Alphinity Global Sustainable Equity Fund

Quarterly Report June 2022

Performance[1]	3 months %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception %[2]
Fund return (net)	-9.2	-20.6	-6.2	-	-	-0.5
MSCI World Net Total Return Index (AUD)	-8.5	-16.0	-6.5	-	-	-2.2
Excess return[3]	-0.8	-4.7	0.2	-	-	1.7

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)	62.0 (vs MSCI Benchmark 131.3)

Top 10 positions

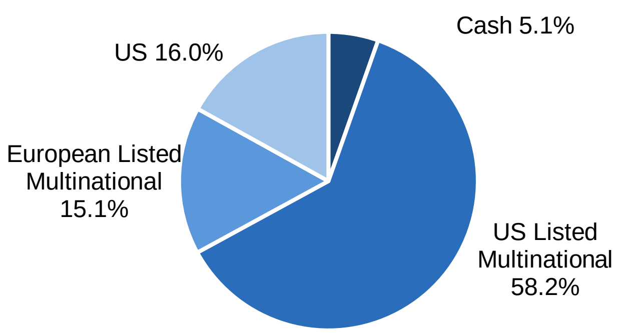
Company	Sector	%
Microsoft	Info. Technology	6.8
United Health Group	Health Care	5.7
Apple Inc	Info. Technology	5.3
Chubb	Financials	4.7
Merck & Co	Health Care	4.7
Procter & Gamble	Consumer Staples	4.5
Alphabet	Info. Technology	4.3
Danaher	Health Care	4.2
ASML	Info. Technology	4.2
Prologis	Real Estate	3.9
Total		**48.4**

Data Source: Fidante Partners Limited, 30 June 2022

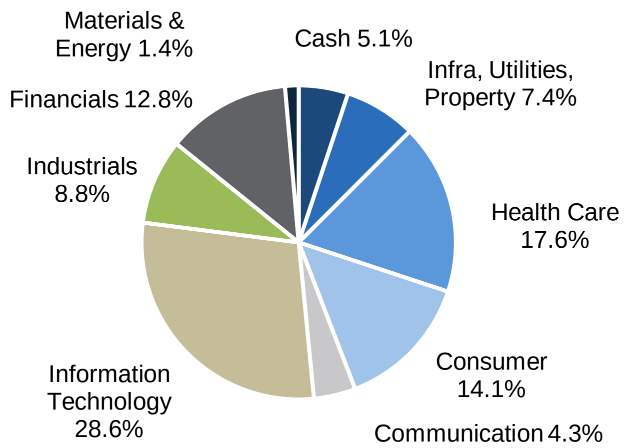
[1] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance.

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

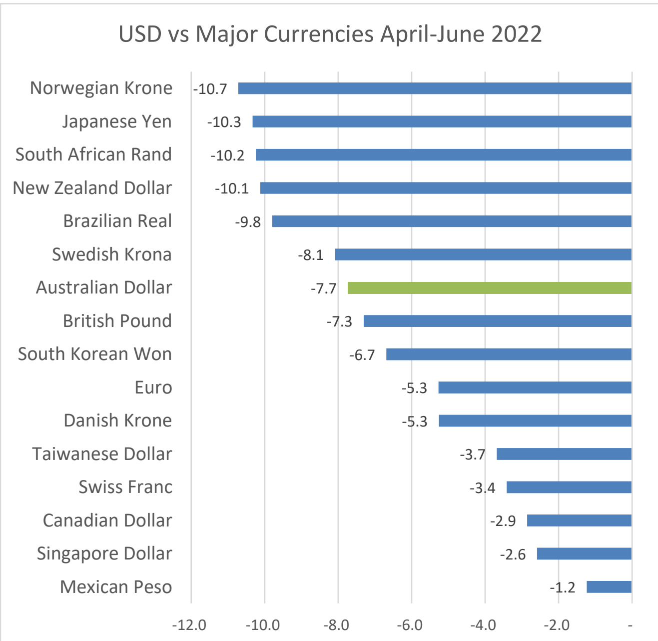


[2] The inception date for the Fund is 3 June 2021.
[3] Numbers may not add due to rounding.

Market 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



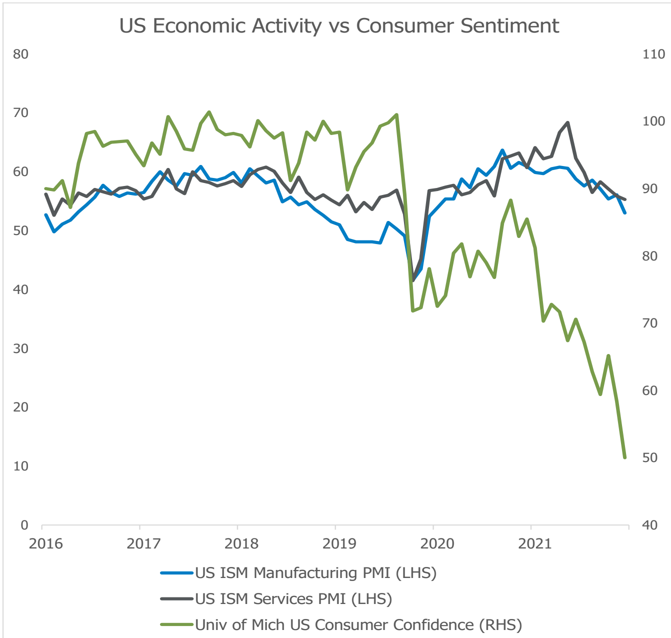
Source: Bloomberg, 30 June 2022

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 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

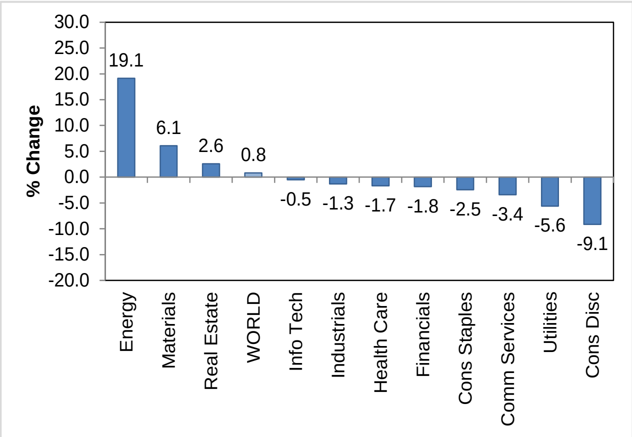


Source: Bloomberg, 30 June 2022

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.

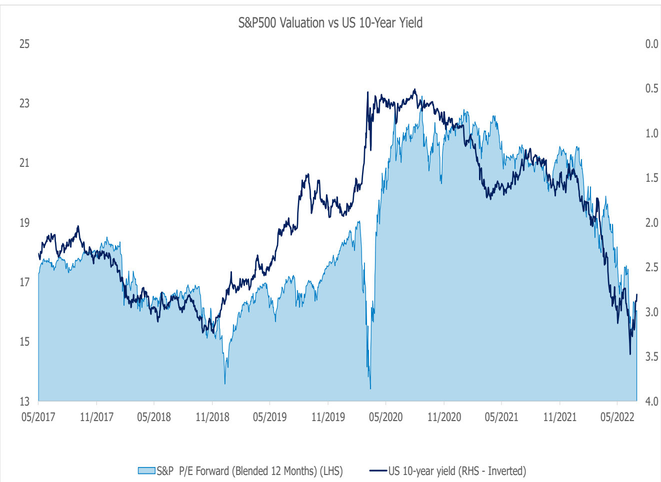
FY22 Earnings Revisions – 3 months to 30 June'22



Source: Alphinity, Bloomberg, 1 July 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.

Valuation have already derated significantly



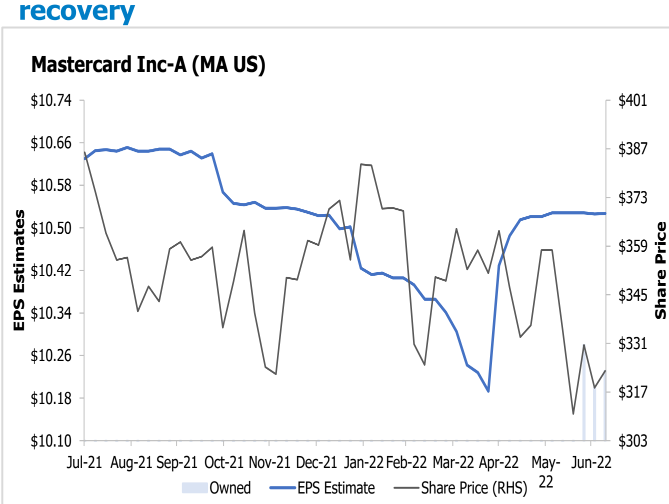
Source: Alphinity, Bloomberg, 30 June 2022

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.

During the quarter we added two quality financial stocks, DBS Group, a regional bank exposed to higher rates and Asian growth, and Deutsche Boerse, a defensive stock exchange enjoying earnings tailwinds from higher interest rates and volatility. We also increased our defensive exposure through Kerry Group, a consumer staple, and a leader in the development of taste and nutrition solutions, and Waste Connections, a municipal waste services company, with positive pricing tailwinds leading to expected earnings upgrades. Mastercard also entered the portfolio, enjoying earnings tailwinds from inflation and the cross-border travel recovery as well as (defensive) growth company, American Tower, after the company completed the financing of its recent CoreSite acquisition.

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. Growth stocks such as Nvidia, Partners Group and Lowes also exited the portfolio given a change in their respective earnings cases. Finally, we took profits in Eli Lilly after a strong period of performance. Overall, the portfolio continues to have limited exposure to cyclical companies.

Mastercard – Benefiting from cross-border travel recovery



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.

alphinity INVESTMENT MANAGEMENT

Traveller's Tales – Around the World in 200 Meetings

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.

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	• Low end consumers struggling post COVID stimulus withdrawal • Luxury companies have immense pricing power and are geographically diverse	LVMH, EssilorLuxottica
Staples	• 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	• 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	• 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	• 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, RBC, DBS, Bank of America
Housing & Mortgages	• 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	• 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	• 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	• 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	• 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	• 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	• In response to recent geopolitical events, governments globally, and particularly in Europe are increasing defense spending	BAE Systems
Machinery	• 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	• Global leaders are still in a very good position • EPS still intact and largely insulated from economic cycle, Fed, Russia & China	Merck
Life Sciences	• Still in good shape, with good underlying demand (ex lab equipment) • Some risks around China lockdowns (global presence), USD headwind	Danaher
Hospitals	Still see headwinds for this space: • Slower normalisation of medical procedures post covid • Nursing staffing costs	HCA Healthcare
Medical Technology	• 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]

For further information, please contact:

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