Alphinity Global Equity Fund (Managed Fund)

MONTHLY REPORT – JULY 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)	1.6	4.6	12.4	14.6	12.7	14.2	12.4
MSCI World Net Total Return Index (AUD)[3]	2.1	6.4	17.5	14.0	11.3	12.4	11.5

Fund facts

Portfolio managers	Jonas Palmqvist, Jeff Thomson, Trent Masters, Mary Manning, Chris Willcocks.
APIR code	HOW0164AU
Inception date	21 December 2015
ASX Code	XALG
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	$434m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
Alphabet	Communication Services	6.5
Microsoft	Info. Technology	6.3
Zoetis	Health Care	4.1
PepsiCo	Consumer Staples	4.1
Linde	Commodities	3.4
On Semiconductor	Info. Technology	3.4
Waste Connections	Industrials	3.4
Marsh McLennan	Insurance	3.3
Cadence	Info. Technology	3.2
Starbucks	Consumer Discretionary	3.2
Total		**40.8**

Fund features

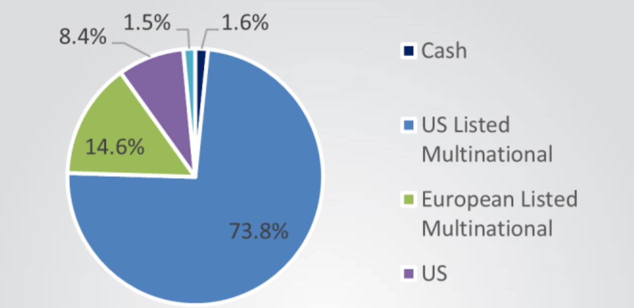
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

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.

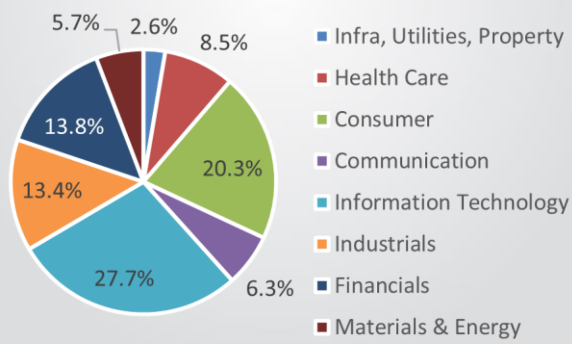
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

Aligned: Alphinity Investment Management is a boutique firm, strongly aligned with its clients' investment objectives and focused solely on growing clients' wealth.

Geographical exposure



Sector exposure



Data Source: Fidante Partners Limited, 31 July 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 May 2019

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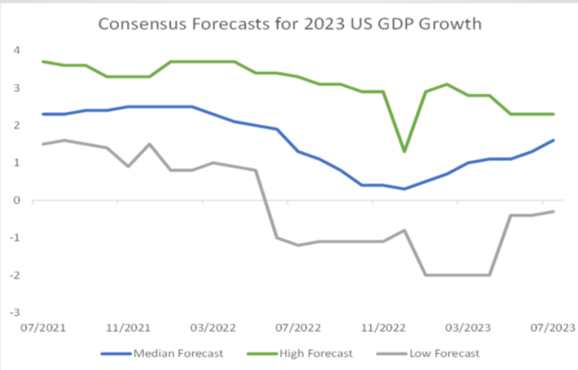
Portfolio comment and outlook

Economic data has improved recently, with GDP expectations rising, resilient labour markets, strong consumption, inflation beginning to fall, and financial markets generally responding well to tighter financial conditions. We continue to see potential risks from the lagged, cumulative impact of Fed rate hikes, but we are also aware that some normally reliable economic indicators are already at low levels and the outlook for growth appears somewhat better than many feared at the start of the year. The US manufacturing Purchasing Manager's Index (PMI) peaked well above 60 in 2021, and after a two-year downcycle it is now at ~46; while deep in contractionary territory this is approaching levels which have historically been associated with cyclical bottoms.

Consensus have been upgrading US GDP Forecasts for 2023



Source: Bloomberg, 31 July 2023

From a corporate earnings perspective, and after a similar nearly two-year period of negative revisions, there also appears to be some early signs of stabilisation. The second quarter reporting season has so far been better than expected with beats, both by number and magnitude, higher than normal. Nevertheless, generally cautious forward guidance has met with mixed price responses and muted earnings revisions. For example, consensus earnings expectations for both 2023 and 2024 have barely moved over the last three months (+0.1% respectively), although flat estimates are a marked improvement from the previous negative trend of -2% to -3% per quarter. Meanwhile, underlying sector dispersion is relatively wide. Materials and Energy have seen significant negative revisions reflecting lower commodity prices, while Consumer Discretionary, Communications and Tech Hardware are amongst the sectors with positive revisions for both years. More defensive sectors like Property, Health Care and Consumer Staples continue to slip in relative earnings strength. While there are some encouraging signs, and the negative earnings cycle is relatively mature by historical standards, our stock analysis and recent research trips suggest it's still too early to call a sustained turn in the earnings cycle.

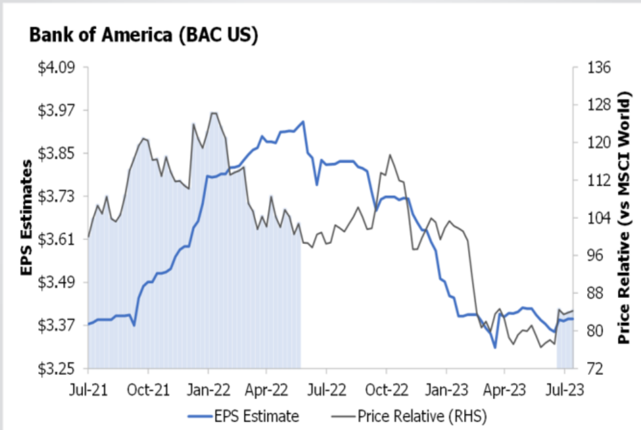
From a market perspective, leadership has rotated again this year, mostly back to growth stocks and away from defensives, although there has also been a significant rally in some cyclical industry groups recently (e.g. Autos, Semiconductors, Retail and Transport), which have responded positively to a more resilient growth outlook and rising bond yields.

Narrow market breadth has been another distinct feature, with the so-called 'magnificent seven' group of mega-cap stocks, which make up ~27% of the S&P 500 market capitalisation, delivering ~73% of the Year To Date (YTD) return through to end July (albeit an improvement from 102% at the end of May 2023). Against this more challenging backdrop, we continue to focus on our bottom-up earnings analysis to manage the changing environment.

During July we initiated positions in Bank of America and Parker-Hannifin, where we believe attractive valuations and conservative consensus earnings estimates will lead to outperformance. This was financed through taking profit in some of our best performing growth stocks (e.g. Mercadolibre, L'Oreal, OnSemi & Intuitive Surgical), and also reducing other stocks where relative earnings support is falling (e.g. Chubb, Nextera Energy, Otis and Keysight). Overall positioning has not changed significantly despite these changes, with the portfolio still well-positioned in strong growth stories, combined with some flagship defensives.

We have recently added to our cyclical exposure where we have established fundamental stock conviction; however, the portfolio overall remains relatively less invested in cyclical stocks. We continue to work hard at identifying opportunities across all sectors as the earnings cycle continues to evolve.

Bank of America - Seeing earnings upgrades again



Source: Alphintiy, Bloomberg, 31 July 2023

Hitting the Road with Alphinity Global – From the Ground up and beyond the numbers.

Key Themes & Stock ideas from recent travels

Visiting Nvidia's spaceship headquarters in Santa Clara and Saint-Gobain's flagship office tower in Paris, driving Epiroc's electric drill rigs, testing out the latest BYD & Tesla EV models and operating on dummies using Intuitive Surgical' s $2m minimally invasive surgical machines! These are just some of the highlights of the Alphinity Global team's recent travels across the globe.

Experiencing company products firsthand, touring production facilities, meeting management teams in person and scouting end-markets, can all provide critical insights which help our portfolio managers better understand both the opportunities and risks facing the companies we are invested in.

Over the last few months, Alphinity's five global portfolio managers have collectively met with over 130 companies in 14 different cities and 8 different countries. In this note we summarise some of their important insights and how their respective trips have shaped our diversified, high-conviction portfolios of high-quality global earnings leaders.

HIGH LEVEL THEMES

- US consumer 'normalisation' and European resilience
- China re-opening has been uneven, and the long-term growth outlook remains uncertain
- Moving from inflation to disinflation
- Pricing power remains critical
- Supply Chains have largely normalised

SECTOR THEMES & STOCK IDEAS

Theme	Portfolio Action	Companies
Technology – Artificial Intelligence is real as an earnings driver, but be selective	Bought Nvidia Added to Microsoft	Microsoft NVIDIA
Consumer: US consumer slowdown & slower than expected China reopening	Reduced LVMH	LVMH
Health Care – Shift happening in the sector from defensives to growth (Medical Technology)	Bought Edwards Lifesciences Sold United Healthcare	Edwards
Industrials/Resources – Decarbonisation/Electrification – An accelerating mega trend	Hold Schneider Electric Buy Linde	Schneider Electric Linde

Healthcare: Shift happening in the sector away from defensives (hospitals, insurers) to medical technology (growth)

Jonas met with 18 management teams across the healthcare sector in the US and noted a big divergence between sub sectors, with a clear shift happening away from the generally more defensive side of the sector (pharma, insurers) to the growthier side, such as medical technology stocks. US health insurer, United Health's CFO sounded more cautious following a large increase in utilisation rates (day surgeries), which in turn could see claims spike and weigh on their earnings.

The US medical technology ("med tech") sector has had a tough time in the past 18 months with higher cost inflation and softer volumes driven staffing shortages. 1Q23 has marked a turning point for the sector with volumes beats across the industry and normalising input costs. Prior investment in pipeline is also paying off in innovative new areas such as diabetes and structural heart.

Stock implications: Switching exposure by buying Edwards Lifesciences and selling United Health

Edwards is a global leader in cardiovascular products (artificial heart valves) and treatments, focused on medical innovations for structural hearth disease, repair and replacement, as well as critical care and surgical monitoring around it. The heart disease market is expected to grow at double digits through the 2020's with the artificial valve market to double from $10bn to $20bn by 2028 in the US alone. Continued rising penetration of EW's low-invasive heart valve replacement (vs open heart surgery) should drive double digit top line growth through the 2020's. EW is also leading innovation in this field, putting 17-18% of revenues into R&D & outspending peers. The company generates very high margins (c 75-80% gross margin & 30% EBIT margin), driving very solid returns (23% ROIC) being more labour than materials intensive).

Author: Elfreda Jonker – Client Portfolio Manager
Find a copy of the full note here: [Hitting the Road with Alphinity Global - Alphinity]

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