

## Monthly Report August 2022

Performance <sup>1</sup>	Quarter %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a <sup>2</sup>
Fund return (net)	2.8	-2.7	-9.4	10.3	13.6	11.8
MSCI World Net Total Return Index (AUD) <sup>3</sup>	-1.2	-5.7	-9.5	8.1	11.1	10.0
Excess return <sup>4</sup>	3.9	3.0	0.1	2.1	2.5	1.8

### Fund facts

<b>Portfolio managers</b>	Jonas Palmqvist, Jeff Thomson, Trent Masters, Mary Manning, Chris Willcocks.
<b>APIR code</b>	HOW0164AU
<b>Inception date</b>	21 December 2015
<b>Investment objective</b>	To outperform the MSCI World Net Index (AUD).
<b>Management fee</b>	0.75% p.a.
<b>Performance fee</b>	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. <sup>1</sup>
<b>Buy/sell spread</b>	+0.25% / -0.25%
<b>Fund size</b>	\$281m
<b>Distributions</b>	Annually at 30 June
<b>Min. Investment</b>	\$10,000
<b>Max. cash position</b>	20%

### Fund features

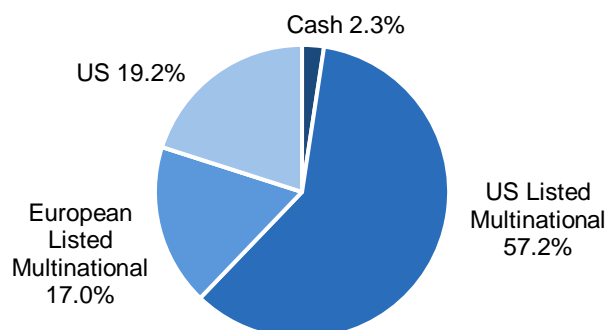
**Concentrated:** A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

**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.

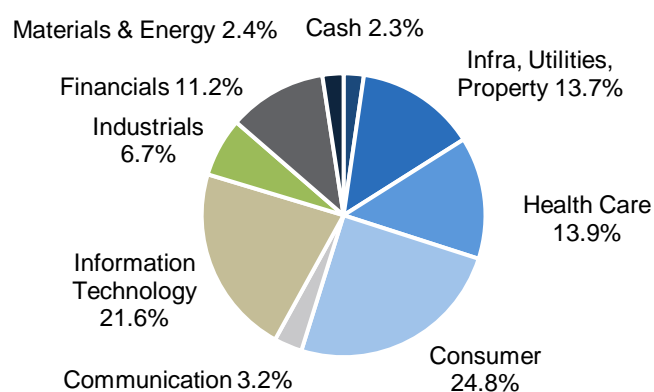
**Talent:** A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

**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	%
LVMH Moët Hennessy Louis Vuitton SE	Consumer Disc	5.7
NextEra Energy Inc	Utilities	5.2
American Tower Corp	Real Estate	4.9
Danaher Corp	Health Care	4.6
Apple Inc	Info. Technology	4.6
Waste Connections Inc	Industrials	4.4
Deutsche Boerse AG	Financials	4.3
Keysight Technologies Inc	Info Technology	4.2
UnitedHealth Group Inc	Health Care	4.0
Microsoft Corp	Info. Technology	3.8
<b>Total</b>		<b>45.8</b>

Data Source: Fidante Partners Limited, 31 August 2022

<sup>1</sup> Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

<sup>2</sup> The inception date for the Fund is 21 December 2015

<sup>3</sup> 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.

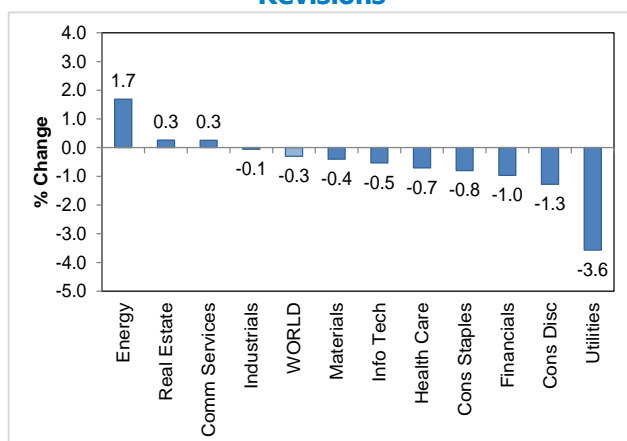
<sup>4</sup> Numbers may not add due to rounding

## Portfolio comment and outlook

We would expect financial markets to continue to be volatile against the current macro-economic and geopolitical backdrop. Some of the large, current uncertainties are Europe heading into winter with an ongoing energy crisis, the end game for the Fed's tightening cycle, and China's persistence with Covid lockdowns. Meanwhile, the global earnings cycle has continued to weaken at a similar pace as before, with market earnings expectations falling another -0.3% for both 2022 and 2023 during August. With third quarter reports approaching, we have also seen a ramp up in profit warnings lately across many sectors and regions.

From a sector perspective, relative differences in earnings revisions are small, with most sectors now seeing net downgrades. Overall, aided by insights from our team's many recent overseas research trips, we still believe earnings expectations seem overall too high. Global analysts expect nearly 10% earnings growth in the second half of 2022, which appears too optimistic.

### MSCI World Sector 2022 – 4 Week Earnings Revisions



Source: Bloomberg, Alphinity, MSCI, 1 September 2022

In terms of portfolio decisions, this is a period of headwinds (macro and earnings) where individual stock picking and detailed fundamental analysis come to the fore. We have seen plenty of examples where similar companies, which operate in the same market segment, produce very different earnings outcomes. Company market position, pricing power, operational quality and management execution are big drivers of relative stock performance at the moment, which isn't unusual when economies are slowing down, financial conditions tightening, and equity markets are volatile.

During the month, we made a few noteworthy changes to the portfolio. We added a small position in MercadoLibre, the leading e-commerce and payments platform in Latin America, after another revenue beat and with earnings having turned a corner.

We added to our positions in Waste Connections and L'Oreal after strong earnings reports, and trimmed Microsoft due to some potential earnings risks going forward. We also trimmed back ON Semi and NextEra on valuation grounds, after good performance.

We continue to look for global stocks with misunderstood and under-appreciated earnings potential, and our highest conviction and quality ideas make up our relatively concentrated portfolio.

## What's on our mind – Five global growers outstripping the market

Global equity investors remain on edge. Investors have mainly been concerned about higher inflation and interest rates year to date, but fears are shifting to slowing economic growth. Specifically, whether slower growth will spill over into lower future corporate earnings growth.

Despite the likelihood of entering a downgrade cycle, there are companies that can grow earnings ahead of expectations and enjoy *earnings upgrades*. Investors need to pivot towards 'Upgraders' because they can protect against downside risks and generate solid returns in a difficult market.

In this note we look at 5 high quality, diverse global upgraders that bucked the trend during the recent second quarter reporting season.

### Albemarle (ALB US) – High growth exposure to Lithium

ALB is amongst the largest and lowest cost Lithium producers in the world. The company reported a knock-out 2Q22 result, beating earnings estimates by 13% and revenue by 3%. The key highlight was the big increase in forward guidance, with FY22 EPS increased by 52% and EBITDA margins to 45%-47% (vs. 38%-40%). Production is expected to double from 88kt in 2021 to around 200kt by 2025.

In response, ALB has seen EPS upgrades of 59% to FY22 earnings expectations and 47% to FY23 over the last month.

The global demand for Lithium is forecasted to increase 3 times by 2025 to 1.5mt, and more than 6 times by 2030 to over 3.2mt. We see lithium in the context of the broader battery materials supply chain as one of the key secular trends in basic materials and believe ALB's current multiples reflect little of the pricing and volume upside that lies ahead.

For more detail in this note, please visit our website: [Insights - Alphinity](#)

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