Alphinity Global Sustainable Equity Fund (Managed Fund)

Monthly Report April 2023

Performance[1]	3 months %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a.
Fund return (net)	4.9	2.1	5.3	-	-	5.8
MSCI World Net Total Return Index (AUD)	9.2	8.6	11.0	-	-	7.5
Excess return[2]	-4.3	-6.5	-5.6	-	-	-1.7

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	$80m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%
Carbon Intensity (ave weighted)	84.3 (vs MSCI Benchmark 133)

Top 10 positions

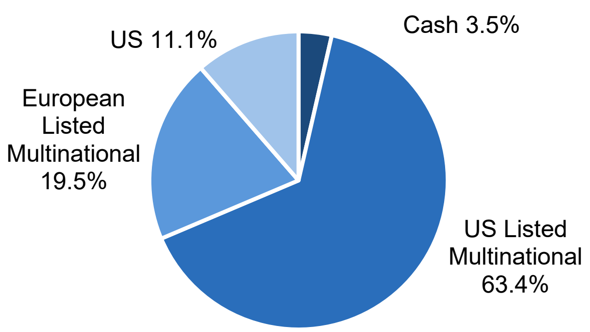
Company	Sector	%
Mastercard	Financials	5.3
Microsoft	Info. Technology	5.2
Essilor Luxottica	Consumer Disc	5.1
MercadoLibre	Consumer Disc	4.8
Waste Connections	Industrials	4.7
Keysight	Info. Technology	4.4
Schneider Electric	Industrials	4.0
Samsung SDI	Consumer Disc	3.9
Agilent Technologies	Info. Technology	3.9
Accenture	Info. Technology	3.8
Total		**45.1**

Data Source: Fidante Partners Limited, 30 April 2023

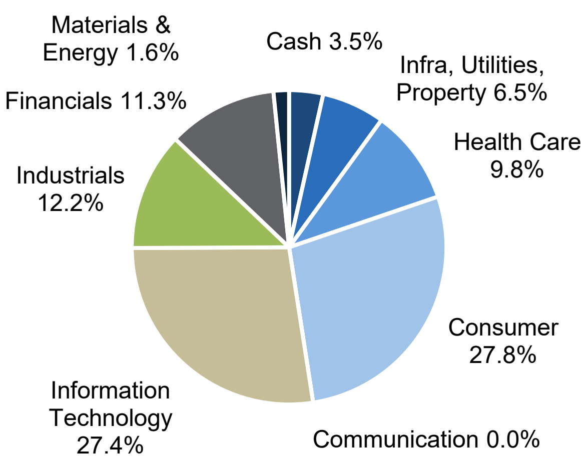
[1] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance.

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

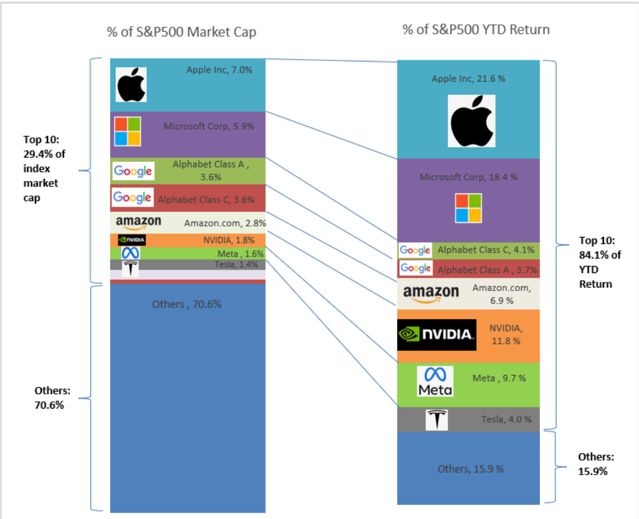


[2] Numbers may not add due to rounding.

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 actually 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

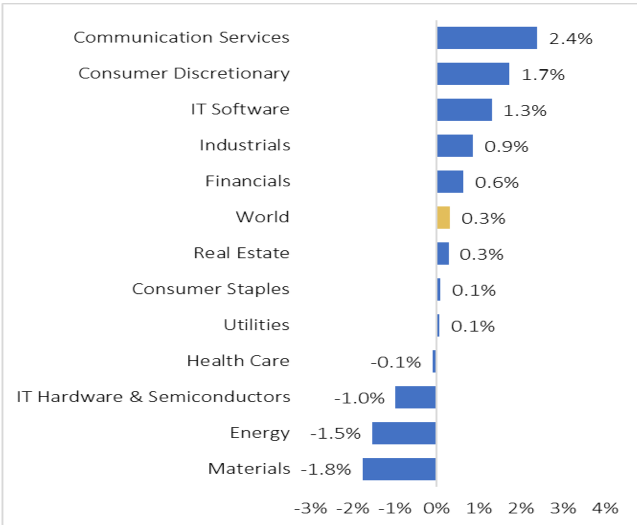
Economic data was generally weaker, with consensus earnings forecasts potentially not lowering enough to factor in a recession. An inverted yield curve, weaker global trade data (particularly from China) and rapidly declining money supply growth in the US suggest that markets may have not fully priced 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



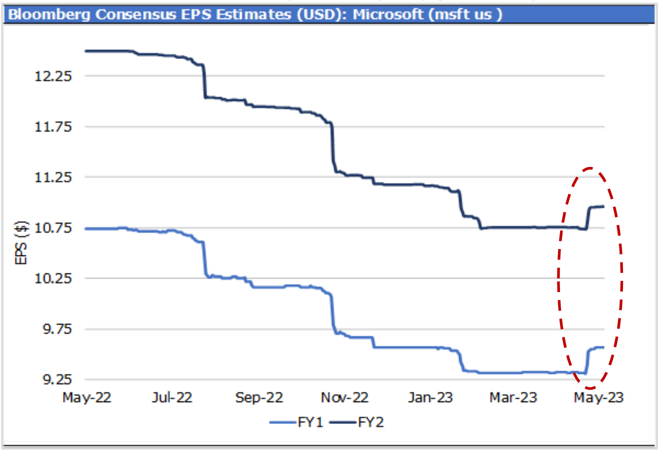
Source: Bloomberg, 30 April 2023

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) to the portfolio, a relatively idiosyncratic growth company delivering continued earnings upgrades.

As a result of weaker and more uncertain outlooks, we divested Danaher and Albemarle during the month. Other portfolio changes were marginal, including trimming Fortinet, ASML, Accenture and Deutshe Boerse (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 – The implications of AI across sectors and against 6 key ESG considerations

Alphinity has partnered with CSIRO, Australia's premier national scientific research agency, to develop a Responsible AI (R-AI) Framework for investors that will be published in a joint report later this year. The scoping assessment and insights outlined in this note will be used to inform this broader R-AI project. Further information and insights from the completion of this project will be published throughout the year.

Introduction: There are many benefits to artificial intelligence (AI): it can make fast work of huge amounts of data, speed up processes, and collaborate with humans to provide a better outcome than either could create on its own. However, if not done responsibly, the development of AI technology can come with significant risks.

The launch of ChatGPT has led to an explosion of attention and commentary on the topic in recent months. It has been celebrated because of its ability to instantaneously consolidate research and construct text as a person might, potentially saving huge amount of time for students, researchers, and writers. But, at the same time, it has been criticised for not always having up to date or correct information, threatening other parties' Intellectual Property, and posing a threat to jobs and industries.

In 2022, at least 35% of companies report using AI in their business, and a further 42% reported they are exploring AI (source: IBM Global AI Adoption Index 2022). In our view, looking at the risks associated with AI through just a technology lens, this only tells part of the story. We also need to look closely at the users of AI and examine ways in which it might present business-related threats and opportunities or have broader system wide impacts on certain sectors.

Scoping assessment to identify risks by sector: To help us better understand the various threats and opportunities for AI developers and users, we have completed a scoping exercise to identify the range of AI applications, threats and opportunities, and materiality of ESG considerations by sector. The outcomes of this assessment will help guide further analysis for particular sectors and identify focus areas for our research project with CSIRO.

Applications, threat and opportunities: The following table summarises the primary applications, internal business considerations, and external system-wide considerations that we found across sectors.

Applications	Internal business considerations		External system wide considerations	
	Threats	Opportunities	Threats	Opportunities
• Product development • Research and innovation • Supply chain management • Risk management • Business analytics • Customer service • Predictive maintenance • Automation • Security, fraud and threat detection • Education	• Cybersecurity and data privacy considerations • Public trust / reputation and social licence • Regulatory and legal fines (data privacy) • Impacts to employee satisfaction and turnover • Loss of differentiated performance (convergence of AI technologies) • Lack of transparency and accountability • Inaccurate outcomes or results	• New products and services • Cost savings and increased profits • Improved productivity, operational efficiency, strategy development, and business outcomes • Improved risk management • Enhanced customer service / outcomes • Improved product development and quality • Benefits to worker safety • reduced operational emissions	• Widening socio-economic inequality (through bias and discriminatory outcomes) • Job losses through automation • Misinformation and bias in global technology platforms and services • Impacts to national and individual security and safety (eg autonomous weapons) • Widening digital divide • AI achieves sentience posing threats to society • Increase in global carbon emissions	• Identification of illegal activity in financial systems • Supply chain traceability supports better management of human rights impacts • Improved health and safety outcomes in dangerous industries like mining • Wider access to financial systems through more effective use of data • More sustainable use of resources including people, material, energy, water etc.

Please visit our website for a full copy of the note: [The implications of AI across sectors against key ESG considerations - Alphinity]

For further information, please contact:

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