

Alphinity Global Sustainable Equity Fund (Managed Fund)

MONTHLY REPORT – JULY 2023

Performance ¹	1 Month %	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception ² % p.a.
Fund return (net)	1.5	5.5	10.3	-	-	7.8
MSCI World Net Total Return Index (AUD)	2.1	6.4	17.5	-	-	9.7
Active return ³	-0.6	-0.9	-7.2	-	-	-1.9

Fund facts

Portfolio managers	Jeff Thomson, Mary Manning, Jonas Palmqvist, Trent Masters, Chris Willcocks.
APIR code	HOW1000AU
Inception date	3 June 2021
ASX Code	XASG
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	\$85m
Distributions	Annually at 30 June
Min. Investment	\$10,000
Max. cash position	20%
Carbon Intensity (ave weighted)	74.1 (vs MSCI Benchmark 127.3)

Top 10 positions

Company	Sector	%
Alphabet	Info. Technology	6.8
Microsoft	Info. Technology	6.4
Schneider Electric	Industrials	4.3
MasterCard	Financials	4.2
Essilor Luxottica	Consumer Discretionary	4.1
Procter & Gamble	Consumer Staples	3.9
Trane Technologies	Industrials	3.8
Accenture	Info. Technology	3.6
On Semiconductor	Info. Technology	3.6
ASML	Info. Technology	3.6
Total		44.2

Data Source: Fidante Partners Limited, 31 July 2023

Fund features

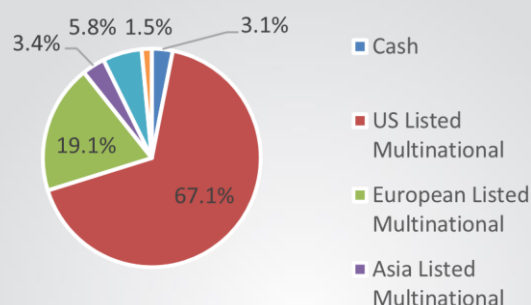
Sustainable: A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Diversified across sectors and regions.

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.

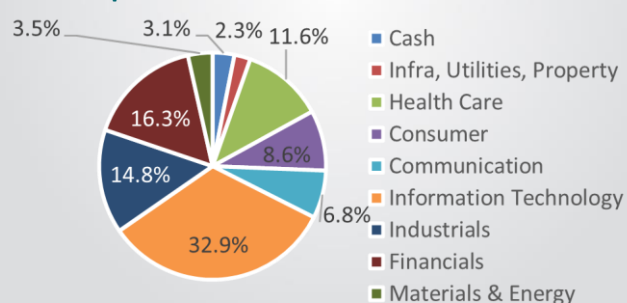
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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



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.

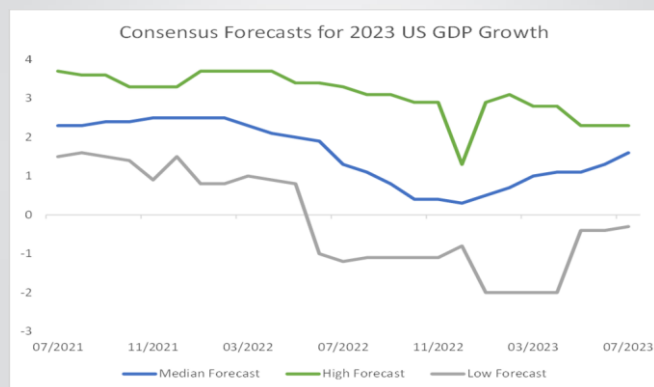
² The inception date for the Fund is 3 June 2021

³ Numbers may not add due to rounding.

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



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 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 continued to add to our positions in Edwards Lifesciences, following a pullback in the stock despite a strong report, and ING, on strong earnings momentum. This was financed through taking profit in some of our best performing growth stocks (e.g. Mercadolibre, Fortinet, OnSemi & Intuitive Surgical), and also reducing other stocks where relative earnings support is falling (e.g. Chubb, Nextera Energy Partners, 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.

Edwards Lifesciences - Global leader in Cardiovascular products and treatments

Sustainability | Net SDG Score 200%

Positive



Edwards Lifesciences Corporation is a manufacturer of heart valve systems and repair products used to replace or repair a patient's diseased or defective heart valve. It is engaged in patient-focused innovations for structural heart disease and critical care monitoring. It also develops hemodynamic and non-invasive brain and tissue oxygenation monitoring systems that are used to measure a patient's cardiovascular function in the hospital setting.

The lifesaving qualities of the three revenue segments the company has a very strong alignment with **SDG3** Good Health and Wellbeing.

ESG | Alphinity ESG Risk Score: Level 2 (Medium)

- **Environment** Limited environmental risks. The business has a small operational carbon footprint with a 2025 reduction target in place.
- **Social:** Main issue is to do with product safety and quality. As a medical technology company Edwards must comply with strict regulations regarding design, development, manufacture and distribution of products. The company has a good track record related to product quality and recalls. One case in 2019 related to use of the TAVR Heart Device. This is an area of engagement and monitoring.
- **Governance:** Good management team with no major concerns. Governance and oversight of product development and risks is critical.

Source: Alphinity, 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

Please note: Stocks mentioned in this note are holdings across the Alphinity Global Equity Fund and the Alphinity Global Sustainable Fund and might not relate to both funds.

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 United Healthcare
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 heart 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 & outpacing 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](#)

Alphinity Global Sustainable Equity Fund

MONTHLY REPORT – JULY 2023

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Important information: This material has been prepared by Alphinity Investment Management Limited (ABN 94 002 835 592, AFSL 234668) Alphinity, the investment manager of the Alphinity Global Sustainable Equity Fund. Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (Challenger Group) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. Alphinity and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, Alphinity and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the Banking Act 1959 (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (Challenger ADI) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.