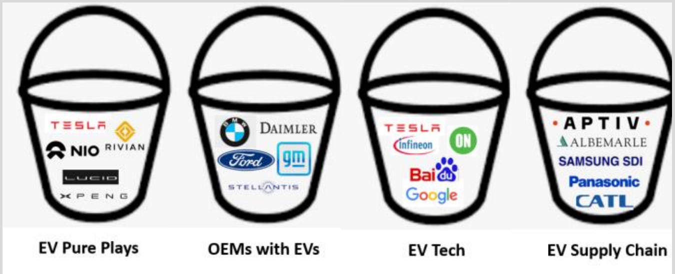
Reflecting this outlook, recent portfolio changes have mainly focused on consolidating positions in our highest conviction earnings stories, while continuing to take profits in some of our best performers from last year. These changes have continued to shift the Portfolio less cyclical at the margin versus a few months ago. During the month we initiated a new position in EssilorLuxottica, the global leader in eyewear focused on correcting poor vision worldwide, and exited Chipotle Mexican Grill and HCA on reduced conviction on the outlook for earnings. We also took some profit in various positions including Morgan Stanley and Silicon Valley Bank, and added to Mercedes-Benz, Prologis and Partners Group.

With economic growth and monetary stimulus peaking, the earnings cycle maturing, and elevated valuations, investment risks are higher. We intend to keep an open mind about the outlook, with a strong bench of high-quality stocks for different growth and market outcomes. We will maintain our vigilance on stock valuations and continue to let earnings conviction, on a stock by stock basis, guide us through the cycle.

What's on our mind – Many opportunities to invest in the Global Transition to EV's

By 2030 almost 50% of all new cars sold globally are expected to be Electric Vehicles (EVs). There are many ways to invest in the global transition to EVs. We put these opportunities into a number of buckets: Pure play EV companies, original equipment manufacturers (OEMs) with high quality EV products, EV tech, EV batteries and the EV supply chain.

Buckets of EV related investments

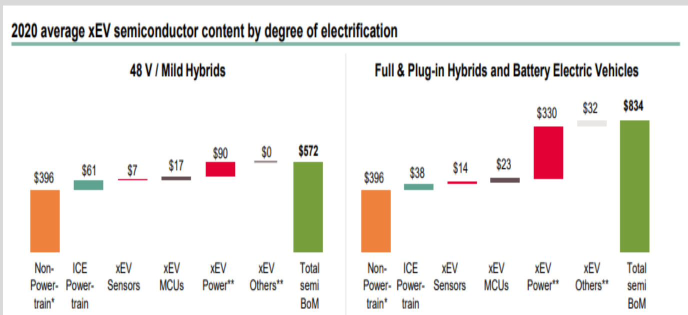


Source: Alphinity

Within these buckets, high conviction stocks currently include Tesla, Daimler, On Semi and Alphabet. Other "EV plays" with longer term potential on our research watch list include Albemarle, Samsung SDI and Aptiv. Below we share some thoughts on On Semi.

ON Semiconductor: Leader in automotive semiconductors ON Semi (ON US) is a leading semiconductor company with approximately 30% of sales directly to the automotive industry. The table below shows EV semi content by degree of electrification and highlights that the semi content in the Bill of Materials (BOM) of hybrids and EVs is more than twice what it is for non-power train or ICE power train vehicles.

Putting this together with the expected growth in EVs, the earnings trajectory for ON Semi is very exciting. Ongoing semiconductor shortages have weighed on the outlook for ON Semi and its peers, but the supply chain should normalize in 2022. At 16x PE (forward) with approximately 16% earnings growth, ON Semi is trading at very attractive earnings/PEG multiples relative to other EV-related stocks.



Source: Infineon 2Q21 Company presentation.

For further information, please contact:

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