Alphinity Global Equity Fund (Managed Fund)

alphinity INVESTMENT MANAGEMENT

Monthly Report February 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)	-2.3	1.1	9.9	11.6	12.6	11.5
MSCI World Net Total Return Index (AUD)[3]	-0.6	-0.3	8.3	10.0	11.2	10.1
Excess return[4]	-1.7	1.4	1.6	1.5	1.4	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	$352m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
LVMH Moet Henne	Consumer Disc	5.3
Fortinet	Info. Technology	4.8
NextEra Energy	Utilities	4.7
ASML	Info. Technology	4.6
Danaher	Health Care	4.5
Waste Connections	Industrials	4.4
Mercado Libre	Consumer Disc	4.2
Intuitive Surgical	Health Care	4.2
Zoetis	Health Care	4.0
Chubb	Insurance	4.0
Total		**44.7**

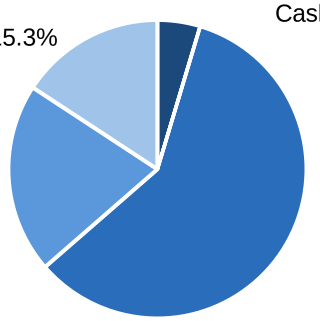
Data Source: Fidante Partners Limited, 28 February 2023

[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.

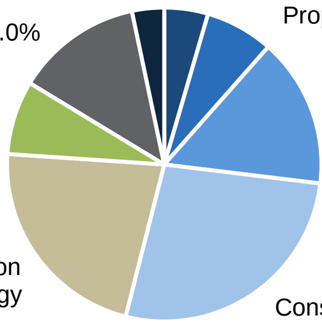
[2] The inception date for the Fund is 21 December 2015

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.

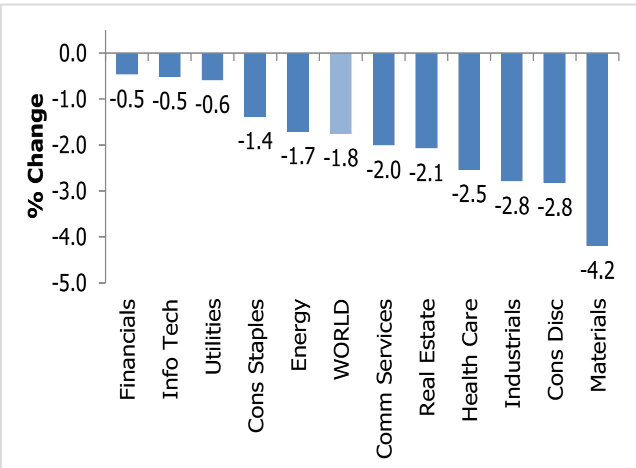
[4] Numbers may not add due to rounding

Portfolio comment and outlook

The market outlook continues to be uncertain and volatile. Our central scenario remains 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. However tail risks around this outlook remain, including stickier inflation and a higher-than-expected peak in rates. Consequently, market leadership remains unclear, with significant questions persisting around the ultimate magnitude of downside in both economic growth and corporate earnings.

Reported Earnings Per Share (EPS) in the US fourth quarter reporting season was broadly in-line with sharply lowered expectations, however concerns around the outlook for margins, and generally cautious forward guidance from management, have prompted analysts to continue lowering estimates for 2023. Global earnings consensus has fallen by -1.8% over the last month and -3.1% over the last three months, with most sectors seeing negative revisions. Defensive sectors continue to mostly outperform, with Energy, IT Hardware and Materials experiencing the sharpest downgrades and Utilities, Financials and IT Software holding up relatively well. A full reset in the outlook for earnings continues to be one of the outstanding factors necessary to resolve new market leadership.

4 Week – 2023 EPS Revisions – Broad-based downgrades across all sectors



Source: Alphinity, Bloomberg, 2 March 2023

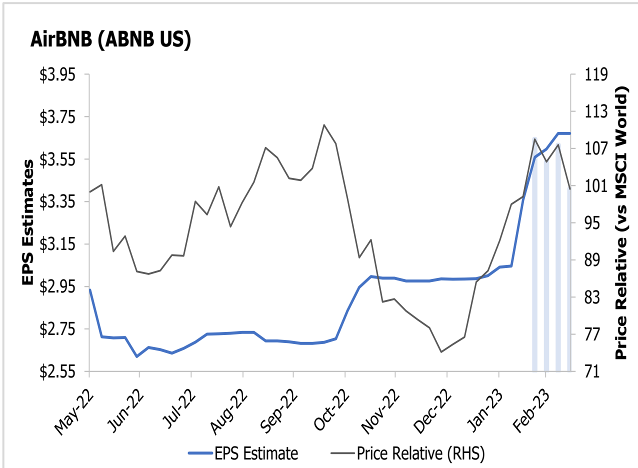
The investment team has continued to travel extensively this year, and company meetings across a wide range of sectors have generally supported our view that further earnings downgrades across the overall market are still the most likely outcome, with margins potentially the biggest negative surprise. Consensus still expects positive EPS growth in 2023 for the MSCI World Index (+1.5% y/y), including margin expansion, which looks unlikely. Nonetheless, we are now more than 18 months past the earnings cycle peak and have entered a phase of broad analyst downgrades (diffusion). Historical analysis shows that our Alphinity Global Diffusion Index typically bottoms 3-6 months before actual earnings revisions, and this is usually associated with new, cyclical leadership.

Overall portfolio positioning is largely unchanged, with our defensive flagship stocks remaining a key component, in combination with various specific growth stocks. Activity during the month was driven mainly by idiosyncratic factors.

We chose to exit positions in Merck and Nestle, with both having performed relatively well in a difficult market environment, but where we view the risk-reward as increasingly unfavourable in the context of rising valuations and expectations. A new position was initiated in Airbnb, which is a leading, scalable, asset-light growth business trading at an attractive valuation. We also invested in Freeport McMoran as we expect strong operational execution and rising copper prices to continue driving positive earnings revisions.

Elsewhere we trimmed a long-held position in American Tower to reflect persistent rate headwinds and took some profit in Mercedes and LVMH after a period of particularly strong performance. Keysight and Chubb were also trimmed to recognise some emerging risks to earnings. 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.

AirBnB – benefiting from a travel growth trend remaining intact & lengthening booking window



Source: Alphinity, Bloomberg, 2 March 2023

new, cyclical leadership.

What's on our mind – 5 Themes & 5 Stocks for 2023

The bulls took charge of global equity markets at the start of the year on Fed-pivot hopes and China reopening excitement. As we head into the third month of 2023, the bears are starting to wrestle for control, as scepticism over the sustainability of the rally continues to increase.

There are many themes playing out in this tug of war, as is normally the case in global markets. Not only top-down macro and political themes, but also bottom-up, regional, sector and stock specific themes. At Alphinity we invest in high quality companies identified as undervalued and in an earnings upgrade cycle.

In this note we share five themes we expect will have implications for global equity returns this year and 5 stocks to position for each of these.

5 Thematics for 2023

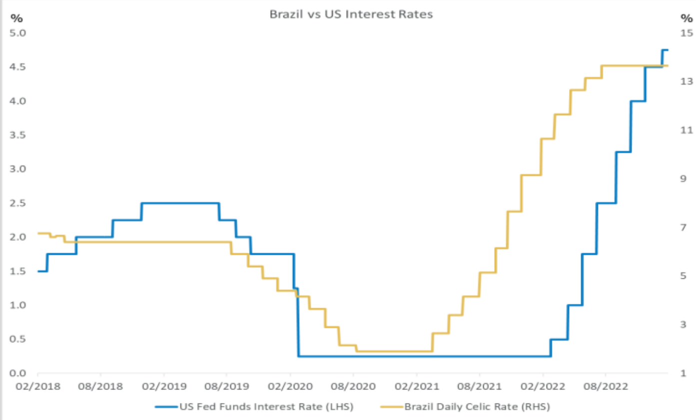
Thematic	Comment	Stock Examples
EM macro ahead of DM	LatAm and other EM countries are ahead of most DM countries on inflation and interest rates. Creates cyclical opportunities and portfolio diversification opportunities.	mercado libre, pepsi, Nestlé
China reopening cadence	China reopening is a known known but the cadence of opening is nuanced and has important implications	LVMH, Starbucks, Freeport-McMoRan
Europe better than feared	The European economic cycle and energy situation is better than feared this winter. We have started looking at EU banks for the first time in a while.	Mercedes-Benz, ING, Schneider Electric
The IRA (Inflation Reduction Act) is a game changer	Most important piece of legislation to come out of the US in many years. EU IRA may follow.	Samsung SDI, NextEra Energy
Is FAANGMAN dead?	...or just resting before the next big market cycle for large cap tech?	Microsoft, amazon

Source: Alphinity, February 2023

Theme 1: Emerging market macro is ahead of Developed markets.

Some of the more vulnerable economies were impacted earlier and more severely by the COVID-19 pandemic, which required a faster and more aggressive reaction. Latin-American economies, such as Brazil, hiked interest rates 12 consecutive times between February'21 and September'22, with the market now expecting the first rate cut in November'23. Inflation and unemployment are also past peak levels, supporting consumer and business confidence.

Brazil started hiking rates well ahead of the US



Source: Bloomberg, February 2023

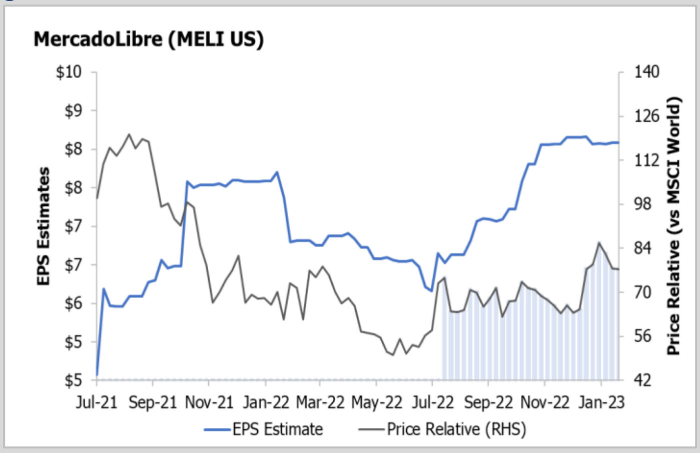
MercadoLibre (MELI): Eco-system model creates huge competitive advantages

MELI is the largest e-commerce and fintech eco-system company in Latin America. Its integrated platform is designed to provide users with a complete portfolio of services, ranging from an extensive marketplace, payment and credit solutions to logistics and advertising.

Their recent 4Q22 result again reflected impressive revenue growth, fantastic operating margin expansion and market share gains across key businesses. MELI is also well positioned to benefit from competitor, Americanas' (with a c15-17% market share) demise.

MELI is a high-quality company with strong earnings growth, which we view as attractively valued at 40x FY24 price/earnings.

Enjoying positive momentum in revenue & earnings growth



Source: Bloomberg, Alphinity February 2023

Please visit our website for a copy of the full note: [Five themes and Five Stocks for 2023 - Alphinity]

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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 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 rate of return on your investments are not guaranteed by any member of the Challenger Group.