Alphinity Global Sustainable Equity Fund

Quarterly Report December 2022

Performance[1]	3 months %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a.
Fund return (net)	1.5	4.3	-17.2	-	-	2.3
MSCI World Net Total Return Index (AUD)	4.1	4.4	-12.2	-	-	1.2
Excess return[2]	-2.5	-0.1	-5.0	-	-	1.1

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	$68m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%
Carbon Intensity (ave weighted)	78.7 (vs MSCI Benchmark 131.7)

Top 10 positions

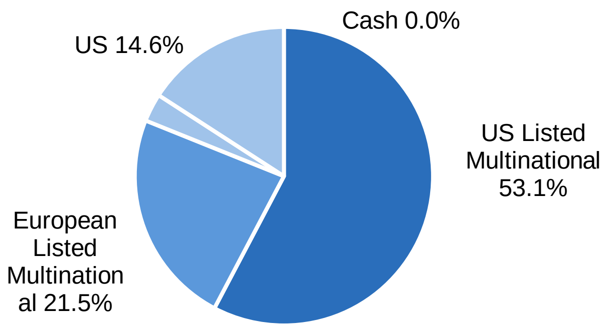
Company	Sector	%
Danaher	Health Care	6.0
Mastercard	Info. Technology	5.4
Waste Connections	Industrials	5.3
DBS Group	Financials	5.2
NextEra Energy Partners	Utilities	5.1
Essilor Luxottica	Consumer Disc	5.1
ASML	Info. Technology	5.0
Keysight	Info. Technology	4.9
Chubb	Financials	4.8
UnitedHealth Group	Health Care	4.3
Total		**50.9**

Data Source: Fidante Partners Limited, 31 December 2022

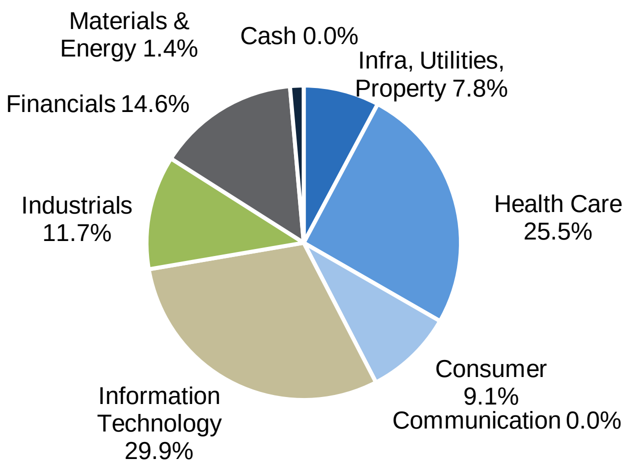
[1] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance.

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 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

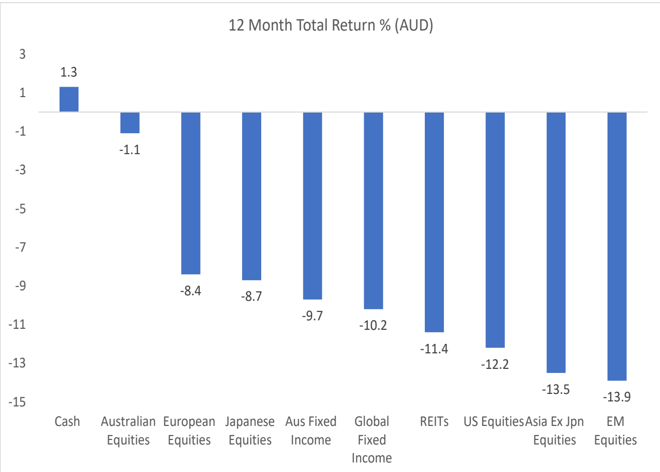


[2] Numbers may not add due to rounding.

Market Comment and outlook

Despite a pull-back in markets in December, the final quarter of 2022 was a positive one for equities as early signs of peaking inflation led to expectations that the pace of rate hikes may also have peaked. The surge in bond yields throughout 2022 also stabilised which supported equities, although even with a less hawkish Fed, the downgrades to global earnings forecasts continued to accelerate. The MSCI World Index gained 3.2% over the quarter in AUD terms, with the US underperforming (S&P 500 +1% in AUD) and technology stocks under pressure (Nasdaq -6.7% in AUD). Europe (Stoxx 600 +13%) was a standout performer, recouping some of the losses worn earlier in the year as energy prices retreated and stocks rebounded following the neighbouring war-led decline.

Asset Class Returns – 12 months to 31 December' 22



Source: Bloomberg, 31 December 2022

The rapid Chinese policy shift around re-opening post Covid lockdowns led to flows back into Hong Kong / China which, along with an 8% fall in the USD, drove gains in Emerging Markets. China and Hong Kong rose 7% and 21% respectively in November alone when the first signs of response pivoting became clear. China has continued to take measures to ease liquidity to boost a depressed property sector, although weak activity data suggests any easing policy measures are yet to ignite enthusiasm among investors.

The December quarter played out similarly to the rest of the year, with cyclical sectors that usually outperform in a rate hiking environment doing just that; Energy (+12%), Materials (+10%) and Financials (+9%) all outperforming while Consumer Discretionary (-8%), Communication Services (-6%) and Tech (-1%) were among the weakest performers. Large cap tech stocks were particularly weak, including Apple, Amazon and Microsoft where earnings and guidance were weaker than anticipated. Tesla fell 56% on a concern over weaker EV sales and price cuts in China, along with a CEO now distracted from the core business with the purchase of Twitter. Even with the backdrop of recession fears looming, commodities were generally stronger across the board with copper +9% and oil +6.5%.

Economic data continued to give mixed messages, on the one hand lower than expected CPI prints in October and November and an inline number for December was a relief that somewhat dampened rate hike expectations, while on the other hand jobs data was still healthy, with nonfarm payrolls printing above expectations three months in a row. It's difficult to see the US Federal Reserve pivoting too much until we see sustained lower inflation combined with evidence of weaker labour market, both of which are yet to materialise.

Global Earnings Expectations consistently getting downgraded

Source: Bloomberg, 31 December 2022

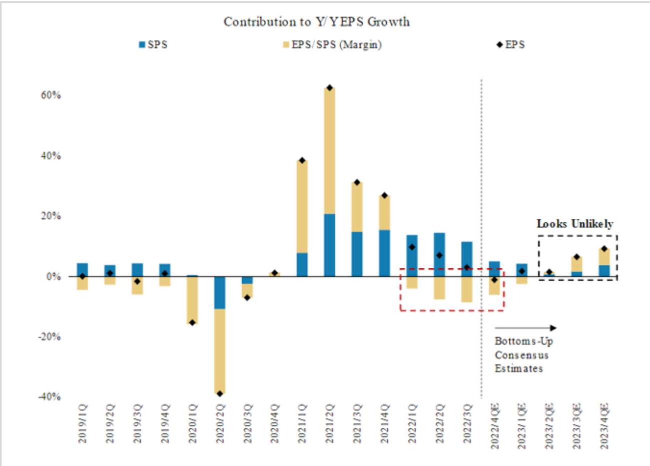
Portfolio comment and outlook

After a tumultuous last 18 months, the outlook remains challenging. Our central scenario is a transition from weaker economic growth and rising inflation, towards an environment where both growth and inflation will likely decline, which should drive further downgrades to earnings expectations, and at least a pause in central bank rate hikes. Financial markets are already beginning to discount this outcome; however, market leadership remains unclear given uncertainties remain around recession risks, downside in corporate earnings, the persistence of wage inflation and the impact of Chinese re-opening.

A reset in the outlook for earnings is one outstanding factor necessary to resolve new market leadership. Global earnings revisions are already sharply negative, falling -3.2% over the last three months, with nearly all sectors seeing downgrades. Previous leaders Technology and Communications are now clear laggards, and even Energy is now experiencing accelerating downgrades, although some defensive sectors like Utilities and Consumer Staples are holding up relatively better.

Our fundamental analysis and company meetings suggest that further earnings downgrades are likely, with margins potentially the biggest negative surprise. Consensus expects positive EPS growth in 2023 for the MSCI World Index (+2.8% y/y), including margin expansion, which looks unlikely.

Consensus margin and earnings expectations for 2023 look too optimistic



Source: Morgan Stanley Research

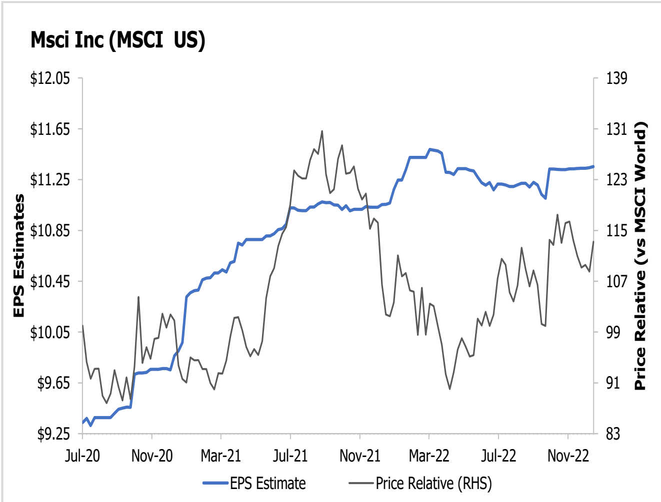
Positioning is largely unchanged with our defensive stocks remaining a key component of the portfolio, in combination with various specific, idiosyncratic growth stocks.

Key changes in the quarter included an exit of our remaining position in Alphabet after weak third quarter earnings. Cyclical headwinds to advertising suggest earnings are likely to continue to be under pressure. We also sold out of Prologis, Advanced Drainage and Kerry due to various growing earnings headwinds from the slowing economic cycle. Meanwhile, we chose to exit Tesla due to governance concerns surrounding Elon Musk's purchase of Twitter.

This capital was deployed into new positions in Intuitive Surgical and MSCI, both high quality, growth businesses with underappreciated, structural earnings tailwinds. Samsung SDI was another new inclusion, where we expect earnings upside driven by continued strength in demand for EV batteries. Elsewhere we continued to trim a few stocks which have done very well and are seeing rising market expectations (Keysight, UnitedHealth, Merck, Deutsche Boerse).

We intend to continue our focus on bottom-up, fundamental research, and are preparing for a range of potential future paths with a strong bench of new ideas.

MSCI Inc – Wide-moat, high margin business with strong secular growth drivers



Source: Alphinity, Bloomberg, 31 December 2022

What's on our mind – Alphinity 2022 ESG & Sustainability Report

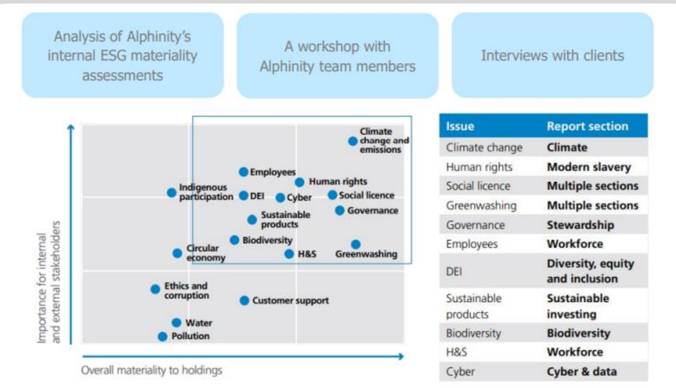
Summary: Alphinity released our second ESG and Sustainability report for the 2022 financial year. This report highlights key ESG and sustainability outcomes and achievements across all Alphinity funds including the Australian Share Fund, Concentrated Australian Share Fund, Australian Sustainable Share Fund, Global Equity Fund, and Global Sustainable Equity Fund

The report includes our approach to **sustainable investing, climate change, modern slavery, biodiversity, workplace culture and cybersecurity** as some of the **important ESG topics** raised through the year.

The report has been structured around a set of material issues. To identify the most material ESG issues we completed:

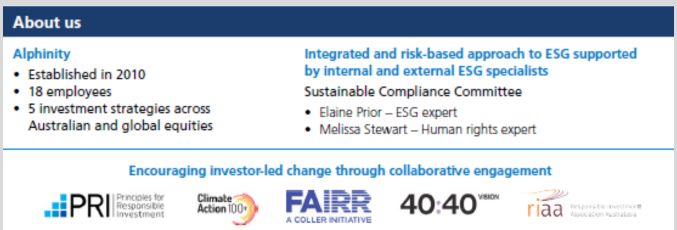
- Analysis of Alphinity's internal ESG materiality assessment and main data outputs
- A workshop with Alphinity team members in which each was asked to identify the most relevant ESG aspects for the firm's holdings and the investment process
- Interviews with clients to identify the ESG topics they would like to see included in this report

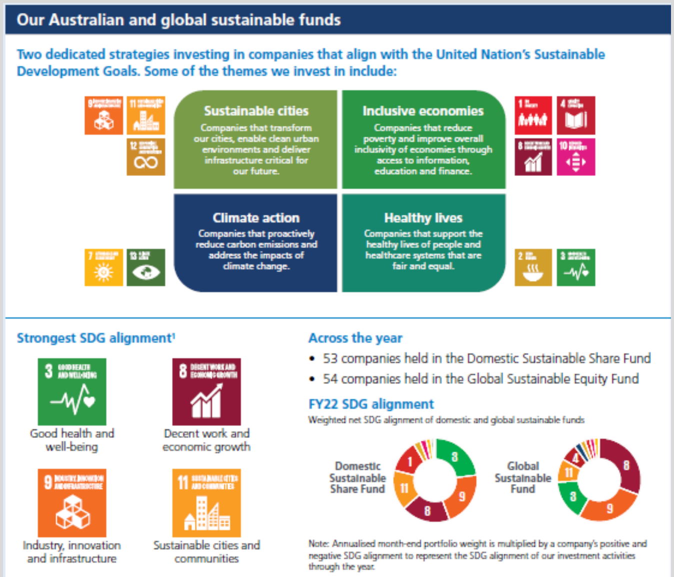
The outcomes of the above activities are shown below:



Issue	Report section
Climate change	Climate
Human rights	Modern slavery
Social licence	Multiple sections
Greenwashing	Multiple sections
Governance	Stewardship
Employees	Workforce
DEI	Diversity, equity and inclusion
Sustainable products	Sustainable investing
Biodiversity	Biodiversity
H&S	Workforce
Cyber	Cyber & data

FY22 highlights





Five pillars of responsible investing

Pillar	Goal	FY22 update
ESG INTEGRATION We integrate ESG factors into investment decision making	Use an ESG materiality process to identify ESG risks and opportunities for holdings	• We introduced an internal ESG risk level as an enhancement to our established ESG materiality process. This has been rolled out and integrated for our global business. Roll-out is ongoing for the Australian business. • Any stock assessed at the highest risk level of 'avoid' has not met our minimum ESG risk criteria and consequently is not considered for investment.
	Monitor ESG risks and opportunities and any influence on investment decision making	• We have included examples of ESG integration throughout this report. • We implemented a review process to formally review ESG risks and engagement at least twice annually.
STEWARDSHIP AND ACTIVE ENGAGEMENT We are active managers and focus on using our influence to encourage better ESG outcomes and reduce risk	Establish ESG engagement objectives and engage with holdings on an ongoing basis to reduce ESG risks	• We held 168 ESG-focused engagement meetings during this financial year. • We are developing engagement objectives for material ESG issues across our holdings.
	Vote all resolutions put to shareholders	• We voted on 100% of proposals put to shareholders.
THEMATICS We consider, research, and assess key sustainability thematics like climate change and modern slavery	Identify key sustainability thematics and undertake research as needed to inform broader views on ESG, sustainability, or for specific stocks	We undertook research for specific thematics including: • Workplace culture • Artificial intelligence • Sustainability of fertiliser • EU Taxonomy and 'gas as a transition fuel'
SUSTAINABLE STRATEGIES We have two dedicated sustainability strategies structured around the UNSDGs	Use a consistent and documented approach for the SDG analysis for the two sustainable funds	• We have developed sector-level assumptions for our SDG analysis process. • Our SDG alignment framework and carbon metrics were assured by KPMG. KPMG's limited assurance report is attached to this report. • We introduced a bi-annual review process of our SDG data with a member of the Sustainable Compliance Committee starting in July 2022.
	Report on SDG alignment for fund holdings	• Our FY22 weighted SDG alignment has been presented in this report, with the SDG alignment included in Appendix 2.
TRANSPARENCY We have a public ESG Policy and Stewardship Policy in place and disclose our proxy activities and portfolio holdings	Publish annual ESG and Sustainability Report	• We published our first ESG and Sustainability Report in October 2021. This is the second annual ESG and Sustainability Report.
	Review Responsible Investment policies and develop additional policies as needed	• The Alphinity Board approved three new responsible investment policies to replace the single ESG Policy that has been in place since 2012. The new policies include: - Stewardship Policy - ESG Policy • We have also published fact sheets. These include climate change, modern slavery, and our approach to the SDG analysis.

Please find a copy of the detailed note here: Alphinity-ESG-and-Sustainability-Report-2022-1.pdf (wpengine.com).
And a summary of the note in presentation format here: PowerPoint Presentation (wpengine.com)

For further information, please contact:

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