Alphinity Global Equity Fund
(Managed Fund)

QUARTERLY REPORT – JUNE 2023

Performance[1]	1 Month %	Quarter %	1 Year %	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	Since Inception[2] % p.a.
Fund return (net)	2.0	4.2	19.9	14.6	12.6	14.2	12.3
MSCI World Net Total Return Index (AUD)[3]	3.1	7.5	22.4	13.5	11.4	12.4	11.3

Fund facts

Portfolio managers	Jonas Palmqvist, Jeff Thomson, Trent Masters, Mary Manning, Chris Willcocks.
APIR code	HOW0164AU
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	$419m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
Microsoft	Info. Technology	6.1
Alphabet	Communication Services	5.7
NextEra Energy	Utilities	4.4
PepsiCo	Consumer Staples	4.0
Zoetis	Health Care	3.8
Otis Worldwide	Industrials	3.8
Keysight	Info. Technology	3.7
Waste Connections	Industrials	3.6
On Semiconductor	Info. Technology	3.3
Chubb	Financials ex Property	3.3
Total		**41.8**

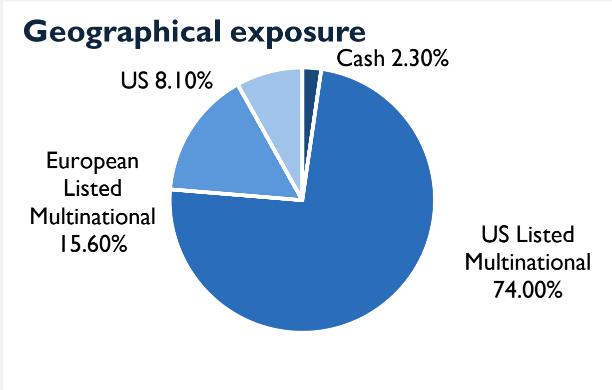
Fund features

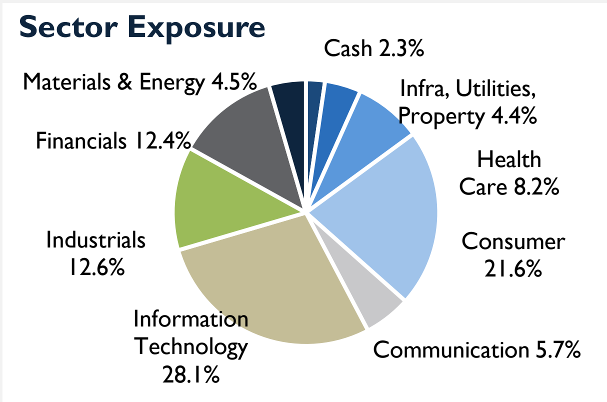
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

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.





Data Source: Fidante Partners Limited, 30 June 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
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.

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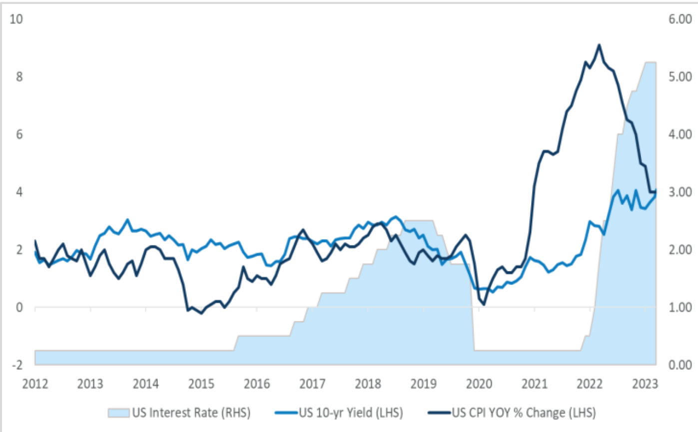
alphinity INVESTMENT MANAGEMENT

Market comment and outlook

Equity markets rose in the June quarter, continuing to defy expectations throughout 2023 as hopes of a paradigm shift in AI drove tech stocks higher, and bond yields stabilised as inflation fell from peak levels. US regional bank failures early in the quarter didn't spread to a broader credit crisis, and consumer confidence in the US rebounded from depressed levels last year which helped retailers, particularly in the luxury end of consumer goods. US stocks (S&P 500 Index) rose 8.8% in AUD terms over the quarter, outperforming global developed markets (MSCI World +6.8%). China weakness persisted, the Shanghai Composite Index falling 7% as softer economic data, including weaker than expected trade and manufacturing Purchasing Managers' Indices (PMI's), did little to assure investors of its post-Covid growth prospects. While further stimulus might be a catalyst for renewed interest, measures so far have been relatively limited, and investors remain cautious about the outlook for growth.

US inflation continues to decline with Yields ticking higher



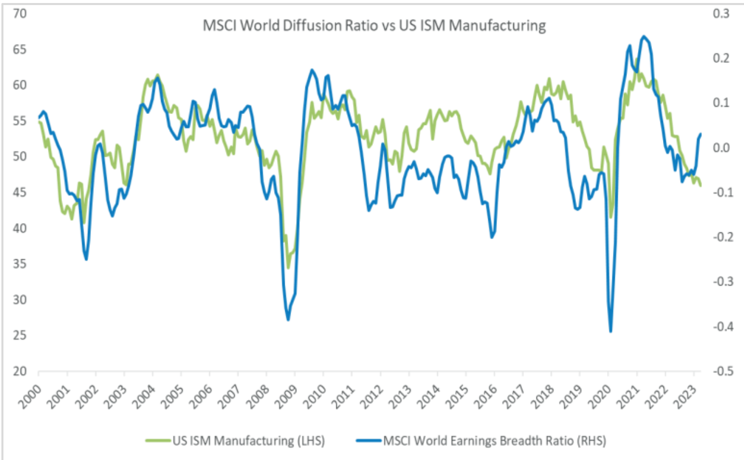
Source: Bloomberg, 10 July 2023

Sector performance over the quarter was driven by Technology stocks (+15%), along with Consumer Discretionary (+11%) and Communication Services (+9.8%) outperforming the broader market, although a larger number of sectors underperformed, including Utilities (-1%), Energy (-0.8%) and Materials (-0.3%). With inflation falling from peak levels, and headline CPI printing below expectations, US bond yields have traded in a narrow range for most of this year, and despite the US 10-year bond yield rising 37 basis points over the quarter to 3.84%, its still slightly below the levels traded at the beginning of the year. Both core and headline US inflation printed below expectations in June, with the market now pricing in an imminent end to the rate hiking cycle

Portfolio comment and outlook

Economic data has improved recently, with GDP expectations rising, resilient labour markets, inflation falling, and financial markets generally responding well to tighter financial conditions. We still see risks of a lagged, negative impact from US Federal Reserve (Fed) rate hikes, but we are also aware that some normally reliable economic indicators are already at low levels. The US manufacturing PMI peaked well above 60 in 2021, and after a two-year downcycle it is now 46, approaching levels historically associated with cyclical bottoms.

Maturing downgrade cycle – Sustainability of the recent recovery in revisions breadth remains to be proven



Source: Bloomberg, 10 July 2023

The global earnings cycle is still weak but has recently shown signs of improvement, following better first quarter reports. Over the last quarter, global consensus earnings expectations for both 2023 and 2024 were unchanged, compared to the previous negative trend of -2% to -3% per quarter. This is encouraging but not yet conclusive and combined with company information we gathered on our recent global research trips, we believe it's still too early to call the definite earnings bottom in many sectors. However, we are also aware that the current negative earnings cycle is approaching its two-year anniversary and is mature by historical standards.

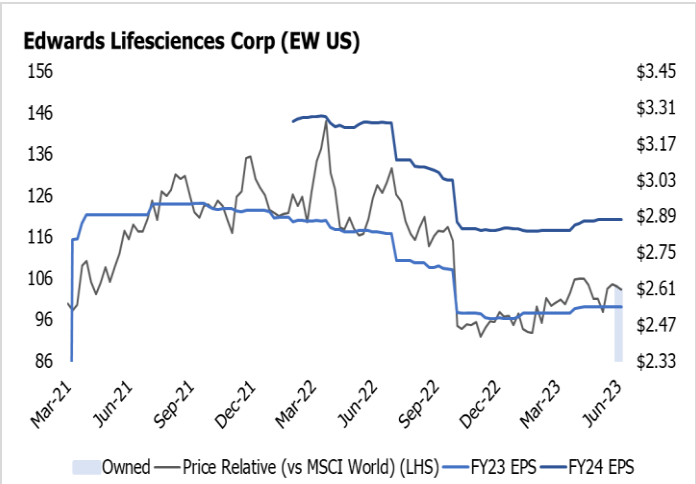
With market leadership having rotated again (back to growth stocks), and a potential economic/earnings cycle bottom on the horizon, we continue to lean on bottom-up stock analysis and investment ideas to manage the changing environment. It was an active quarter in the portfolio.

The most significant portfolio change saw us adding four growth stocks in Tech & Communication with strengthening earnings outlooks: Microsoft, Nvidia, Cadence Design and Alphabet. Our conviction in AI adoption as an earnings driver has strengthened. We financed these investments by trimming across other tech holdings, which have performed strongly, as well as divesting our remaining position in Apple (earnings and valuation risks

In Health Care, our rotation within the sector continued by selling more defensive majors UnitedHealth and Danaher and replacing them with med tech-company Edwards Lifesciences (procedure growth recovery story). In Financials, we added Marsh & McLennan (structural growth in insurance and investment solutions) and London Stock Exchange (undervalued earnings recovery potential). In cyclicals, we added Linde, global leader in industrial gases, and exited remaining small positions in Mercedes and Albemarle on relatively weaker earnings outlooks.

Overall, the portfolio is positioned in strong growth stories, combined with some flagship defensives (however decreasing in size), and remains overall less invested in cyclical stocks.

Edwards Lifesciences - Global leader in Cardiovascular products and treatments



Source: Bloomberg, 10 July 2023

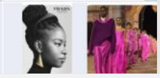
Crowded Maison: Are global luxury stocks still a buy?

Global luxury stocks have been one of the best performing sub-sectors in the last 3 years. The STOXX Luxury Total Return Index is up 165% from the March 2020 COVID low and has outperformed the MSCI Europe Index and the MSCI World Index by over 80% during that time frame. French luxury stocks LVMH, Kering and Hermes, plus L'Oreal, now have a combined market cap of over $US800 billion and account for over 50% of the market cap of France's CAC 40 Index.

LVMH was one of the largest positions in the Alphinity Global Fund last year and was one of the largest alpha generators. But the question going forward is: Can the remarkable outperformance of the luxury sector continue or is the luxury trade now a crowded house (maison)?

The following analysis aims to answer this question and consists of 4 parts:
>A brief overview of the structure of the luxury sector and how this translates into superior margins, higher returns and consistent growth at a reasonable price;
>Analysis of current trends in the luxury sector such as GenZ influence, collaborations, casualisation, technology and internationalization;
>Discussion of near-term risks namely investor positioning and a potential US slow down; and
>Analysis of the long-term opportunities and threats including balancing scarcity and scale and effective succession planning.

Global Luxury Trends:

Luxury Trend	Examples	Visual
GenZ and Pop Culture Influence	Pharrell Williams named as creative director for Louis Vuitton Men's Kim Kardashian for Balenciaga K pop sensation BlackPink for Celine, Bulgari and Chanel, YSL	
Company Collaborations	Nike & Tiffany's + Nike & Louis Vuitton Gucci and Prada collaborations with adidas Dior and Birkenstock sandals	
Athleisure Cross Over	Dior surfboard and wetsuit collection Gucci + Northface collection of winter outdoor gear Prada and Mui Mui branded yoga mats	
Technology	NFTs and Blockchain technologies for end-to-end product traceablity KOLs (Key Opinion Leaders) and social media as a marketing channel Experiential luxury and branding in the metaverse Alibaba's Tmall Luxury Pavilion and the rise of omnichannel shopping	
Sustainability	Stella McCartney as a pioneer in sustainable fashion Prada fine jewellery collection made from 100% recycled gold Hublot and Nespresso watch made from recycled coffee cups Chloe as a Certified B Corp	
Diversity & Internationalisation	Dingyun Zhang x Moncler Amada Gorman, activist and US poet, campaign for Prada Dior show staged at the Gateway of India Gucci jewellery boutique launches in UAE and Kuwait	

The conclusion of this analysis is that the luxury sector remains a very attractive sector from a structural perspective and has impressive long-term tailwinds. However, in the immediate term, investor positioning in the sector remains crowded and there are risks to luxury consumption decelerating in the US. As such, generating alpha from the luxury sector going forward requires good old fashioned (no pun intended) stock picking, rather than simply making the right call on the sector as a whole.

For a copy of the full note, please visit our website: [Crowded Maison: Are global luxury stocks still a buy? - Alphinity]

Author: Mary Manning – Global Portfolio Manager

Traveller's Tale

Jonas, who covers healthcare stocks for our Global Equity team, visited the headquarters of Intuitive Surgical in Sunnyvale, California in June. Intuitive Surgical is held in Alphinity's Global Equity Fund, and it's a company that enjoys a near monopoly position in minimally-invasive robotic surgery. All of the top-ranked US hospitals for treating cancer, urology, gynaecology and gastro diseases use the company's Da Vinci surgical system, as do a number of hospitals in Australia.

The below photo is of Intuitive Surgical's Davi collection system, and Jonas was fortunate enough to test this system during his visit. Not so fortunate was the (thankfully pretend) patient he managed to completely butcher on the operating table! Thankfully for Alphinity's clients and any patients needing surgery, Jonas is sticking to investment decisions and not swapping to a scalpel any time soon.

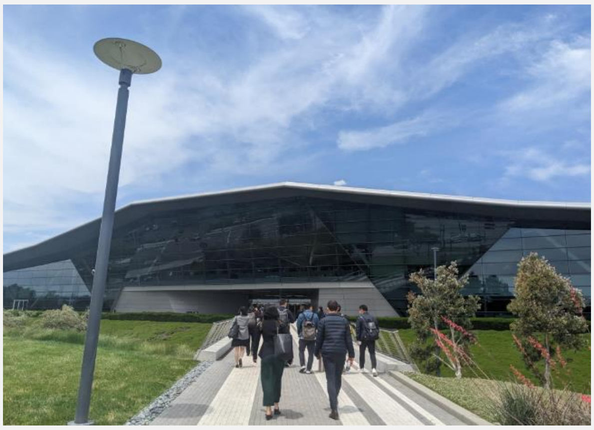
Fortunately, there are real-life surgeons out there who are increasing their use of Davinci for low-invasive, safe and efficient surgery, which has been driving Intuitive Surgical's earnings and the stock has been performing strongly for the global portfolios.

Trent, who covers Technology stocks in the Global team, was also in the US, but in San Francisco at a tech conference. His main takeaway was: if in doubt, just yell "AI"! It was a fascinating week, with every company presenting apparently having a market-leading position in AI that they had been working on for years. Although talking about the infinite potential of AI was much easier than articulating a path through what appears to be a difficult macro environment.

The most interesting things from his trip were:

- so many beautiful offices for so few people. A day of meetings down in Silicon Valley was conducted in a procession of beautiful, cavernous buildings full of the latest tech and magnificent hanging gardens. The only thing missing was people occupying them
- monetisation paths and timing for software stocks (other than Microsoft) remain uncertain with most companies still grappling with what an AI-based offering looks like China.
- Autonomous vehicles are getting better: Trent found it fascinating to watch the complex dance when a driverless Amazon-owned Zoox taxi was trying to get past a drunk bicycle rider wobbling his way home on the streets of San Francisco. The patience and navigational complexity of the Zoox, in what was clearly an unstructured edge case, was very impressive

- The walk back to your hotel in San Francisco is eye-opening. The social issues in San Fran are pretty horrifying and the degree of homelessness and drug use is confronting and depressing. On a similar note, US department store Nordstrom is about to close its two stores in downtown San Francisco, one of which is in the large Westfield shopping mall, citing low foot traffic resulting from shoppers no longer feeling safe with all the crime in the area. The owners of the Westfield, Paris-listed company URW, will effectively hand the keys of the whole shopping centre to the lenders and walk away later this year. It is only 20 years old.
- On a happier note, one particularly impressive building was Nvidia Corp's headquarters in Santa Clara, a building the shape of a spaceship. Unlike everywhere else Trent went, the inside of this one was teeming with people, perhaps an allegory for the demand Nvidia's stock has experienced this year which made it into a trillion-dollar company. Must feel nice to be so popular!



For further information, please contact:

Fidante Partners Investor Services
Phone: 13 51 53 Email: info@fidante.com.au Web: www.fidante.com.au

Alphinity Investment Management
Web: www.alphinity.com.au