Alphinity Global Sustainable Equity Fund – Class F

MONTHLY REPORT – AUGUST 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)	1.1	4.0	15.0	-	-	8.5
MSCI World Net Total Return Index (AUD)	1.6	6.9	22.4	-	-	10.0

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	$86m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%
Carbon Intensity (ave weighted) Scope 1 & 2	119.9 (vs MSCI Benchmark 125.8)

Top 10 positions

Company	Sector	%
Alphabet	Info. Technology	7.1
Microsoft	Info. Technology	6.8
MasterCard	Financials	5.1
Trane Technologies	Industrials	4.6
Procter & Gamble	Consumer Staples	4.6
Accenture	Info. Technology	4.3
Schneider Electric	Industrials	4.1
Cadence	Info. Technology	4.1
Linde	Materials	3.9
Nvidia	Info. Technology	3.9
Total		**48.5**

Data Source: Fidante Partners Limited, 31 August 2023

Fund features

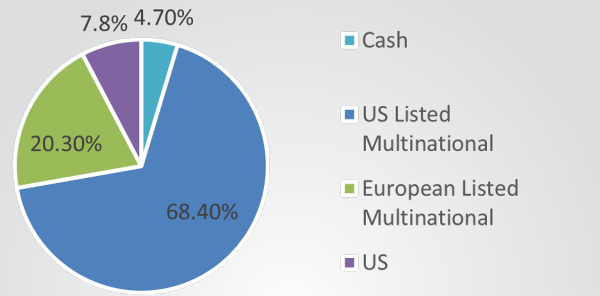
Sustainable: A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Diversified across sectors and regions.

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.

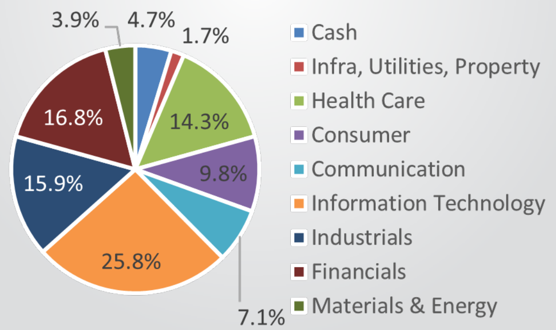
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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

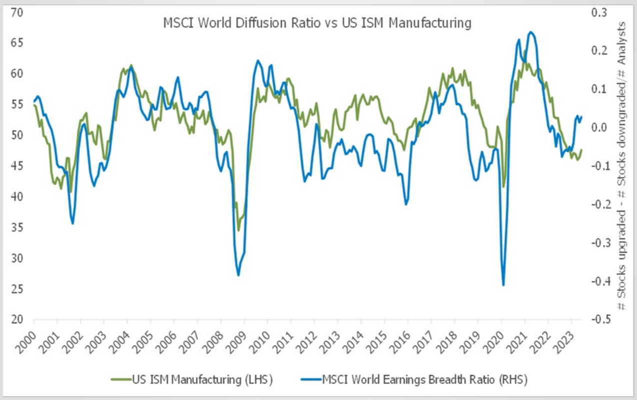


1 Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance.
2 The inception date for the Fund is 3 June 2021
3 Numbers may not add due to rounding.

Portfolio comment and outlook

Continued resilience in US economic data and a notable drop in inflation have together raised hopes that the Fed is done hiking rates and that a 'soft landing' for the US economy is achievable. At the same time after over two years of steady deceleration, the latest US manufacturing PMI of 47.6 appears to be recovering from trough levels historically associated with cyclical recovery. These are all encouraging signs. Nevertheless, risks from the lagged, cumulative impact of Fed rate hikes remain and elsewhere data has been more mixed. China continues to struggle with a deepening property crisis and recent growth and inflation data in Europe has also been somewhat disappointing. So, while the growth outlook is certainly stronger than feared at the start of the year, visibility into 2024 remains low.

Maturing earnings downgrade cycle as economic activity finding a bottom



Source: Bloomberg, 31 July 2023

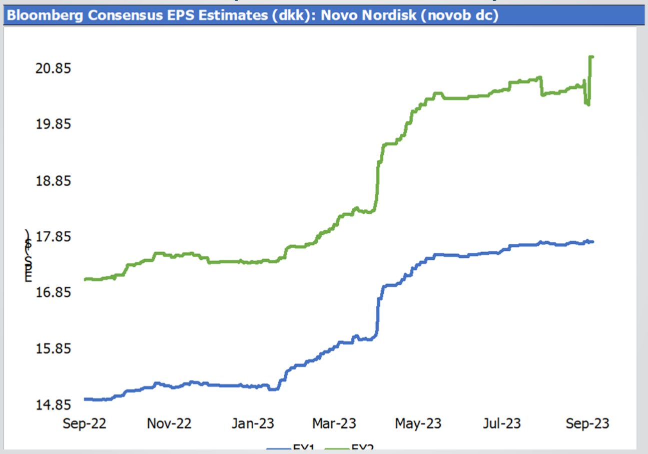
Corporate earnings reflect a similar picture. With fears of an imminent recession abating, negative revisions have slowed significantly and in fact inflected slightly positive recently. The second quarter season was better than expected, with beats, both by number and magnitude, higher than normal. Forward guidance remained mostly cautious, driving mixed price responses, however despite this, earnings expectations for both 2023 and 2024 have edged higher. For example, EPS revisions for '23/'24 earnings are +0.3%/+0.4% over the last three months, which is a notable improvement from the previous negative trend of -2% to -3% per quarter. At a sector level, dispersion is relatively wide and mixed from a cyclical perspective. Materials, Energy, Real Estate and Health Care all sharply negative, while Consumer Discretionary, IT Hardware & Semiconductors and Communication services have seen positive revisions.

So far this year, leadership has rotated back to growth stocks and away from defensives sectors such as Utilities, Real Estate and Consumer Staples. A notable feature has been extremely narrow leadership breadth, with the so-called 'magnificent seven' group of mega-cap growth stocks, which make up ~27% of the S&P 500 market capitalisation, having delivered ~72% of the YTD return through to end August (albeit an improvement from 112% at the end of May 2023). There has also been strength in some cyclical industry groups recently including Autos, Semiconductors, Retail and Capital Goods, which have responded positively to better-than-expected growth and rising bond yields. This is a complicated and challenging backdrop for financial markets, with clear and sustained earnings leadership remaining elusive.

Activity during the month was mostly stock specific. We initiated a new position in Novo Nordisk following positive trial results and higher conviction about the long-term potential for their obesity drugs to also address other co-morbidities. We also added a position Quanta, a leading specialty infrastructure solutions provider where electrification is driving solid earnings upgrades. Fortinet and Keysight both reported broadly in-line results, however order/billings trends and guidance for both were unexpectedly weak. Earnings recovery is uncertain and consequently we exited both positions. We also exited Samsung SDI after a weak earnings report with a miss in the Electronic Materials division driven by soft power tool demand.

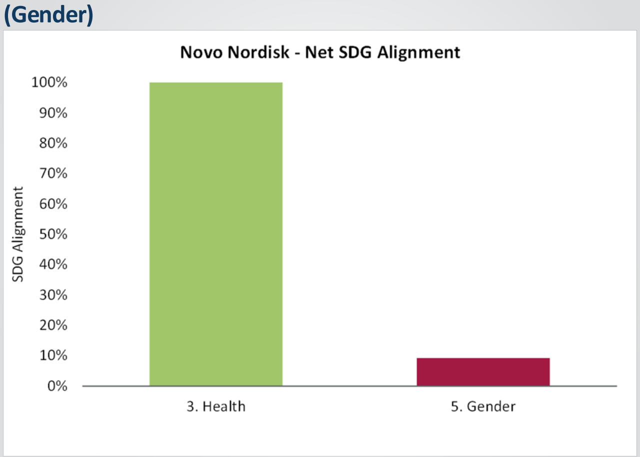
Overall, the portfolio remains well-positioned in strong growth stories, combined with some flagship defensives. We have recently added to our cyclical exposure where we have established stock-specific, fundamental earnings conviction; however, the portfolio overall remains relatively less invested in cyclical stocks. The investment team is again travelling widely overseas to meet companies across different sectors and geographies as the earnings cycle continues to evolve.

Novo Nordisk – Global pharma leader in diabesity



Source: Alphinity, Bloomberg, 31 August 2023

Novo Nordisk: Positive SDG Alignment to SDG 3 (Health) & SDG 5 (Gender)



Source: Alphinity, 31 August 2023

Antimicrobial Resistance – An emerging ESG consideration

When used correctly, antimicrobials play a key role in treating human and animal health. Antibiotics in particular have saved millions of lives since the 1940s and have contributed significantly to the life expectancy we see today. But microorganisms are becoming more resistant to contemporary medicine. Without responsible antimicrobial use, disease prevention and research into alternatives, the systemic risk posed by antimicrobial resistance (AMR) could be extremely disruptive. This has brought awareness from policymakers, industry bodies and investors of late. This report explores the ESG considerations related to AMR and the importance of stewardship and company engagement in the healthcare and food sectors to address this risk.

Introduction:

Antimicrobials – antibiotics, antivirals, antifungals and antiparasitics – are widely used to prevent and treat infections in humans, aquaculture, livestock, and crop production. These agents have transformed modern healthcare, enabling the treatment of diseases that were once uncurable. Antibiotics in particular have played a vital role in the success of medical procedures such as organ transplants and cancer treatment.

However, the misuse of antimicrobials could lead to a considerable economic cost and financial risk for investors. If antimicrobials are not prescribed and used for their intended purposes, disease-causing microorganisms, or microbes, can become immune to the medication that once suppressed them. This worsens the spread of disease, severe illness and associated deaths, a phenomenon referred to as AMR.

In general terms, AMR is about the survival of the fittest. By introducing antimicrobials into a system, an environment is created whereby the strongest microbes can survive and multiply. The impact is essentially two-fold. Firstly, diseases can become more severe and secondly, infections are increasingly difficult to treat as medicines lose their potency.

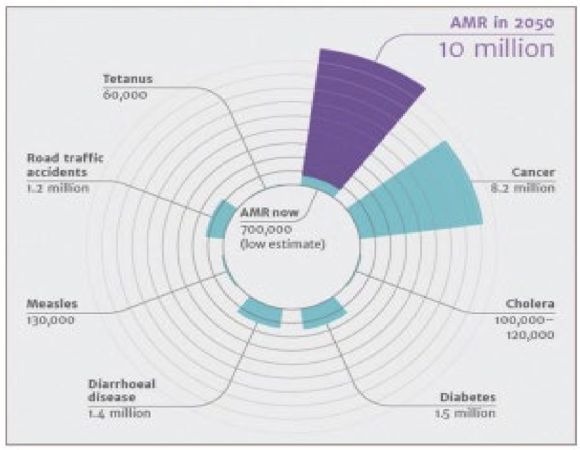
While these impacts are relatively straightforward to understand and manage at the individual or group level, the systemic risks are more complex and coming to the attention of stakeholders. The threat of antibiotics becoming ineffective, and even one day obsolete, has prompted policymakers to acknowledge AMR as a serious danger to human health, food security and economic stability. The United Nations has openly called for more robust management of AMR, with the World Health Organization (WHO) listing AMR among the top ten threats to global health. Shareholders too are voicing their concerns in the area of animal agriculture.

This report offers perspectives on the systemic risk posed by AMR and key ESG considerations for investors. This research has an emphasis on the healthcare and food sectors as we believe they are exposed to the most significant risks, and equally, can influence the system-wide impacts of AMR. We outline examples of good management of the risks, and questions that can be asked of companies to delve deeper into their AMR strategies.

AMR as a systematic risk

The first comprehensive global AMR analysis estimated that resistance itself caused 1.27 million deaths in 2019 – more deaths than HIV/AIDS or malaria combined – and that antimicrobial resistant infections played a role in 4.95 million deaths. A study commissioned by the UK Government estimated that this number could rise to 10 million people by 2050.

Attributable AMR deaths in 2050 compared to other major causes of mortality[8]



Key ESG considerations of AMR

AMR is a broad and complex issue. AMR is challenging to monitor and emerges across a range of environments and regions. As such, the management of AMR is not confined to one industry but requires a holistic strategy across supply chains and end markets. This is often referred to by regulators and research institutes as the 'One Health' approach that balances the interests of the planet, people and economy. From an investment perspective however, we believe AMR can be distilled into a subset of core ESG considerations and that the materiality of a company's AMR exposure can be assessed. The following graphic aims to illustrate the various drivers of AMR, the systemic risks and the different industry-level considerations as we understand them. We anticipate that the highest AMR exposures sit within pharmaceuticals (animals and human), food production and food retail. This conclusion is based on preliminary research and a materiality matrix that accounts for:

- Maturity - level of AMR knowledge or understanding; and
- Influence - degree of control to manage AMR.

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Find a copy of the full note here: [Antimicrobial resistance: Relevance to investors - Alphinity]

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