Monthly Report May 2022

Performance[1]	3 months %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception %[2]
Fund return (net)	-6.5	-16.9	-	-	-	2.5
MSCI World Net Total Return Index (AUD)	-4.6	-10.3	-	-	-	2.5
Excess return[3]	-1.8	-6.6	-	-	-	0.1

Fund facts	
Portfolio managers	Jeff Thomson, Mary Manning, Jonas Palmqvist, Trent Masters, Chris Willcocks.
APIR code	HOW1000AU
Inception date	3 June 2021
Investment objective	To outperform the MSCI World Net Index (AUD).
Management fee	0.75% 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	$31m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%
Carbon Intensity (ave weighted)	55.1 (vs MSCI Benchmark 138.6)

Top 10 positions

Company	Sector	%
Microsoft	Info. Technology	6.6
Apple Inc	Info. Technology	6.3
United Health Group	Health Care	6.2
Chubb	Financials	4.7
Danaher	Health Care	4.6
ASML	Info. Technology	4.4
Procter & Gamble	Consumer Staples	4.4
Merck & Co	Health Care	4.2
Otis Elevators	Industrials	4.0
Alphabet	Info. Technology	3.9
Total		**49.3**

Data Source: Fidante Partners Limited, 31 May 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

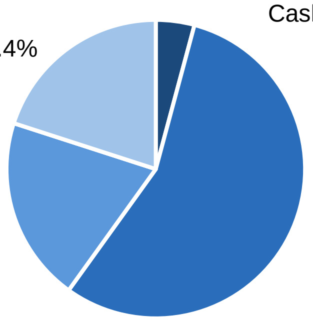
Sustainable: A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Diversified across sectors and regions.

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.

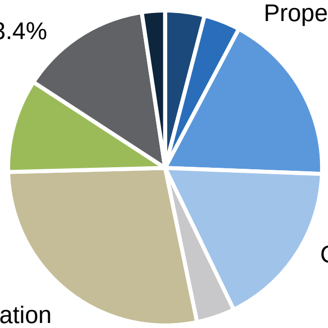
Talent: A united and deeply experienced team of global portfolio managers each with over 20 years in the industry.

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

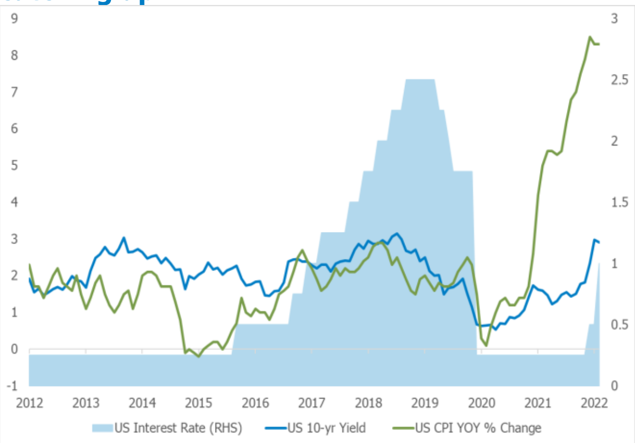


[2] The inception date for the Fund is 3 June 2021.
[3] Numbers may not add due to rounding.

Portfolio comment and outlook

Inflation is running at its' highest level since 1981, the Federal Reserve remains intent on executing the most aggressive monetary tightening cycle since at least 1994, Chinese Covid lockdowns are once again disrupting global supply chains and the fall-out from the Russia-Ukraine War continues to push energy, and various other agricultural commodities, to new highs. Consequently, it's not surprising that expectations for global growth are falling and investor concerns are increasingly focused on whether tightening financial conditions will push the global economy into recession. This is a difficult macro-economic backdrop and we expect financial markets to remain challenging and volatile in 2022.

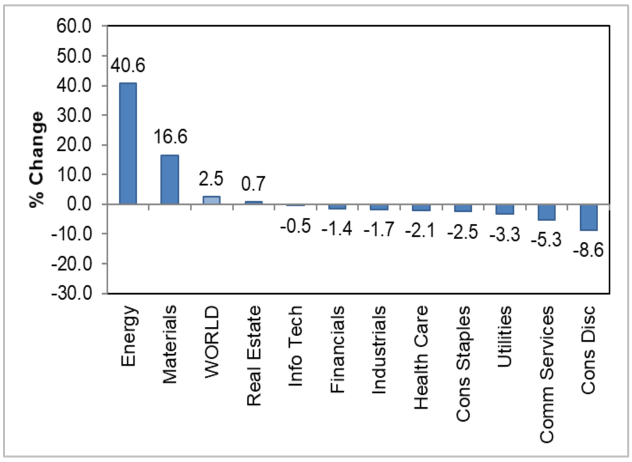
Inflation the highest in 40 years with rates still catching up



Source: Morgan Stanley, 31 May 2022

Global earnings revisions have weakened significantly, however remain modestly positive overall. Expectations for '22 and '23 have increased +2.5%/+1.2% respectively over the last three months, although driven entirely by very significant upgrades in Energy (+40.6%/+32.3%) and Materials (+16.6%/+14.2%). Outside of these two sectors, earnings expectations continue to be revised lower, with Consumer Discretionary and Communication Services weakest.

2022 Three-month Earnings Revisions by GICS sector



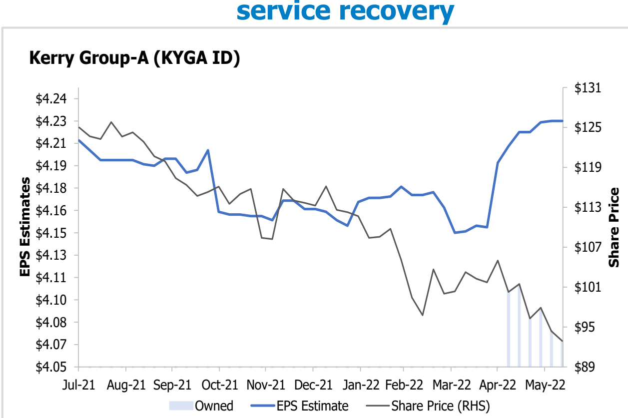
Source: Alphinity, FactSet, 31 May 2022

Despite this, analysts continue to expect positive earnings growth in most GICs sectors, and also in aggregate for global equities, in both '22 and '23. Current consensus expects EPS growth of 9.8% and 8.5% respectively in '22/'23. This seems increasingly optimistic in light of continued cost pressures impacting margins across a wide range of sectors, but also likely 'demand destruction' as inflation and higher rates undermine confidence and purchasing power. Consequently, we expect negative revisions to accelerate over the upcoming earnings season as management step into the confessional and update forward guidance.

With the cycle turning negative and falling visibility, we believe stock selection and a relatively concentrated portfolio around high conviction ideas will be important for performance. Driven by our bottom-up views on the outlook for earnings, our portfolio has continued to evolve to reflect new earnings leadership. During the last month we added defensive exposure through Kerry Group, a defensive staple and a leader in the development of taste and nutrition solutions, and Deutsche Boerse, enjoying earnings tailwinds from higher interest rates and volatility. We exited our position in packaging company Ball Corp on weaker Latam demand and higher costs causing earnings headwinds. We also sold out of S&P Global after disappointing results and a fundamental re-assessment of the earnings outlook. Finally we took profits in Eli Lilly and United Health after a strong period of performance.

The combination of a negative earnings cycle, war, inflation and policy tightening have certainly increased risks. Nevertheless, the range of potential macro-outcomes remains relatively wide and we will continue to be focused on constructing a diversified portfolio of high-quality stocks, with the most reliable and misunderstood earnings outlooks. Strong balance sheets, reasonable valuations, and the ability to navigate the challenging combination of higher interest rates, rising cost inflation and slowing economic growth will likely be key factors within the still emerging new market leadership.

Kerry Group – Defensive exposure to food service recovery



Source: Alphinity, Bloomberg, 31 May 2022

Traveller’s Tales

The Gini (Coefficient) is Out of the Bottle

The Alphinity Global team is back on the road! Collectively in the first six months of 2022, the team has done nine overseas trips, meeting with more than 100 companies across seven different countries. Travelling again after two years of Zoom calls is an excellent opportunity to reconnect with corporates and gain valuable on-the-ground insights.

On the positive side, Mary attended a Sustainable Futures Conference in New York which highlighted a vast array of companies that are focussed on achieving concrete ESG and Sustainability goals. In rural areas, farmers are flush with cash from the prevailing high soft commodity prices and seasonal trends remain strong. And, like the Alphinity Global investment team, Americans and Europeans are out there travelling and experiencing life post-COVID with an enthusiasm that is almost unprecedented.

Sadly, not all of our on-the-ground insights were positive. Having lived in the US for many years and returning after a long COVID-induced hiatus, Mary observed that income equality has clearly worsened and is becoming a major challenge for America as a society.

While this has been an ongoing issue since the 1980s, COVID has significantly exacerbated the problem. In 2020, tech-enabled white-collar workers in large US cities packed up their laptops and moved almost seamlessly to working from home (WFH) and watched their assets – homes, stocks, etc – appreciate considerably on the back of extremely easy monetary policy around the world.

On the other hand, many lower income jobs became less and less secure during extended COVID lock downs. Stimulus cheques helped for a while, but that stimulus is now being withdrawn and low-income wage growth is not keeping pace with rampant inflation.

At an extreme, this worsening in income inequality is noticeable in the incidence of homelessness in many major cities in the US. Mary went to Seattle to meet with Microsoft and Amazon, where the homelessness problem is confronting. There are now an estimated 40,000 homeless people living in the greater Seattle area, many only a stone’s throw away from headquarters of some of the largest and most profitable companies in the world.

Statistics support the visual impression. There has always been a great disparity between the rich and poor in the US. According to World Bank rankings, its Gini co-efficient, a measure of income inequality (lower is better) sits at 41, on par with countries like Haiti, Qatar and Djibouti. For context, Australia is 34.4, materially better but not as equal as some of the Nordic countries which tend to be in the high 20s. The most equal is Slovenia with 24. At the other end of the scale are a number of African and South American countries with Ginis in the 50s and 60s. There is even greater income inequality among US states, with New York and California ranked worst and third worst in the country, respectively.

Our current global portfolios have very little exposure to the low-income consumer in the US, so this trend poses little earnings risk to our stocks specifically. The greater risk however is that this eventually translates into a higher prevalence of worker unrest and pressure for unionisation will build. While in New York Mary accidentally stumbled across a Justice for Chipotle Workers demonstration, a protest of Chipotle Mexican Grill staff who are demanding wages of $US20 per hour, up from just under $17 presently. Unionisation movements are also gaining ground at high profile companies like Amazon and Starbucks. Given the ultra-low unemployment rate in the US, companies paying inadequate wages could quickly find themselves without a workforce.

We are happy to be on the road again. The world has changed in positive and negative ways since pre-COVID but we are committed to using on-the-ground meetings and travel insights to hone our understanding of the markets in which we invest on your behalf. Happy travels!

For further information, please contact:

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