

Alphinity Global Sustainable Equity Fund (Managed Fund)

Monthly Report January 2023

Performance ¹	3 months %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a.
Fund return (net)	-2.6	-0.3	-10.2	-	-	3.7
MSCI World Net Total Return Index (AUD)	-0.5	1.2	-7.5	-	-	3.0
Excess return ²	-2.1	-1.5	-2.8	-	-	0.7

Fund facts	
Portfolio managers	Jeff Thomson, Mary Manning, Jonas Palmqvist, Trent Masters, Chris Willcocks.
APIR code	HOW1000AU
ASX code	XASG
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	\$71m
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

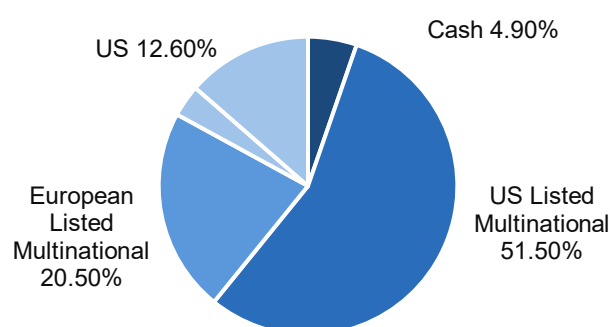
Company	Sector	%
Mastercard	Info. Technology	5.2
DBS Group	Financials	5.0
Waste Connections	Consumer Disc	5.0
NextEra Energy Partners	Utilities	4.8
Keysight	Info. Technology	4.8
Chubb	Financials	4.7
Essilor Luxottica	Consumer Disc	4.6
ASML	Info. Technology	4.6
Danaher	Health Care	4.4
Schneider Electric	Industrials	4.2
Total		47.1

Data Source: Fidante Partners Limited, 31 January 2023

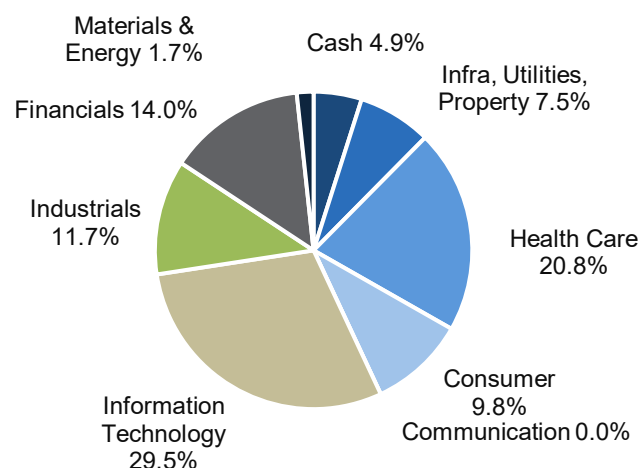
¹ Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance.

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



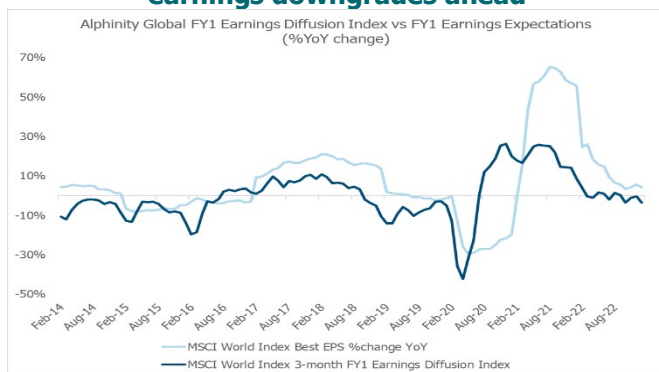
² Numbers may not add due to rounding.

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 -1.3%. 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, 3 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 ASML. 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. Finally, we also reduced our position in Deutsche Boerse, due to decelerating tailwinds to earnings with rates peaking and volatility reducing. 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 – 2022 ESG recap

It has been an eventful year for Alphinity – a productive one for the ESG and Sustainability team especially

We published seven articles, produced six videos, conducted deep-dive research and shared our views on responsible investment through many webinars and events in the financial community. We attended conferences around Australia and internationally to expand our perspectives, looking to peers in Europe who are leading the drive towards sustainable finance.

We strengthened our engagement efforts with third-party experts, industry organisations and academics to gain a more complete view on ESG thematic, which can be very complex at times. Expanding our collaborative engagement activities, we joined two new initiatives related to antimicrobial resistance and human rights in the Australian mining sector. Building on our knowledge base, we held nine internal ESG teach-ins covering topics such as biodiversity, circular economy, COP27 and human capital.

While we feel we accomplished a great deal in 2022, we still have many exciting projects up our sleeves going into 2023. With ESG issues maturing and becoming more visible, we know that we need to keep up to date with best practice. But, before we dive into the new year, we share below a recap of ESG in 2022.

ESG Highlights:

We published Alphinity's second [ESG and Sustainability Report](#)

This year, we replaced our existing ESG policy with a suite of new policies and documents:

- ESG Policy
- Stewardship Policy
- Climate Change Statement
- Separate factsheets: Modern Slavery & Sustainable Investing.

2023: Looking ahead:

It is clear that ESG and sustainability is now more than just a "nice to have".

Important areas of research going into 2023 will include climate change, biodiversity, cybersecurity, changing ESG regulation, greenwashing risk and people (including workplace culture, inclusion, labour management, health and safety).

Please visit our website for a copy of the full note: [2022 ESG recap - 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 layoffs 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 aficionados, 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!

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This material has been prepared by Alphinity Investment Management Limited (ABN 94 002 835 592, AFSL 234668) Alphinity, the investment manager of the Alphinity Global Sustainable Equity Fund. Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (**Challenger Group**) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. Alphinity and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, Alphinity and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the *Banking Act 1959* (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (**Challenger ADI**) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular