Alphinity Global Equity Fund (Managed Fund)

alphinity INVESTMENT MANAGEMENT

Monthly Report January 2023

Performance[1]	Quarter %	1 year %	3 years % p.a	5 years % p.a	7 years % p.a	Inception % p.a[2]
Fund return (net)	-2.2	-7.1	8.0	11.2	11.9	11.4
MSCI World Net Total Return Index (AUD)[3]	-0.5	-7.5	5.8	9.5	10.6	10.0
Excess return[4]	-1.7	0.3	2.2	1.7	1.3	1.4

Fund facts	
Portfolio managers	Jonas Palmqvist, Jeff Thomson, Trent Masters, Mary Manning, Chris Willcocks.
APIR code	HOW0164AU
ASX code	XALG
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	$338m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
LVMH Moet Henne	Consumer Disc	5.9
ASML	Info. Technology	4.4
Intuitive Surgical	Health Care	4.4
Chubb	Insurance	4.3
NextEra Energy	Utilities	4.3
Keysight	Info. Technology	4.2
Danaher	Health Care	4.2
McDonalds	Consumer Disc	4.1
Waste Connections	Industrials	4.0
L'Oreal	Consumer Staples	4.0
Total		**43.9**

Data Source: Fidante Partners Limited, 31 January 2023

[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

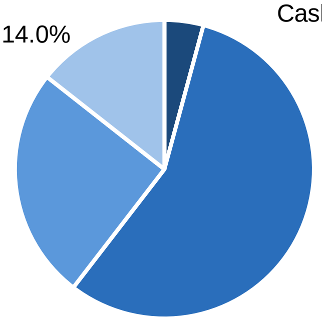
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

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.

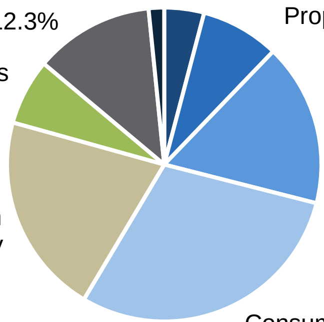
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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.

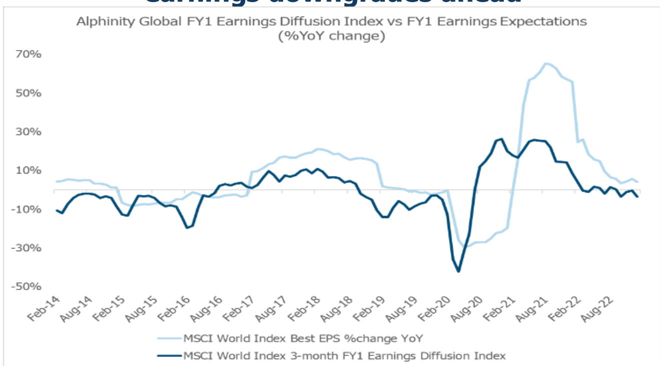
[4] Numbers may not add due to rounding

Portfolio comment and outlook

The market outlook remains volatile, and after a tumultuous 18 months, further significant change is likely in 2023. A central scenario is a period of weaker economic growth and declining inflation, 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 in flux given uncertainties around the downside in both economic growth and corporate earnings, the persistence of wage inflation, and the impact of Chinese re-opening.

During January, global earnings forecasts dropped by -1.5%. Noticeably, the US reporting season has been weaker than usual, with forward guidance from many companies also disappointing. Over the last three months, global earnings revisions have -1.8%, with most sectors seeing downgrades. Previous leaders Technology and Communications are now clear laggards, and Energy is seeing accelerating downgrades due to the lower oil price, although some defensive sectors like Utilities, Real Estate and Consumer Staples are holding up relatively better. A reset in the outlook for earnings is one outstanding factor necessary to fully resolve new market leadership.

Global Earnings Diffusion index suggest more earnings downgrades ahead



Source: Bloomberg, 5 February 2023

The overall portfolio positioning is largely unchanged, with our defensive flagship stocks remaining a key component, in combination with various specific growth stocks. Portfolio activity was limited during the month. We continued to trim a few stocks which have done very well and are seeing rising valuations and expectations, such as UnitedHealth and LVMH. We also trimmed Danaher on its current orderbook headwinds from post-Covid normalisation, as well as Apple after a quarterly report showing market expectations on key consumer products are still a bit too high. We added to our position in Starbucks on signals that the re-opening of China and return-to-office trend in the US is setting the company up for a positive 2023. We 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.

What's on our mind – Crossing the T's and Dotting the I's - Finding Earnings Upgraders for 2023

Tightening, Tanks, Trade Wars, Inflation and Interest rates. These were just some of the themes that dominated headlines and impacted equity markets during 2022. Many significant market factors changed during 2022 and is likely to change again during 2023.

"At Alphinity we invest in leading global companies at the right time in their earnings cycles. Whilst being aware of the broader market trends, our disciplined investment process guides us to "Cross the T's and Dot the I's" of each company. Bottom up.

In this note we share two examples of companies still enjoying earnings upgrades, regardless of a tough outlook for overall market earnings in 2023.

A tough outlook for global earnings - 2022 was a year when many significant market factors changed. Economic growth slowed, inflation increased, central banks increased interest rates, China re-entered lockdowns and Russia went to war. All impacting the earnings global companies can generate.

Mercado Libre (MELI) and Keysight (KEYS) are two portfolio stock examples of diverse global companies seeing earnings upgrades, despite the overall market being in a downcycle

MercadoLibre (MELI) – Eco-systemic philosophy creates huge competitive advantages in e-commerce and fintech - MELI is the largest online commerce ecosystem in Latin America, with 88 million active users across 15 countries. MELI's platform is designed to provide users with a complete portfolio of 6 integrated e-commerce and digital payment services.

Once a customer is in the MELI ecosystem, it's very easy to keep them and cross-sell different products. Looking ahead, we see additional upside from increased monetisation of its online marketplace through expanded value-added services such as advertising and payment verticals.

MELI's exposure to emerging market countries also adds regional and macro diversification to our portfolios. MELI's biggest market, Brazil, is currently ahead of the rest of the world in terms of macro. They have already raised interest rates 13 times, with the market now expecting cuts in 2023. Unemployment and inflation are also past peak levels. In contrast with ongoing rate hikes and slowing growth still expected for developed markets this year.

Visit our website for a copy of the full note: [Finding earnings leaders in 2023 - Alphinity]

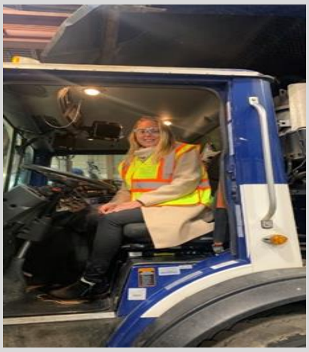
Traveller's Tale

While January is typically a month during which we think about beach holidays, one of our global PMs, Mary, decided instead to undertake a research trip to Canada, in the middle of its winter. She had a full schedule which included visiting a commercial waste hauling facility of

Waste Connections Inc, one of the holdings in our Global Equity and Global Sustainable Funds. Oh, the glamour of international funds management!

"What was she thinking?" many might say, but it turned out to be one of the more interesting parts of her trip. What is the one thing Waste could be more exciting than? Canadian banks, of course. Mary met with some of the largest Canadian banks and concluded that loan growth is decelerating, net interest margin expansion has plateaued, the housing market is in decline and credit costs and expenses are going up: not a great combination of factors.

Mary had to get there early in the morning as the first shift for waste collectors starts at 3am! Good thing there was lots of Tim Horton's coffee on hand while she met with management, including the President of the Canadian business and the Head of IR. She was then kitted out in the obligatory high-viz PPE before having a tour around the facility.



Mary learned about how the company uses technology to get significant safety, environmental and productivity improvements which, in an industry with a high workforce injury rate, this has made a tangible difference to many peoples' lives. She was also able to sit in a truck and see how the cameras and controls work, inside and out. She didn't actually drive the truck, as that definitely would have been against the company's Occupational Health & Safety policies!

After Toronto, Mary went to a technology conference in San Francisco. While the weather was definitely better than in Canada, the mood was noticeably sombre given all the lay-offs in the tech sector. While the conference was on, Google announced staff cuts of 12,000, which followed closely on the heels of Amazon and Microsoft reducing headcount by 10,000 and 18,000, respectively. While the outlook for tech workers at the former FANGMANs was dire, there was considerable buzz at the conference around Generative AI and ChatGPT. This seemed to lift the mood somewhat and has become a major driver of AI-related stock prices in the 1Q23.

Mary's final observation from her travels was about Starbucks, a core position in Alphinity's Global Fund: the line to get a Grande Latte at the airport was so long she almost missed her flight home. Yes, waiting in line for Starbucks might seem sacrilegious to Aussie coffee afficionados, but it was valid – if anecdotal – evidence of demand, and SBUX subsequently reported better-than-expected US comp sales exceeding 10%.

From waste to AI to coffee, and everything in between, it was a very insightful research trip!

For further information, please contact:

Fidante Partners Investor Services | p: 13 51 53 **| e:** info@fidante.com.au **| w:** www.fidante.com.au