Alphinity Global Equity Fund (Managed Fund)

Monthly Report April 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)	8.0	11.4	13.5	12.4	13.8	12.1
MSCI World Net Total Return Index (AUD)[3]	9.2	11.0	12.7	11.1	12.0	10.9
Excess return[4]	-1.2	0.4	0.8	1.3	1.8	1.2

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	$379m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
LVMH Moet Henne	Consumer Disc	5.4
Microsoft	Info. Technology	5.0
NextEra Energy	Utilities	4.6
Mercado Libre	Consumer Disc	4.3
Waste Connections	Industrials	4.2
L'Oreal	Consumer Staples	4.2
PepsiCo	Consumer Staples	4.2
Zoetis	Health Care	4.0
Starbucks	Consumer Disc	3.8
ASML	Info. Technology	3.7
Total		**43.3**

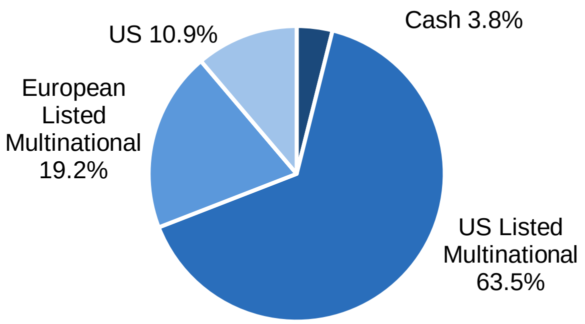
Data Source: Fidante Partners Limited, 30 April 2023

[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.

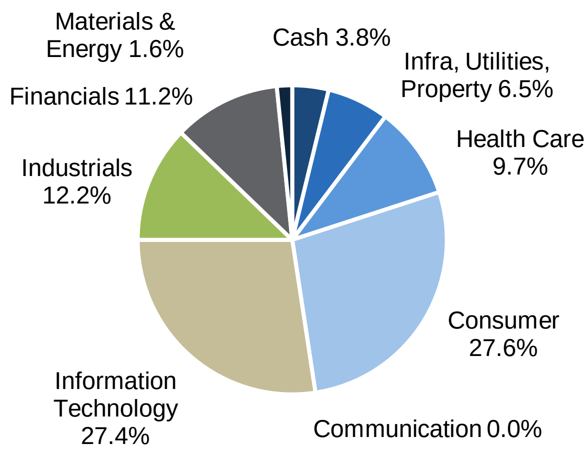
[2] The inception date for the Fund is 21 December 2015

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



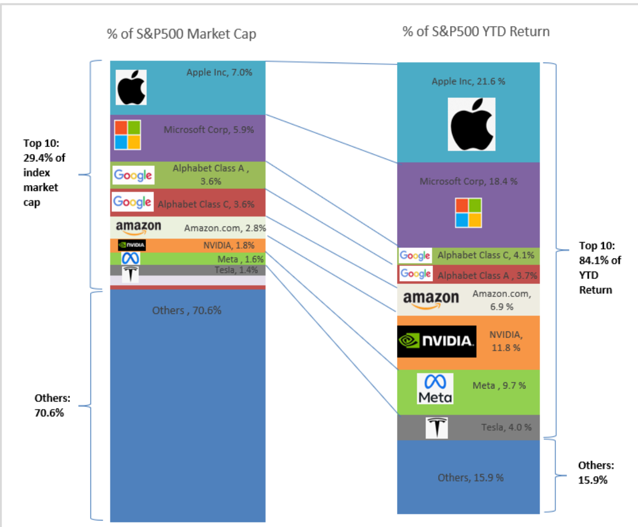
[3] From 21 December 2015 to 30 April 2019, the Benchmark was the MSCI World Equity ex Australia (Net) Index. The current index is effective from 1 April 2019.

[4] Numbers may not add due to rounding

Market comment and outlook

Equity markets shrugged off risks of a broader credit crunch amid further US regional bank failures, and continued to strengthen in April, with the MSCI World Index gaining 2.9% in AUD terms. Global markets have rallied this year despite recession fears, although market breadth has been worryingly narrow in the US, with two stocks (Apple and Microsoft) now accounting for 13% of the entire US S&P 500 index, and 7 mega-cap Tech stocks doing the heavy lifting, contributing over 90% of the US performance this year. A strong rebound in Europe (Stoxx 600 Index +16% this year) helped further push out relative performance of developed over emerging markets, with volatility in Hong Kong and China and doubts of China's recovery path out of Covid weighing on performance.

Market Breadth has been incredibly narrow YTD – Top10 stocks delivered 84% of the YTD returns



Source: Bloomberg, 30 April 2023

On a global sector level, Consumer Staples (+5.2%), Energy (+5.1%) and Healthcare (+4.7%) were the strongest performers, while Materials (+0.5%) and Tech (+1.1%) relatively underperformed. The US and European reporting seasons were reasonably solid, beating lowered expectations and leading to small upward revisions. This, along with inflation expectations coming off and bond yields stabilising, was enough to sustain the 2023 rally thus far. US 10-year bond yields fell 4 basis points to 3.42%, leading to a recovery in US housing stocks with the S&P 500 Homebuilders index +10% in April. Another emerging tech theme was the degree to which generative AI could benefit companies, and while management at most firms struggled to quantify the benefit, Microsoft (+6.6%) talked of 1% growth in cloud coming from early AI use cases, and its Azure cloud business came in at the high end of its guidance

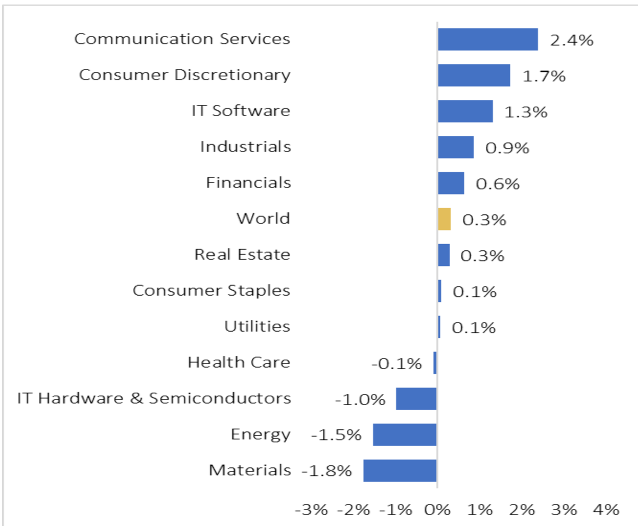
Economic data was generally weaker, with consensus earnings forecasts potentially not lowering enough to factor in a recession. An inverted yield curve, weaker global trade data (particularly from China) and rapidly declining money supply growth in the US suggest that markets may have not fully priced in this outcome, both in terms of price performance and earnings forecasts. US CPI continued to moderate slightly, with April numbers at 4.9% YoY vs 5.0% expectations, suggesting the rate hike cycle has largely played out.

Portfolio comment and outlook

A major part of the first quarter reporting season is now behind us, and whilst earnings growth remains negative (around -3% y/y in both US and Europe), more companies delivered positive surprises for this quarter. 70-80% of companies delivered a "beat" compared to expectations, and even though forward guidance wasn't as positive, we still saw net small upgrades for 2023 earnings expectations during April, +0.3% for MSCI World. On a sector basis, we saw a clear lift in earnings revisions for previous laggards Communications, Consumer Discretionary and IT Software. Cyclical sectors Materials and Energy saw the biggest downgrades during the month.

2024 forecasts still saw small downgrades (-0.2%), and we don't see this quarter as a convincing 'bottoming' of the global earnings cycle, but we think it's worth keeping in mind that we are now 20 months past the earnings cycle peak and have entered the phase of broad downgrades across most sectors and analysts, which historically has preceded more positive cycles.

2023 One-month Earnings Revisions – Small upgrades post a better-than-expected 1Q23 earnings season



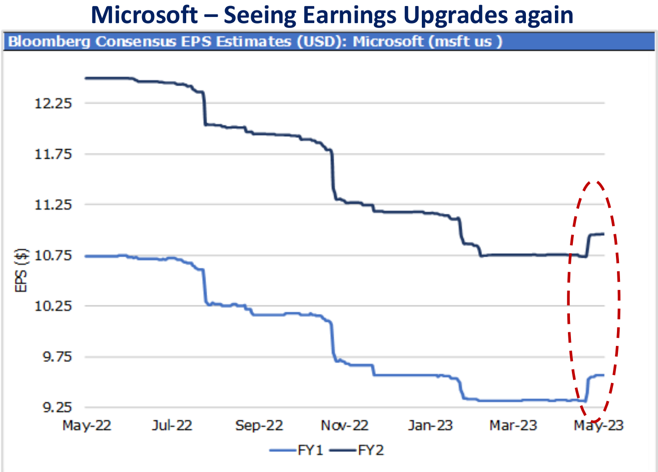
Source: Bloomberg, 30 April 2023

The recent banking turbulence in the US and Europe added market volatility and clouded the economic outlook. While we currently view systemic risks within the banking sector as relatively limited, the ultimate implications for growth, monetary policy and financial markets are still unclear. Our central scenario remains a period of weaker economic growth and modestly declining inflation, which could drive some further downgrades to earnings expectations, and at least a pause in central bank rate hikes. However, we acknowledge that there are significant tail risks around this outlook, ranging from stickier inflation and a higher-than-expected peak in rates, to a sharp pivot in monetary policy and an eventual cyclical recovery.

We made some changes to the portfolio during the month, largely driven by investment cases from our 'bench of potential ideas' now making an entry and financed by trimming or selling positions where updated views are more negative following the reporting season. Microsoft, which was sold in the middle of 2022, was added to the portfolio, as it delivered surprising strength across most of the business, and we believe they have turned a corner versus market expectations. We also added Cadence Design Systems (tech) and Marsh & McLennan (financials) to the portfolio, both relatively idiosyncratic growth companies delivering continued earnings upgrades.

As a result of weaker and more uncertain outlooks, we divested Danaher, Albemarle and Wells Fargo during the month. Mercedes-Benz was also divested, as the stock had recovered well and we have some concerns about the longevity of the auto cycle. Other portfolio changes were marginal, including adding to Pepsi and Sandvik (strong reports), as well as trimming Fortinet, ASML and Intuitive Surgical (taking some profits). Overall, the portfolio continues to be positioned in strong growth stories combined with some flagship defensives and remains less invested in cyclical stocks.

Microsoft – Seeing Earnings Upgrades again



Source: Alphinity, Bloomberg, 30 April 2023

What's on our mind – Defensive Darlings demanding their place – McDonalds and PepsiCo

Contrary to expectations, global equities have rallied since the first banking stress surfaced in the US during March. This year's rally in US stocks has been incredibly narrow and dependent on multiple expansion, with earnings revisions remaining negative. The percentage of stocks outperforming the S&P500 index is now the lowest since 2005. For example, the top 10 stocks in the S&P500 only account for 29.4% of the index weight, however contributed 84.1% of year-to-date returns. This sharp decline in breadth has historically been a signal of elevated risks for large drawdowns or subsequent lower than average returns for the index.

Amid elevated two-sided macro risks, high quality defensive stocks demand a place in a portfolio

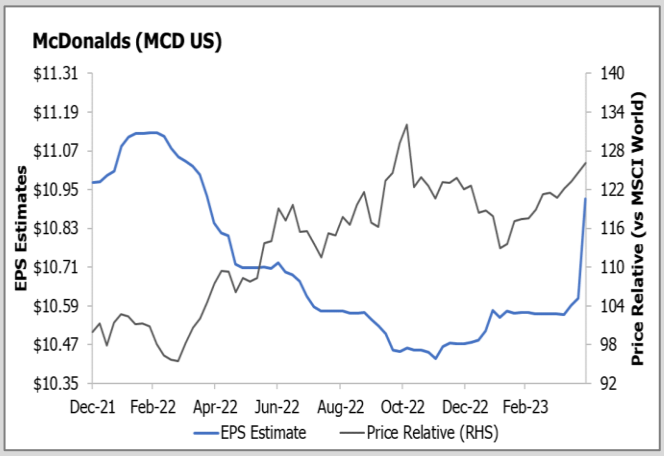
Amid heightened macro uncertainty, we believe a diversified portfolio of high-quality companies with idiosyncratic investment cases offer investors a level of protection against unexpected market moves. Two defensive darlings that continue to demand a position in our portfolio are global consumer conglomerates, McDonalds, and PepsiCo.

McDonald's Corporation (MCD) – One of the most impressive brands and franchises in the world

McDonald's is one of is the largest restaurant chains in the world by sales and the leading burger fast food chain, with a mostly franchised system spanning over 120 countries. In our view, MCD is one of the most impressive brands and franchises in the world and management's execution is second to none.

Despite volatility in global markets, MCD delivered another excellent set of results with both 1Q23 sales and earnings beating consensus expectations. Global same-store sales growth increased by 12.6% on strength across all segments and adjusted operating margin expanded by 290bps to 46%. In addition, management reiterated their FY23 guidance despite their expectation of a mild recession as they remain "laser focused on executing on strategic growth pillars."

MCD – Enjoying strong earnings upgrades on stronger growth and continued execution



Source: Alphinity, Bloomberg, 1 May 2023

For a copy of the full note, please visit our website: [Defensive darlings demanding their place – McDonalds & PepsiCo - Alphinity]

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