Alphinity Global Equity Fund

Quarterly Report March 2022

Performance[1]	Quarter %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a[2]
Fund return (net)	-12.0	-1.9	16.6	15.4	15.4	13.0
MSCI World Net Total Return Index (AUD)[3]	-8.2	-1.7	11.7	12.8	12.8	11.6
Excess return[4]	-3.8	-0.2	4.9	2.6	2.6	1.4

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	$203m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
Apple	Info. Technology	7.1
Alphabet	Comm. Services	6.6
Microsoft	Info. Technology	6.0
UnitedHealth Group	Health Care	5.0
Nestle	Consumer Staples	4.3
Danaher Corp	Health Care	4.1
Bank of America	Financials ex Prop	3.9
McDonalds	Consumer Staples	3.8
Merck & Co	Health Care	3.7
Pepsico	Consumer Staples	3.5
Total		**48.1**

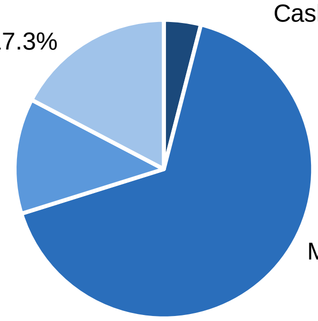
Data Source: Fidante Partners Limited, 31 March 2022

[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.

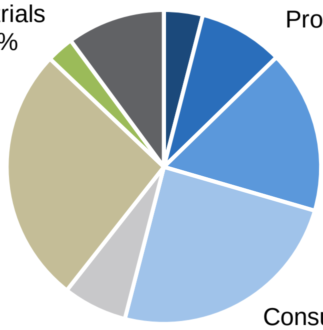
[2] The inception date for the Fund is 21 December 2015

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 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.

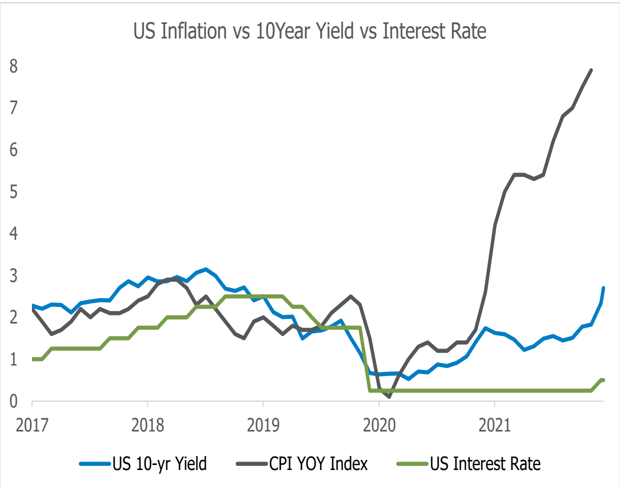
[4] Numbers may not add due to rounding

Market Overview

Global equity markets had a lot to contend with during the March quarter; rising concern that central banks are losing control of inflation, the Russian invasion of Ukraine, China re-entering lockdowns trying to eliminate Covid (remember Covid?), slowing earnings growth, labour and commodity shortages, and US regulators threatening to de-list non-compliant Chinese stocks trading in US markets.

Without a great deal of positive catalysts to offset this, global markets suffered their worst quarter since the start of Covid two years ago (MSCI World -8.3% in AUD). And it wasn't just equities: bond markets suffered a sharp rise in yields, translating into capital losses for owners of bonds. Despite all these headwinds, perhaps a degree of 'seller fatigue' was a contributing factor that led to many equity markets fighting back during March. One thing was clear: if you were a net exporter of commodities like Brazil, Canada and Australia, you outperformed as most commodity prices rallied on supply disruptions.

Inflation at 30yr High Pushing Fed to first rate hike since 2019

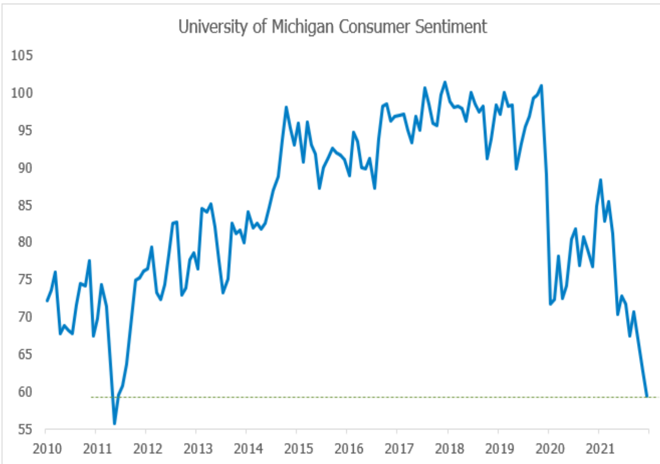


Source: Alphinity, Bloomberg, 31 March 2022

Looking at AUD returns on a global sector level, it was clear that owning energy stocks (+25.7%) was the only place to hide, while Materials (-1.5%) was the next best performer. The laggards included Consumer Discretionary (-13.4%) Communication Services (-13.3%) and Technology (-12.9%). March was a bit strange as higher growth stocks, especially tech, started to rebound despite bond yields continuing to rise sharply (US 10-year bond yield jumped 82bps to 2.33%). Perhaps the large sell-off in January and February gave investors better entry points where valuations seemed more sensible. We even saw a return (rather alarmingly) of the Reddit Day Trader Army, who punt meme stocks, those companies often with little to no value that gain cult-like followings through social media platforms. It was widely believed the recent correction had flushed out many of these players, but it appears that the army marches on.

A 45% increase in oil prices over the quarter led energy stocks higher, although pain at the pumps increased the risk of further drops in consumer confidence. University of Michigan Consumer Sentiment has missed expectations every month last quarter and closed March with a reading of 59.4, its lowest level in 11 years. US housing data was mixed, with rising interest rates generally negative and we saw this with weaker monthly home sales in the first two months of the year, although homebuilder surveys continue to print positively along with better-than-expected housing starts. The US S&P Homebuilder group fell 31%(AUD) in the first quarter of '22.

Consumer Confidence hitting an 11-year low



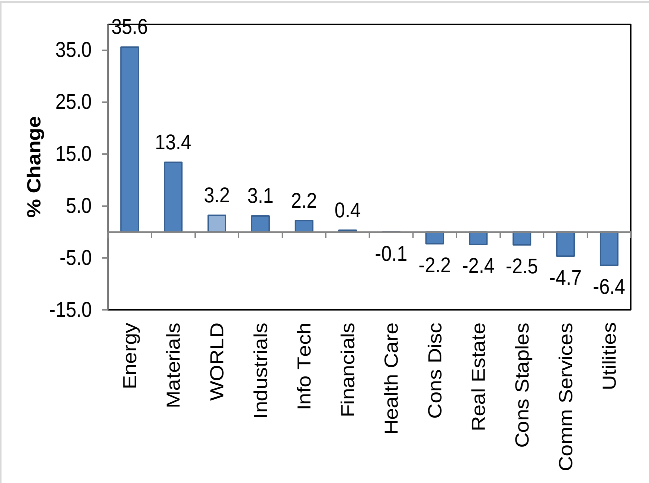
Source: Alphinity, Bloomberg, 31 March 2022

Portfolio comment and outlook

Parallel to a slowing global economic cycle and unpredictable geopolitics, the Federal Reserve is still signalling a hawkish pivot to a tighter monetary policy, adding to market uncertainty. We are now at the two-year mark of the global recovery from the Covid lockdown bottom, and the market environment looks set to be challenging and volatile in 2022.

The fourth quarter reporting season was overall positive in terms of reported earnings, but it's clear that the extraordinary 'earnings beat' period of 2020-21 is behind us. Global earnings revisions for 2022 were still positive +3.2% for the quarter but continued to deteriorate throughout the period (+1.4% in March). Company guidance in the US was the weakest since 2019, but analysts have largely maintained their positive assumptions, and we see growing risks to earnings expectations across many pockets of global equities. Near term, we are concerned with margin expectations in the face of cost inflation in a number of companies and sectors.

2022 3-Month Earnings Revisions – Energy & Materials the outliers



Source: Alphinity, Bloomberg, 1 April 2022

With the cycle turning negative and decreasing visibility, we believe stock selection and a relatively concentrated portfolio around conviction ideas will be key for performance. Driven by our bottom-up convictions and views of earnings outlooks, our portfolio saw some noticeable change in the quarter to an overall more defensive profile. We trimmed and sold out of positions in Morgan Stanley, Trane Technologies and HCA, all cyclicals with strong recent stock performance but more uncertain earnings outlooks from here. Similarly, we trimmed cyclicals Bank of America and Mercedes-Benz. We also lost conviction in the investment cases for Netflix and Universal Music Group and divested the holdings. New positions in the quarter were Nike (earnings headwinds behind it), Tesla (strong upgrades and stock pulled back significantly) and Wells Fargo (attractive story of self-help and rising interest rates). We also added to positions in McDonald's and NextEra, with both these flagship defensive growth companies delivering on earnings again.

In summary, the cocktail of a peaking earnings cycle, war, inflation, and policy tightening have increased risks for 2022. We continue to keep our minds open and look for stocks with the most reliable and misunderstood earnings outlooks.

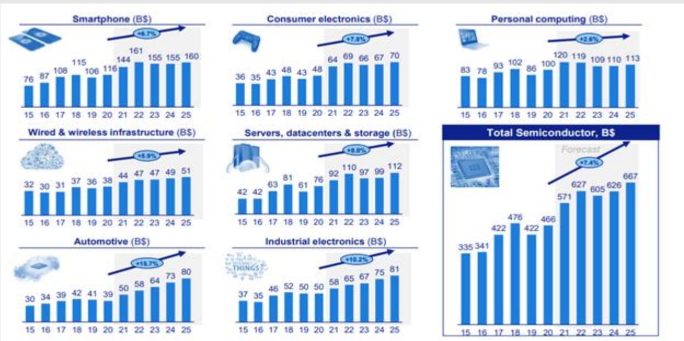
What's on our mind – Semiconductors transforming our lives - There are many ways to invest along the chain in semiconductors. From the equipment manufacturers (ASML, Lam Research, Applied Materials, ASMI) to the main manufacturers (TSMC, Samsung, Global Foundries, Intel) to the semiconductor companies exposed to different elements of end demand spanning data centre (Nvidia, AMD, Marvell), auto (ONsemi, IFX, Texas Instruments) and memory (Micron, Samsung, Hynix) to name just a few. Each discrete exposure brings with it a nuance to overall semiconductor cyclicality and underlying demand strength.

Our goal is to balance end market demand strength, company positions and financial return metrics with a degree of resilience in the face of an ever present (and sometime violent) semiconductor cycle. Among the swathe of opportunities, our preference currently lies with:

ASML (equipment manufacturer): the market leader in lithography driving semis manufacturing to ever smaller parameters. The drive for semiconductor supply chains to be brought back to home countries such as the US and Europe is underpinning a wave of equipment investment that will last towards the end of the decade.

ONSemi (autos and industrial semi manufacturer): ONSemi has reshaped their business towards the key automotive and industrial semiconductor markets, while focusing on value added products within these segments to drive margin improvement.

Nvidia (GPU and CPU manufacturer): Nvidia is a leader in graphics processing units for gamers which are also being used as datacentre accelerators. Nvidia is also creating semiconductor platforms overlayed with software to drive further opportunities across autonomous driving and the metaverse.



Source: ASML Investor Day (Sept 21), Gartner

Please visit our website for the full note by Trent Masters Semiconductors - transforming our lives - Alphinity

For further information, please contact:

Fidante Partners Investor Services | p: 13 51 53 **| e:** info@fidante.com.au **| w:** www.fidante.com.au