

Alphinity Global Sustainable Equity Fund (Managed Fund)

Monthly Report February 2023

Performance ¹	3 months %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a.
Fund return (net)	-3.1	3.5	-2.0	-	-	4.2
MSCI World Net Total Return Index (AUD)	-0.6	5.8	-0.3	-	-	4.0
Excess return ²	-2.5	-2.3	-1.7	-	-	0.1

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	\$73m
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

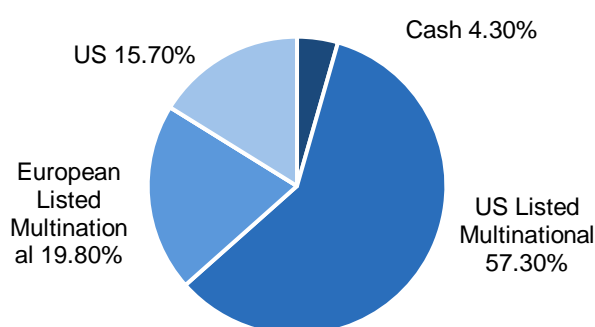
Company	Sector	%
Waste Connections	Industrials	5.3
Essilor Luxottica	Consumer Disc	4.8
Mastercard	Financials	4.7
Danaher	Health Care	4.6
MercadoLibre	Consumer Disc	4.5
Schneider Electric	Industrials	4.4
ASML	Info. Technology	4.4
NextEra Energy Partners	Utilities	4.4
Fortinet	Info. Technology	4.4
Keysight	Info. Technology	4.2
Total		45.8

Data Source: Fidante Partners Limited, 28 February 2023

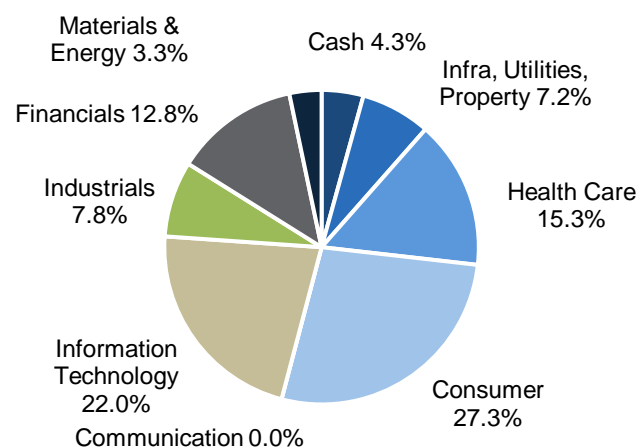
¹ Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance.

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



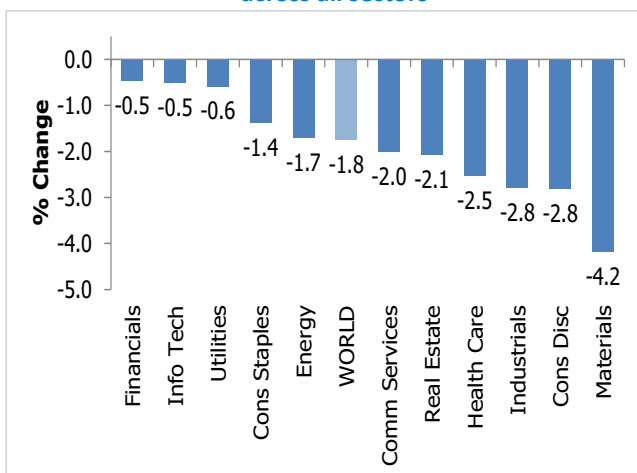
² Numbers may not add due to rounding.

Portfolio comment and outlook

The market outlook 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

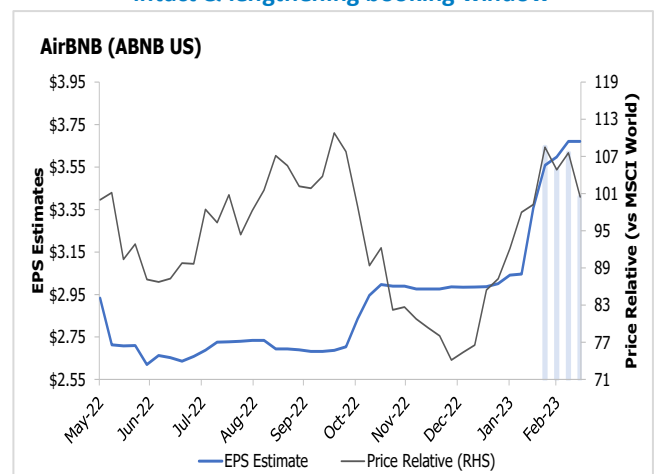
The investment team has continued to travel extensively this year, and company meetings across a wide range of sectors have generally supported our view that further earnings downgrades across the overall market are still the most likely outcome, with margins potentially the biggest negative surprise. 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, 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 ING, a high-quality European retail bank, enjoying earnings upgrades from higher NII and lower than expected credit costs.

Elsewhere we trimmed a long-held position in American Tower to reflect persistent rate headwinds and took some profit in Mercedes and OnSemiconductor 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












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.	  
China reopening cadence	China reopening is a known known but the cadence of opening is nuanced and has important implications	 
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.	 
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.	 
Is FAANGMAN dead?	...or just resting before the next big market cycle for large cap tech?	 

Source: Alphinity, February 2023

Theme 3: Europe is doing better than feared

If we cast our minds back to the beginning of 2022, the outlook for Europe was particularly gloomy. The Russian/Ukraine war added extra fuel to the supply chain constraints and slowing growth fires. Recent economic data points from manufacturing, to inflation, employment and business activity are all coming through better than

feared. Raising hopes that the ECB may be able to hike rates less aggressively and Europe can avoid a recession

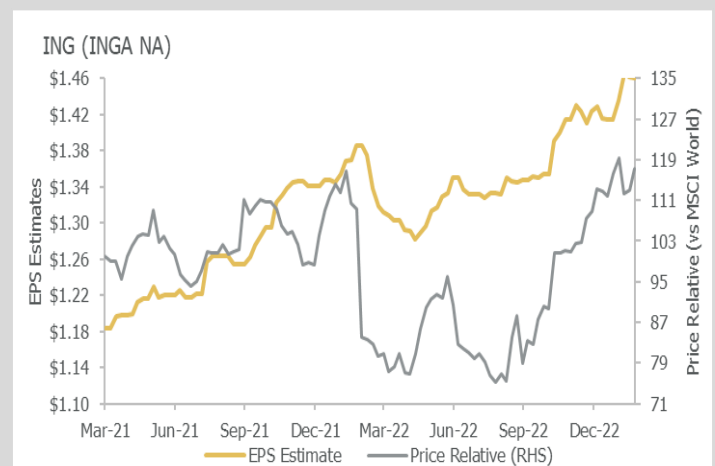
ING Groep (ING) – Best in class European retail bank benefiting from higher rates:

ING is a European retail bank and international wholesale bank, servicing approximately 40 million customers across 40 countries worldwide and is a well-recognised digital banking leader.

Looking ahead, we see a potential for Net Interest Income to significantly beat expectations in FY23/24, while credit costs can surprise to the downside in a better than feared macro scenario. Finally, INGA has a strong balance sheet that can deliver higher capital returns for shareholders.

ING offers an attractive combination of resilient earnings growth and an above average forward dividend yield (>7%), which is not fully reflected in current valuations (PE 8.5x forward).

ING – European banks enjoying EPS upgrades again



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

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