Alphinity Global Equity Fund

Monthly Report November 2022

Performance[1]	Quarter %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a[2]
Fund return (net)	6.4	9.3	-7.2	10.5	12.1	12.3
MSCI World Net Total Return Index (AUD)[3]	6.4	5.2	-5.6	7.9	10.1	10.6
Excess return[4]	-0.1	4.1	-1.6	2.6	2.0	1.7

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	$350m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
LVMH Moet Henne	Consumer Disc	6.5
Danaher	Health Care	5.0
Chubb	Financials	4.9
NextEra Energy	Utilities	4.8
ASML	Info. Technology	4.3
Waste Connections	Industrials	4.2
Intuitive Surgical	Health Care	4.2
McDonalds	Consumer Disc	3.9
L'Oreal	Consumer Staples	3.9
Keysight	Info. Technology	3.8
Total		**45.5**

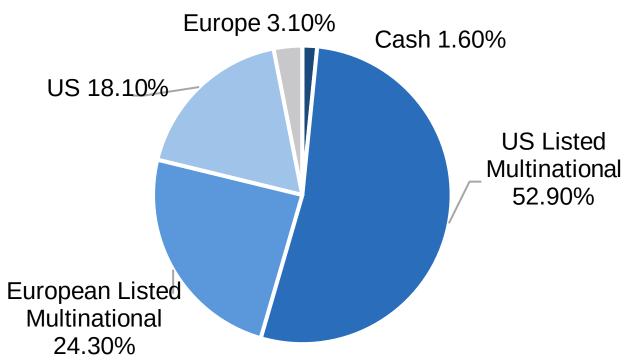
Data Source: Fidante Partners Limited, 30 November 2022

[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.

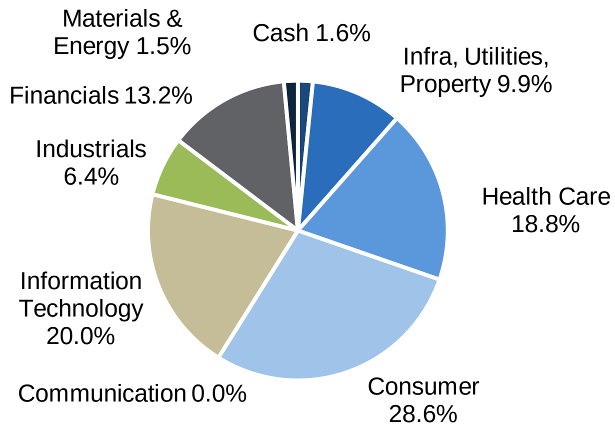
[2] The inception date for the Fund is 21 December 2015

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 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



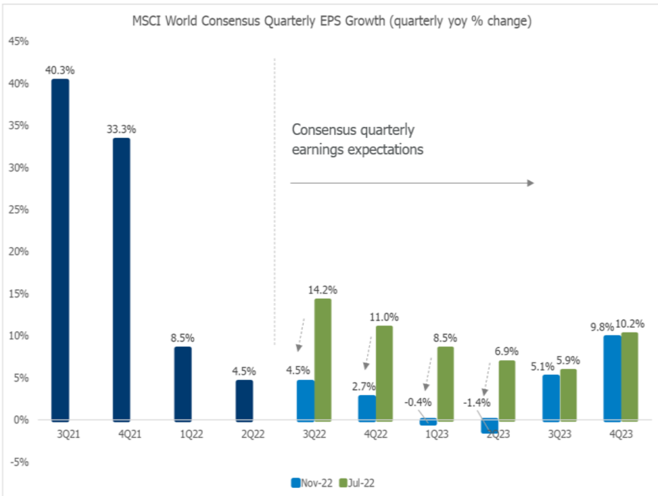
[3] From 21 December 2015 to 30 April 2019, the Benchmark was the MSCI World Equity ex Australia (Net) Index. The current index is effective from 1 April 2019.

[4] Numbers may not add due to rounding

Portfolio comment and outlook

The outlook for growth remains challenging. The global economy is still struggling with high inflation, an abrupt tightening of financial conditions and of course a strong dollar. Together these represent significant headwinds for growth, pressuring real wages, consumer confidence and housing markets in the U.S. and across the world. While there are some recent signs of moderating inflationary pressures in the U.S., which could translate into a less hawkish US Federal Reserve (Fed), there is a risk that this will be too late to avoid a sharp slowdown in global growth and corporate earnings.

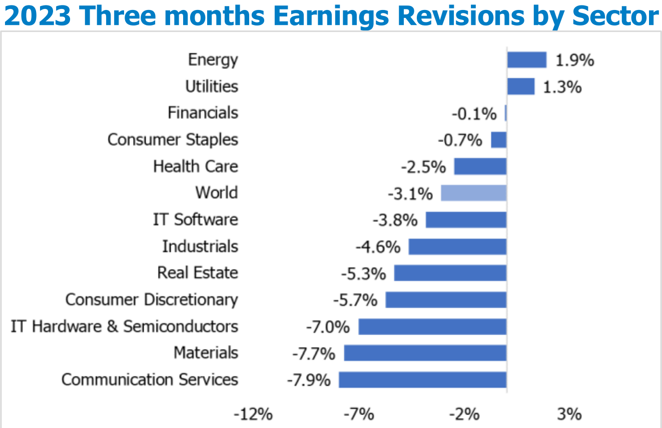
Global Earnings Expectations consistently getting downgraded



Source: Bloomberg, 30 November 2022

There has been a recent acceleration in cuts to global earnings forecasts, and we are now in one of the steepest downgrade cycles seen over recent years. However, analysts still appear to be behind the curve on earnings estimates for 2023, and we expect the trend to continue. Over the last three months, global earnings expectations have fallen by -3.1%, with negative revisions across across nearly all sectors. More defensive sectors such as Utilities, Consumer Staples and parts of Financials have held up relatively better, while downgrades are steep in more cyclical sectors such as Materials, Communications and Technology.

2023 Three months Earnings Revisions by Sector

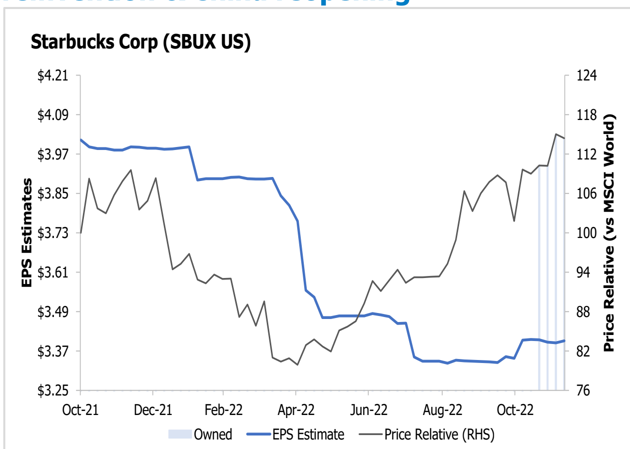


Source: Factset, 30 November 2022

The exception to this otherwise typical sector profile has been Energy, driven up by the oil price spike following the Russian war, but it's worth noting that at the current oil spot price ($78) current earnings expectations for the sector are too high ($95-$100 oil price baked in). Despite the global earnings cuts, bottom-up consensus still expects Earnings Per Share (EPS) growth for the MSCI World Index of +4.0% for 2023. This seems optimistic in the context of current strong headwinds to growth and margins. Our analysis and recent overseas trips continue to suggest that further earnings downgrades are likely over the next few months, especially as managements provide guidance for 2023.

Our portfolio is overall positioned as before, with our flagship defensive stocks a key component, combined with investing in very specific, idiosyncratic growth stocks. However, we made some portfolio changes during the month, based on our recent research trips and insights from the tail-end of the recent reporting season.

Starbucks – Benefiting from a US recovery, reinvention & China reopening



Source: Alphinity, Bloomberg, 30 November 2022

We sold out of the remaining position in Alphabet after weak third quarter earnings, which missed market expectations on both revenues and margins. Cyclical headwinds to advertising suggest earnings are likely to continue to be under pressure. We also divested Tesla as Elon Musk's private acquisition of Twitter was realised, with potentially negative spill-over implications for the Tesla stock and business. Our position had been kept relatively small due to the risk of emerging ESG concerns.

We initiated a position in Starbucks, which has turned the corner on earnings expectations, with plenty more upside from further normalisation in the US as well as increasingly likely re-opening in China. Other portfolio changes were at the margin – continuing to trim a few stocks which have done very well and are seeing rising market expectations (Keysight, UnitedHealth, Merck), as well as adding to positions where our investment case conviction is rising (Intuitive Surgical, Fortinet).

ESG Spot: COP27

The Conference of Parties (COP) is a convocation of world leaders that has been meeting almost annually over the last 30 years to discuss matters around climate change. COPs started in Brazil back in 1992 but the most famous was COP3 in Kyoto in 1997, from whence came the famous Kyoto Protocol. It really set the scene for people and governments to think seriously about climate change and how we can deal with emissions. At COP21, in 2016, the Paris Agreement entered into force, aiming to limit global warming to below 2^{O}C, and preferably no more than 1.5^{O}.

COP26 took place in Glasgow a year ago. It was meant to have been held in 2020 but was interrupted (like most things) by Covid. Nonetheless, COP26 finished on a high note, with much optimism and many new government commitments to secure net zero by 2050 or 2060. This optimism was quickly dispelled in the new year by the Ukraine war and consequent energy crisis.

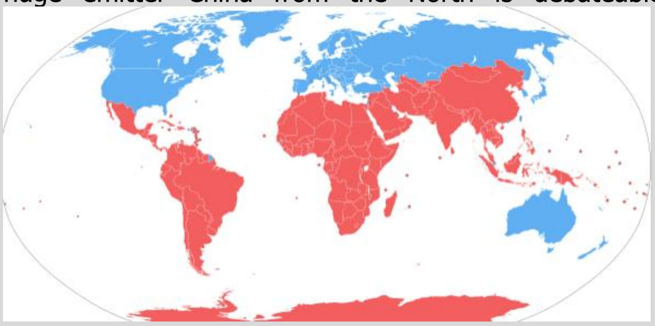
COP27 took place in November in Sharm El Sheikh, a resort town (above) on the Sinai Peninsula in Egypt. The tone of the meetings was quite different to COP26. Accelerating the energy transition is key to addressing the climate crisis, yet the transition also needs to be just, orderly and equitable, and the energy crisis this year has appeared to put that transition back a few steps. It meant oil, gas and coal prices jumped sharply, creating many losers and a few winners around the world. During 2022, even some of the more "progressive" European governments re-started coal-fired power stations and were looking at rejuvenating some of their old nuclear plants. On a temporary basis we hope, but who really knows how long the Ukraine situation might go on?

Glasgow had pointed to the importance of finance as a catalyst to drive progress on all aspects of the global climate agenda. Many parties demonstrated the political will to deliver on those finance commitments. But to support 2050 net zero goals (or 2060 or 2070 for China and India), achieving interim targets is becoming a vital challenge to achieving the aim.

Nonetheless, over the past year 29 countries have come forward with more stringent emissions reduction plans, including Australia which is now aiming for a 43% cut from 2005 levels by 2030, up from 28% previously. Progress in Asia was especially strong, with Indonesia and Thailand both announcing tighter emissions plans, and India calling for the phase down of all fossil fuels, not just thermal coal. All eyes however remain on the world's largest emitters, China and the US.

The Prime Minister of the Bahamas, Philip Davis, provided a stark example of how climate change is affecting vulnerable communities. He reckoned as much as 40% of his country's debt is directly linked to the impacts of climate change. This was largely incurred in the aftermath of Hurricane Dorian – the extremely powerful and catastrophic Category 5 Atlantic hurricane, the strongest ever known to hit the Bahamas – which caused billions of dollars of damage in 2019.

One of the major outcomes was agreement to look at creating a 'Loss & Damages' mechanism, essentially reparation payments to vulnerable island states and less-developed countries in order to fund the mitigation of climate impacts. There was broad acknowledgement by most COP27 participants that the highly industrialised world, known as the Global North, which built its wealth largely using fossil fuels over the past couple of centuries, should be held responsible for the financial impacts of climate change. Australia is an honorary member of the Global North, the blue countries shown below, sort of like Eurovision. Excluding the economic powerhouse and huge emitter China from the North is debateable.



Of course, the idea of reparations was not whole-heartedly embraced by the countries that would be required to fund them, but there aren't as many of those. Yet to be determined is whether it is historical emitters who will be responsible, or if it is the largest current heavy emitters and users of fossil fuels who should be held to account. Detail is still scarce, and the recommendations of those working on the mechanism will be put to COP28 in Dubai this time next year.

For further information, please contact:

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