

Quarterly Report June 2022

Performance ¹	Quarter %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a ²
Fund return (net)	-7.5	-18.6	-5.0	10.3	12.4	11.2
MSCI World Net Total Return Index (AUD) ³	-8.5	-16.0	-6.5	7.7	10.1	9.7
Excess return ⁴	0.9	-2.7	1.4	2.6	2.4	1.5

Fund facts

Portfolio managers	Jonas Palmqvist, Jeff Thomson, Trent Masters, Mary Manning, Chris Willcocks.
APIR code	HOW0164AU
Inception date	21 December 2015
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	\$214m
Distributions	Annually at 30 June
Min. Investment	\$10,000
Max. cash position	20%

Fund features

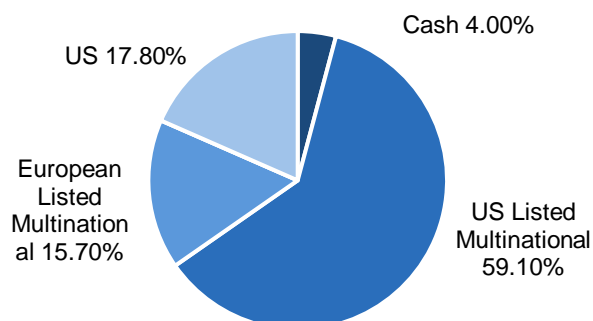
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

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.

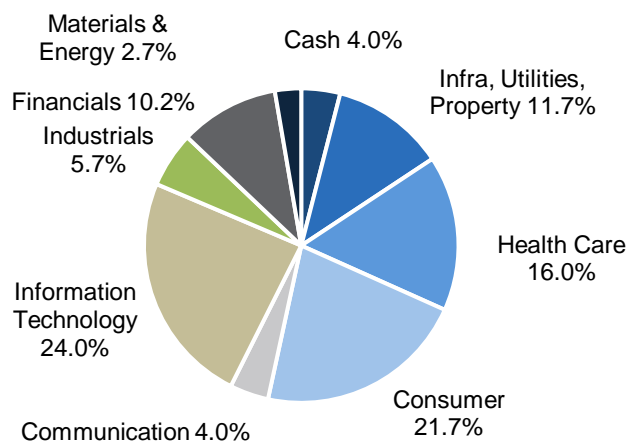
Talent: A united and deeply experienced team of global portfolio managers each with over 20 years in the industry.

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



Top 10 positions

Company	Sector	%
Microsoft	Info. Technology	6.6
Nextera Energy	Utilities	5.0
United Health Group	Health Care	4.9
Apple	Info. Technology	4.6
LVMH Moet Henne	Consumer Disc	4.5
Merck & Co	Health Care	4.3
Danaher	Health Care	4.0
Alphabet	Comm Services	4.0
American Tower Corp	Property Trusts	4.0
McDonalds Corp	Consumer Disc	3.9
Total		45.6

Data Source: Fidante Partners Limited, 30 June 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

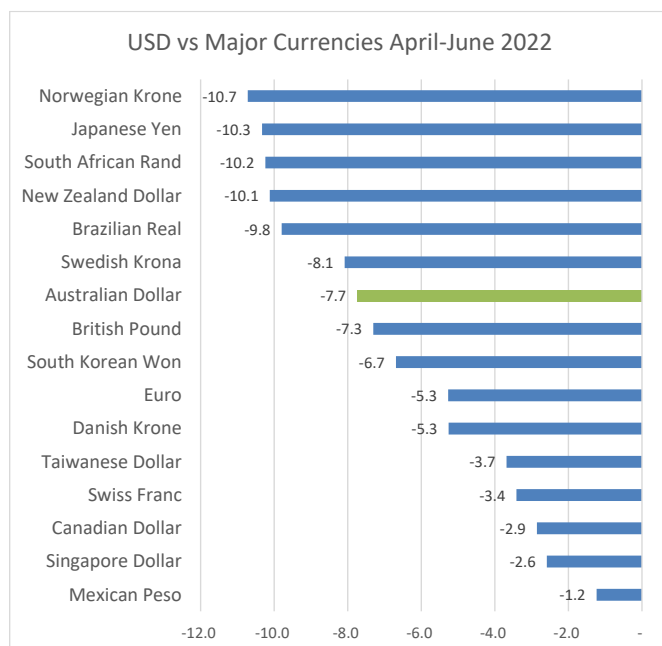
³ From 21 December 2015 to 30 April 2019, the Benchmark was the MSCI World Equity ex Australia (Net) Index. The current index is effective from 1 April 2019.

⁴ Numbers may not add due to rounding

Market comment and outlook

Global equity markets broadly declined in the June quarter, with most indices notching up double-digit losses so far in 2022 as concern over inflation and rate rises began to be felt across the economy, both in consumer behaviour and in corporate earnings. Both the MSCI World Index (A\$) and the US S&P 500 index (A\$) have fallen 17% so far this year, and had it not been for a 10% rally in the USD, these returns would've been substantially lower still. In USD terms, the technology driven Nasdaq Composite index fell 22% in the June quarter alone as higher rates shone a spotlight on expensive valuations, while the consumer sector also got hit as companies downgraded on rising cost pressures and inventory challenges. Asian stocks outperformed, with China's Shanghai Composite index up 11% in June in \$A terms, although it is still -6% year to date. It's been a challenging year for China, trying to navigate out of Covid lockdowns while at the same time addressing a growth slowdown, driven by a weak property market. Its' desire to stimulate and increase money supply has put it out of sync with most other countries entering a tightening cycle.

USD strengthened relative to all major currencies during the June quarter



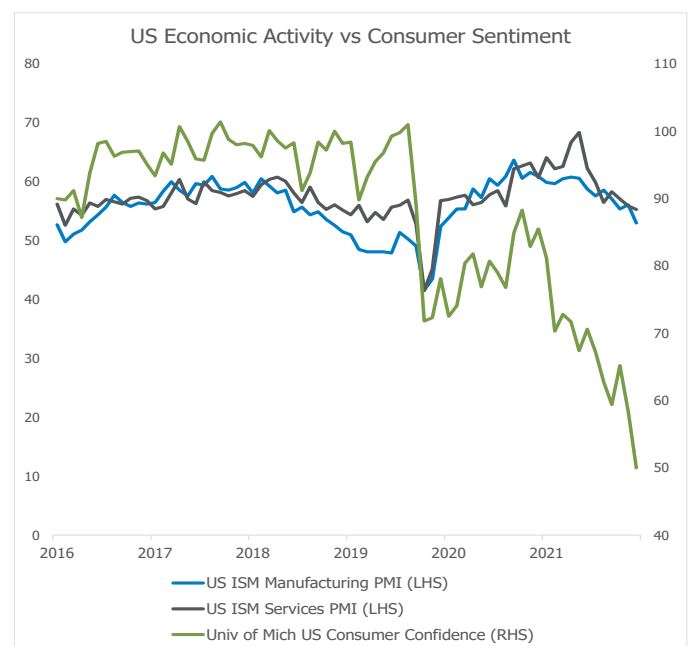
Source: Bloomberg, 30 June 2022

On a global sector level, only Energy (+2%) and the defensive Consumer Staples (+1%) and Healthcare (+0.3%) sectors closed higher over the quarter. Consumer Discretionary (-18%) and Tech (-15%) were the weakest performers, with inventory issues and cost pressures hurting consumer stocks while Tech stocks continued to fall as investors focused on valuations and the impact of rising rates on companies without any earnings support.

Amazon fell 34% in Q2 after missing on earnings and guiding down on higher costs, over-building post Covid with demand expectations not materialising.

Economic activity deteriorated, with both US Manufacturing and Services Purchasing Managers Indexes (PMIs) contracting, while the US Michigan Consumer Sentiment index fell to 50.2 in June, its lowest level on record. Inflation showed no signs of peaking, with May CPI +8.6% year-on-year versus expectations of 8.3%, marking the highest annualised rate of price increases since 1981. Commodities were broadly weaker as inflationary effects softened demand, with both Copper and Aluminium falling over 12% in June. Oil fell 7% to \$US109, breaking 6 straight months of gains as inventories built up in the US and higher prices drove a weaker demand response. Although bond yields rose sharply over the quarter, with the US 10-year yield up 67 basis points to 3.01%, this masked a sharp fall toward the end of June, where yields fell 50 basis points in 2 weeks.

US Economic activity declining and US sentiment hitting a record low



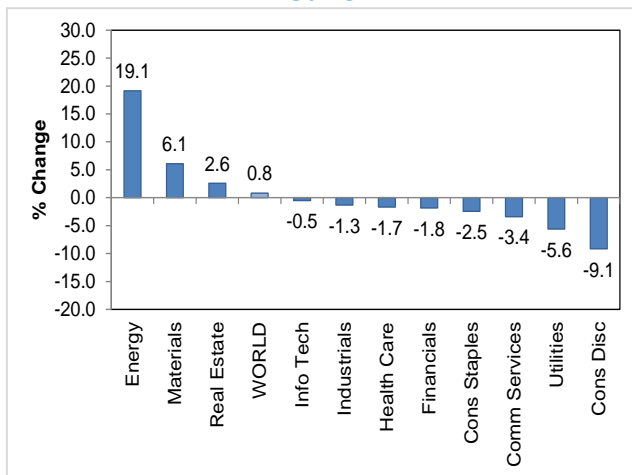
Source: Bloomberg, 30 June 2022

Portfolio comment and outlook

With still high inflation, a tightening Fed, some lingering Covid lockdown risks in China, and the Russia-Ukraine war, it's not surprising that expectations for global growth are falling. Investor concerns are increasingly focused on whether tightening financial conditions will push the global economy into recession, and how far central banks will be able to tighten in this environment. Overall, this is a difficult macro-economic backdrop, and we expect financial markets to remain volatile in 2022.

Global earnings revisions remained marginally positive (+0.8%) over the quarter but weakened towards the end with net downgrades in June (-0.4%). Analysts seem generally reluctant to cut numbers for the second half, still expecting global earnings to grow by +14% and +11% in 3Q and 4Q, respectively. Based on our own recent, global research trips we see downside risks to these market expectations, especially from 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 companies update forward guidance. Against these growing earnings risks, it's worth noting that market valuations have already contracted noticeably, with the 12-month forward p/e multiple for S&P500 falling from 21x to 16x in the first half of the year.

FY22 Earnings Revisions – 3 months to 30 June'22



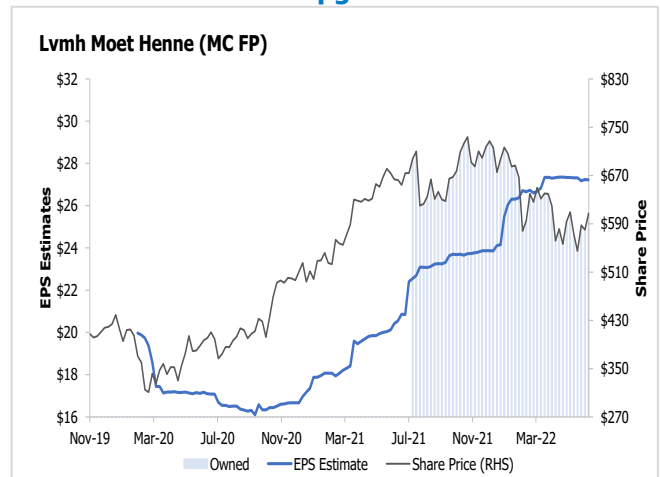
Source: Alphinity, Bloomberg, 1 July 2022

With the cycle turning negative and visibility falling, 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 the changing earnings leadership, with changes during the quarter being very stock-specific.

We added financial stocks Chubb and Deutsche Boerse, two defensive growth companies of high quality in relatively independent earnings upgrade cycles. Waste Connections, a municipal waste services company, was another new position, with positive pricing tailwinds leading to expected earnings upgrades. Albemarle and Sika also entered the portfolio, both with strong earnings drivers from the shift to more sustainable products in the Materials sector. Our position in (defensive) growth company American Tower was increased after the company completed the financing of its recent CoreSite acquisition. We also made changes to some of the portfolio's growth stocks, including divesting Eli Lilly (valuation stretched) as well as Estee Lauder, Amazon, Nvidia and S&P Global (change in earnings cases).

The position in LVMH was added to after another strong quarterly report, whilst we trimmed back positions somewhat in UnitedHealth and Apple after relatively strong performance, as well as Alphabet (near term earnings uncertainty). We also divested the rest of Bank of America, where the weakening economic cycle is undermining the mid-term earnings case. Overall, the portfolio continues to have limited exposure to cyclical companies.

LVMH – Luxury still holding up well & seeing EPS upgrades



Source: Alphinity, Bloomberg, 30 June 2022

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 be key factors within the still emerging new market leadership.

Traveller's Tales – Around the World in 200 Meetings

The Gini (Coefficient) is Out of the Bottle

In the first half of 2022 our 5 global portfolio managers did 9 overseas work trips, travelling to over 12 different cities across 7 different countries.

They attended multiple global and sector specific investment conferences and have had over 200 company meetings in total in the 1H22.



★ Conference ● Bespoke meetings ◆ Company Capital Markets Day

Below we share a summary of the key themes across each of the sectors.

Consumer: New York, Seattle & Europe

Sub-sector	Comment	Stock Implications
Luxury	<ul style="list-style-type: none"> Low end consumers struggling post COVID stimulus withdrawal Luxury companies have immense pricing power and are geographically diverse 	LVMH, ESSILORLUXOTTICA
Staples	<ul style="list-style-type: none"> Inflationary pressures are real across consumer discretionary and consumer staples Prefer companies that can pass through costs and large MNCs that have multiple levers to make earnings guidance 	Nestlé, McDonald's
EVs & Autos	<ul style="list-style-type: none"> Transition to EVs is underway and potentially accelerated by high oil prices There will be winners and losers from the transition with existential risk for the losers 	TESLA, Mercedes-Benz
E-Commerce	<ul style="list-style-type: none"> Very difficult to determine the normalised run rate for e-commerce post-COVID US consumer confidence falling sharply and increasing recession risk means there are potentially better e-commerce opportunities in non-US markets 	amazon, mercado libre, Alibaba

Financials: Europe, UK & Canada

Sub-sector	Comment	Stock Implications
Banks	<ul style="list-style-type: none"> Higher interest rates and impact on NIMs are a known known. Forward looking risk is that DM markets are entering an NPL cycle, which is not reflected in current earnings estimates. Reducing bank exposure on falling earnings momentum NZBA creating a significant ESG/Sustainability push among banks that have signed up 	Scotiabank, DBS, RBC, BANK OF AMERICA
Housing & Mortgages	<ul style="list-style-type: none"> Globally banks have seen very strong mortgage growth during this period of low rates LVRs remain low but spiking mortgage rates, falling consumer confidence and a less buoyant labour market mean that loan growth may taper and consumer related NPLs may rise Correction in the housing market will have implications across multiple sectors, not just financials 	rightmove, LOWE'S, THE HOME DEPOT, airbnb
Non-Bank Financials	<ul style="list-style-type: none"> Preference for interest rate financials with no credit risk Watching for disorderly unwind of credit markets and private valuations 	CHUBB, Partners Group, charles SCHWAB, Blackstone

Technology: San Francisco & Boston

Sub-sector	Comment	Stock Implications
Software	<ul style="list-style-type: none"> Spending resilience in cloud and security vs increased concerns in Covid winners such as payments, creative applications, workforce collaboration. Market moving to must have vs nice to have. Shift in capital cost and available having severe impacts on unprofitable / unproven tech businesses Enterprise spend looking more resilient than consumer 	Microsoft, accenture, affirm
Hardware & Equipment	<ul style="list-style-type: none"> 5G investment and subsequent proliferation of use cases to continue PC and smartphone market (focused on China and low-end models) exhibiting weakness 	KEYSIGHT TECHNOLOGIES, Apple, hp
Semis	<ul style="list-style-type: none"> Memory markets weakening due to PC and smartphone softness Datacentre demand remains solid Auto and industrial demand remains robust Industry positioning for power semi shift to Silicon Carbide 	onsemi, NVIDIA, Micron

Industrials: Europe & UK

Sub-sector	Comment	Stock Implications
Electrical Equipment	<ul style="list-style-type: none"> Demand for equipment driving electrical efficiency remains strong. Order books remain buoyant and supply remains the key bottleneck Renewable equipment manufacturers and developers remain under pressure due to supply chain pressures and cost escalations and issues with permitting 	Schneider Electric, ABB, Vestas
Aero and Defense	<ul style="list-style-type: none"> In response to recent geopolitical events, governments globally, and particularly in Europe are increasing defense spending 	BAE SYSTEMS
Machinery	<ul style="list-style-type: none"> Mining equipment demand remains solid but not spectacular given the backdrop of a strong commodity cycle. Conversely companies are not seeing signs of a slowdown Infrastructure segment growing well and engineering remains robust 	Epiroc, SANDVIK

Health Care: Los Angeles

Sub-sector	Comment	Stock Implications
Pharmaceuticals	<ul style="list-style-type: none"> Global leaders are still in a very good position EPS still intact and largely insulated from economic cycle, Fed, Russia & China 	MERCK
Life Sciences	<ul style="list-style-type: none"> Still in good shape, with good underlying demand (ex lab equipment) Some risks around China lockdowns (global presence), USD headwind 	DANAHER
Hospitals	<ul style="list-style-type: none"> Still see headwinds for this space: Slower normalisation of medical procedures post covid Nursing staffing costs 	HCA Healthcare
Medical Technology	<ul style="list-style-type: none"> Very interesting sub sector for the future with high returns & cashflows But there are some headwinds with supply chain issues and rising raw material costs, 	INTUITIVE

Please visit our website for videos with each of the portfolio managers discussing their respective trips, including some interesting anecdotal stories, key fundamental themes, and company specific commentary: [Insights - 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 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.