Alphinity Global Equity Fund (Managed Fund)

MONTHLY REPORT – OCTOBER 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)	-1.5	-5.7	4.2	11.7	11.5	13.6	11.1
MSCI World Net Total Return Index (AUD)[3]	-1.0	-3.5	11.6	11.9	10.7	12.1	10.6

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	$446m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
Microsoft	Info. Technology	6.8
Alphabet	Communication Services	6.2
ConocoPhillips	Energy	4.5
Nvidia	Info. Technology	4.3
Linde	Materials	4.1
Parker Hannifin	Industrials	4.0
Waste Connections	Industrials	3.8
Cadence	Info. Technology	3.7
Chubb	Insurance	3.5
Accenture	Info. Technology	3.4
Total		**44.3**

Fund features

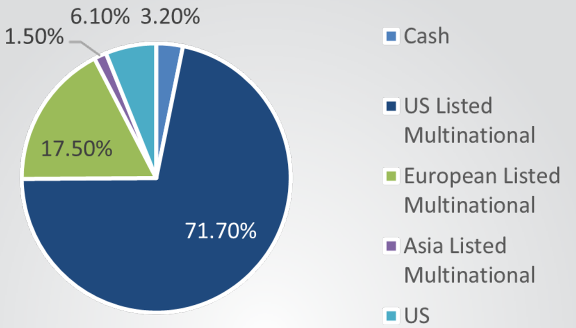
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

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.

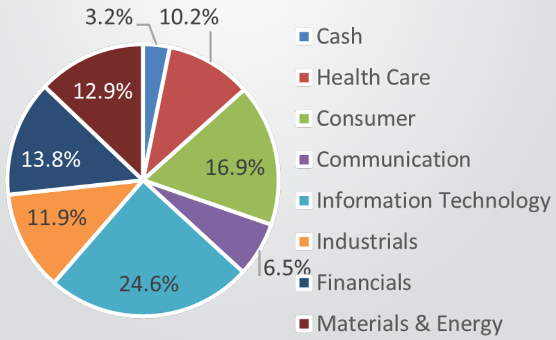
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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 October 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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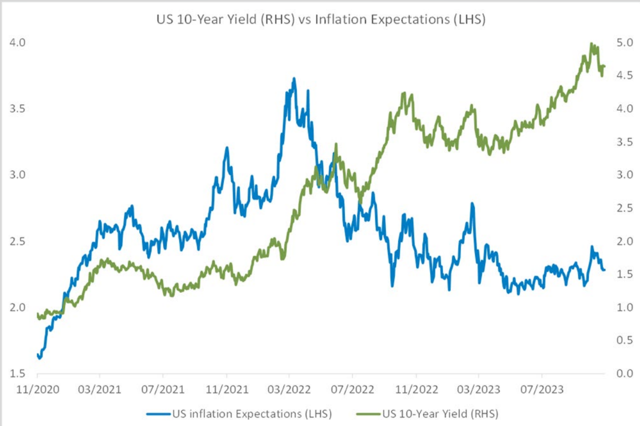
Market comment and outlook

Equity markets came under further pressure in October, culminating in a third consecutive monthly loss as bond yields continued to rise, along with geopolitical risks due to the conflict unfolding in the Middle East. Global equities fell 1.4% in AUD terms, with the US (-0.5%) performing slightly better while Emerging Markets (-2.3%) underperformed. China rebounded from mid-month lows after announcing an unexpected budget revision, with an additional RMB1 trillion of government bonds to be issued in the fourth quarter for infrastructure projects.

Rapid rise in 10 bond yields hurting equity valuations



Source: Bloomberg, 11 November 2023

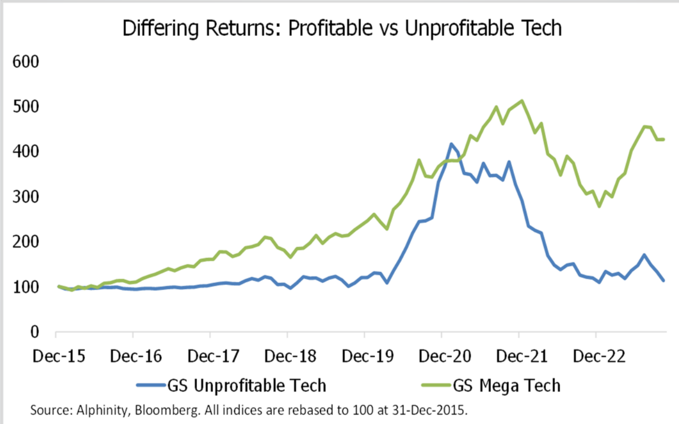
Economic data in October was again strong, defying the rate hikes from central banks and creating a headache for the Fed. The US economy grew at an annualised rate of 4.9% in Q3, above expectations of 4.5% which sent bond yields higher, while jobs data also printed above expectations. The US added 336k jobs in September, although the latest jobs print after month-end was weaker and we have seen a reversal in bond yields early in November. Latest inflation data out of Europe is falling with a flash estimate of inflation falling sharply to 2.9% in October compared to 4.3% the prior month, mainly driven by falling energy prices and a reduction in food inflation.

The move in yields was the main driver of weakness, although this was further exacerbated with mutual fund tax loss selling in the US, with the deadline of the end of October for mutual funds to make tax loss harvesting trades for the year. Excess cash from this selling would be expected to be re-invested in November. In local currency terms, there weren't too many places hide at a sector level, with Utilities the only sector up (+0.6%) although Tech stocks (-0.9%) outperformed the broader market following Q3 earnings from some of the mega-caps that surprisingly beat expectations. Consumer discretionary (-4.8%) and Energy (-4.4%) were the weakest sectors, the former driven a more general slowdown in activity and the latter which fell inline with falling oil prices.

Commodities broadly weakened with oil prices falling 6% to USD85/bbl, although to put this move in context, it's still 20% off its lows near the end of May. Oil prices usually increase during times of geopolitical risk, and with the conflict unfolding in Gaza, there was a brief spike on fear that Iran would become more actively involved, although concerns over macro growth more than off-set this. It's a strange time in markets, where commodities are mixed, with gold and iron ore stronger while copper, lithium and oil closed the month weaker. Rates are rising, yet economic growth and the jobs market is still healthy for now.

This dis-connect never lasts long, and although it's something we don't wish for, its often a recession or some economic shock that reinstates the more rational correlation between the economic strength and share market performance.

Strong "Mag 7" 3Q23 results drive outperformance of Profitable vs Unprofitable tech again

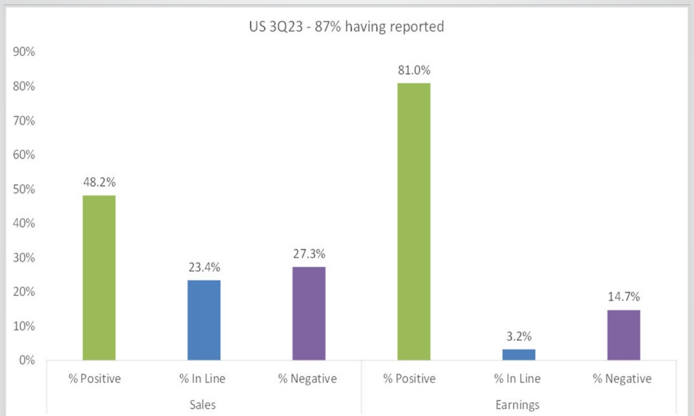


Source: Bloomberg, 31 October 2023

Portfolio comment and outlook

Financial markets continued to respond to the Fed's 'higher for longer' message during the month, pushing bond yields higher and pressuring equity markets. Macro signals, however, remain relatively mixed. Economic activity this year has been stronger than initially feared, underpinned by a surprisingly resilient US labour market and consumer spend. US manufacturing PMI's have also recovered somewhat recently. Nevertheless, while inflation is moderating in most major economies, the Fed remains vigilant and inclined to be hawkish. This is a complex policy backdrop and there now appears to be some early signs of weakness in forward looking confidence and activity surveys. There is a high risk of policy error as the downside impact from the lagged, cumulative impact of rate hikes continue to build. Consequently, it's not surprising to see an unusually wide range of growth forecasts for 2024.

US 3Q23 Reporting Season – Margin expansion the bright spot with sales beating expectations by a smaller magnitude vs EPS



Source: Alphinity, Bloomberg, 11 November 2023

Corporate earnings reflect a similar picture. In the US, third quarter earnings reports were better than expected and represented the first quarter of positive EPS growth since 3Q 2022. Revenue growth remains relatively muted (+2% y/y), however sequential margin expansion drove EPS growth of +4% (+10% ex Energy). Over the last three months, earnings' estimates for 2023 and 2024 are +0.2%/-0.1%. This is a noticeable improvement from the negative revisions earlier in the year, however understandably cautious sentiment about the outlook has prevented any upside to 2024 estimates.

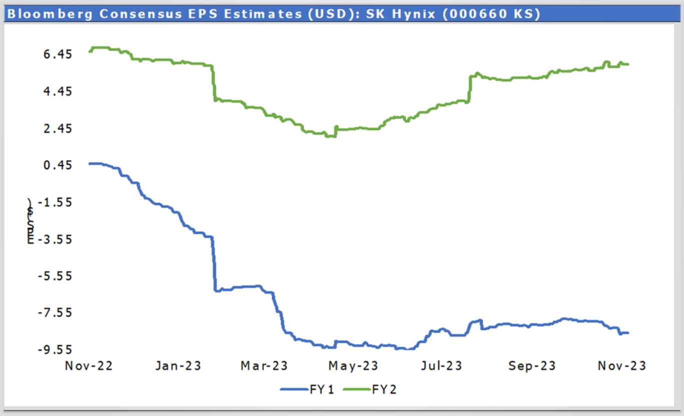
At a sector level, more growth-biased companies in Software, Semiconductors and Consumer Discretionary are seeing the strongest upgrades, with a mixed picture in Cyclicals (Industrials moderating, Materials and Banks lagging). Moves in oil prices have seen Energy move from earnings downgrades to significant upgrades. In contrast, earnings expectations in sectors such as Real Estate, Materials, Health Care and Consumer Staples continue to fall.

So far this year, market leadership has rotated away from Defensive sectors such as Utilities, Real Estate and Consumer Staples, with leadership mostly from select Growth sectors and specifically the 'magnificent seven' group of mega-cap stocks. While these stocks together represent ~30% of the S&P 500 market capitalisation, they have so far delivered an extraordinary 117% of the YTD market returns through to the end of October. Historically, such periods of extreme market narrowness have tended to be temporary, and we see a gradual broadening of market leadership as likely going forward.

During October we initiated a new position in Nike following a strong earnings report and signs of earnings inflecting higher after two years of headwinds from inventories and margin pressures. We also initiated a position in SK Hynix, a leader in high bandwidth memory for AI chips, where we also see evidence that the broader memory market is bottoming. Overall, the portfolio remains well-positioned in high-quality, reasonably valued growth cases, but importantly these investments sit across many different sectors, not just in Technology stocks (also Financials, Consumer Discretionary, Industrials, Communications, Health Care). In addition, we have over the last few quarters added very selective cyclical exposure where we have established stock-specific, fundamental earnings conviction.

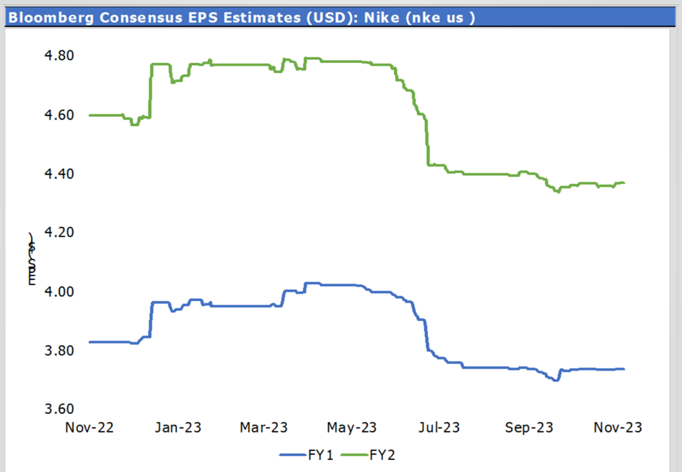
The Portfolio continues to see significantly better earnings revisions than the market and should continue to generate a superior earnings growth in both 2023 and 2024, which we expect to drive performance over time. The investment team will once again be travelling widely over the next few months to meet and research companies across different sectors and geographies as the earnings cycle continues to evolve.

SK Hynix – Leader in high bandwidth memory for AI chips



Source: Bloomberg, 31 October 2023

Nike – Signs of earnings inflecting after two years of headwinds



Source: Bloomberg, 31 October 2023

Traveller's Tale

Despite 2023 drawing towards a close, there is no sign yet of Alphinity's Global Equity team getting a break from their hectic schedule of overseas travel. As discussed in many previous issues, the insights our team can glean by visiting companies and talking to management on the ground is invaluable.

Global PM Jeff recently visited Sao Paulo and Mexico City to meet with a wide variety of companies in a number of different sectors, including Mercadolibre, Walmex, Santander, Banorte, Vale, Hapvida, PagSeguro, BB Seguridade, Bradesco, XP, BTG Pactual, Itau-Unibanco, Rumo and Ambev. With such a hectic schedule, there was no time to drink Tequila or play beach volleyball, but it was a great opportunity to visit two of the strongest growth stories in emerging markets today, notwithstanding the challenges of braving San Paolo traffic and domestic air travel on the indigenous airline, Latam.

He was almost part of an international incident on one Latam flight when Jeff's passenger insisted he move so the passenger's girlfriend could take Jeff's seat. Unfortunately, this happened during take-off and, after Jeff politely refused, he had to endure a rather awkward time with an aggressive neighbour, the intensity made worse by passengers having been packed into the cabin like sardines. Thankfully, he survived that flight and made it back to Oz in one piece. With the benefit of perspective, maybe Qantas isn't that bad after all.

Brazil is the 7th largest country by population in the world with around 216m people, and Sao Paolo's 22m people makes it the largest city south of the equator. While political risks remain elevated there, the economic growth outlook appears to be quite strong, with interest rates set to continue falling in 2024 from their recent highs of 13.75% this year. Jeff was particularly struck by a vibrant and innovative fintech environment, with companies such as Nubank, XP and Pagseguro all likely to benefit from stronger growth and continued share gains from Brazil's banks.

The agricultural sector has been another success story, with a strong increase in corn production and exports over the last three years as new transport infrastructure has unlocked agricultural potential in the West of the country. Brazil has recently overtaken the US to become the largest exporter of corn.

Like Brazil, political risks in Mexico need to be carefully considered, however it is likely to be a significant beneficiary of several powerful cyclical and structural tailwinds including so-called 'near-shoring' of US supply chains; an emerging middle class of young and aspirational consumers; and lower interest rates. This makes Mexico potentially one of the best growth stories in emerging markets. For example, according to the World Bank, only 37% of Mexicans over the age of 15 years have a bank account (versus 80% in India). This seems likely to increase significantly over the years to come. Highlights from the visit included meetings with Walmex and Banorte, both businesses likely to benefit from the strong growth outlook.

In addition to Latin America, Jeff also travelled to Boston to attend Barclays' Consumer Staples conference, where he met with companies including L'Oreal, Colgate, Unilever, Procter & Gamble, Coca-Cola, Mondelez, Danone, Carlsberg, Nestle, Diageo, Femsa and Estee Lauder. There was high anxiety around the outlook for a recovery to volume growth in many consumer categories as inflationary tailwinds fade, particularly in the U.S. Other key topics included the outlook for China, where the post-covid recovery has been disappointing, and the potential impacts of obesity drugs on alcohol, snack and soft drink consumption.

The key conclusion from his trip was increased conviction in some of the existing Global Equity Fund positions like MercadoLibre, L'Oreal, Pepsi and Procter & Gamble. He will continue to research a number of other prospective companies over the next few months with a view to potentially adding them to our 'best research ideas' list.

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