

Alphinity Global Sustainable Equity Fund (Managed Fund)

MONTHLY REPORT – OCTOBER 2023

Performance ¹	1 Month %	Quarter %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception ² % p.a.
Fund return (net)	-1.5	-5.4	1.9	-	-	4.5
MSCI World Net Total Return Index	-1.0	-3.5	11.6	-	-	7.0

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	\$81m
Distributions	Annually at 30 June
Min. Investment	\$10,000
Max. cash position	20%
Carbon Intensity (ave weighted) Scope 1 & 2	114.0 (vs MSCI Benchmark 127.9)

Top 10 positions

Company	Sector	%
Microsoft	Info. Technology	7.9
Alphabet	Communication Services	7.1
Procter & Gamble	Consumer Staples	5.7
MasterCard	Financials	4.5
Linde	Materials	4.3
Cadence	Info. Technology	4.3
Accenture	Info. Technology	4.3
Nvidia	Info. Technology	4.2
Novo Nordisk	Health Care	4.0
Schneider Electric	Industrials	4.0
Total		50.4

Data Source: Fidante Partners Limited, 31 October 2023

Fund features

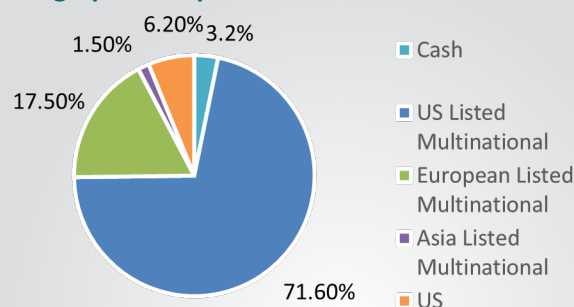
Sustainable: A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Diversified across sectors and regions.

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.

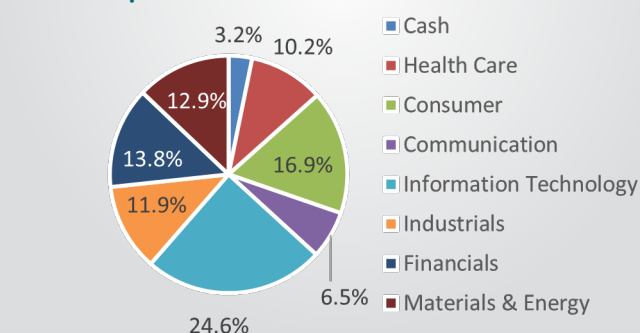
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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.

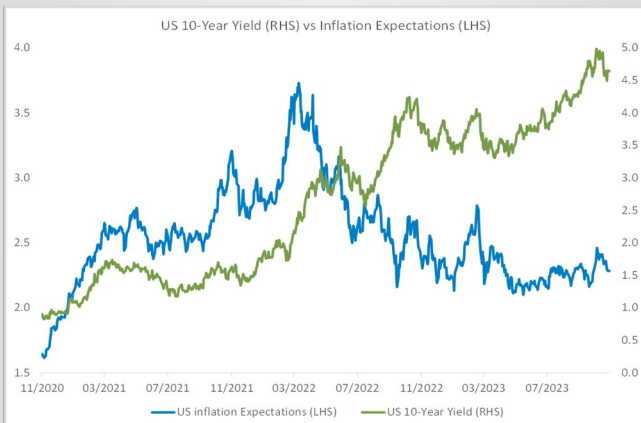
² The inception date for the Fund is 3 June 2021

³ Numbers may not add due to rounding

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

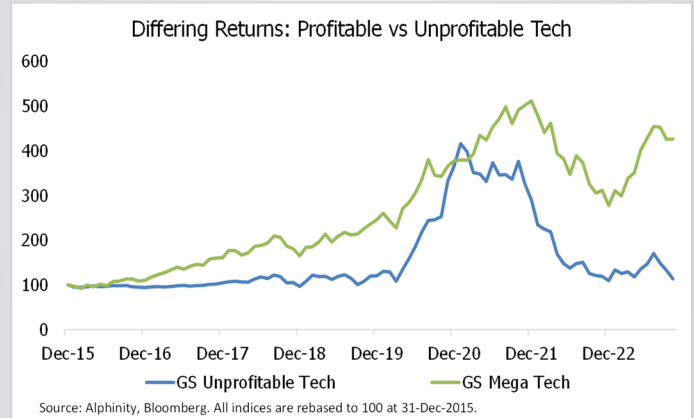
Economic data in October was again strong, defying the rate hikes from central banks and creating a headache for the Fed. The US economy grew at an annualised rate of 4.9% in Q3, above expectations of 4.5% which sent bond yields higher, while jobs data also printed above expectations. The US added 336k 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 in line 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

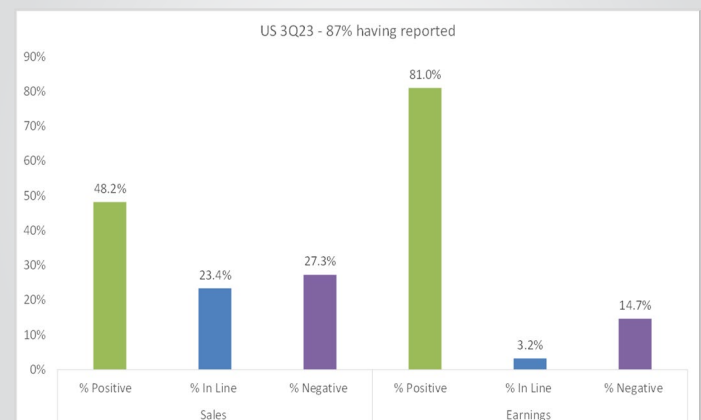


Source: Bloomberg, 31 October 2023

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

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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.

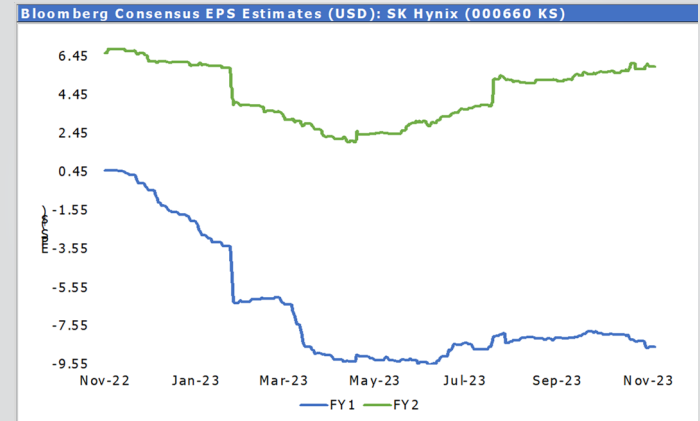
At a sector level, more growth-biased companies in Software, Semiconductors and Consumer Discretionary are seeing the strongest upgrades, with a mixed picture in Cyclical (Industrials moderating, Materials and Banks lagging). Moves in oil prices have seen Energy move from earnings downgrades to significant 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.

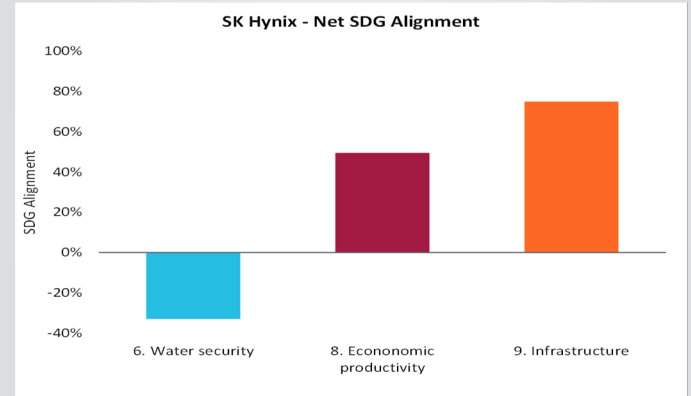
The Portfolio continues to see significantly better earnings revisions than the market and should continue to generate a superior earnings growth in both 2023 and 2024, which we expect to drive performance over time. The investment team will once again be travelling widely over the next few months to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

SK Hynix - Net positive SDG Score of 92%



Source: Alphinity, Bloomberg, 31 October 2023

Alphinity ESG & Sustainability Podcasts

ESG in 10 Podcast: Antimicrobial Resistance (AMR), What is it, and why is it important for Investors? Antimicrobials, especially antibiotics, have been vital in saving lives and improving life expectancy. However, rising antimicrobial resistance poses a significant threat, emphasising the importance of responsible use and research into alternatives. Alphinity ESG and Sustainability analyst, Moana Nottage, joined Fidante's 'ESG in 10' podcast to discuss her research into Antimicrobial Resistance (AMR) and the importance of integrating AMR as a factor into the investment and stewardship process. [What is AMR and why is it important for Investors? - Alphinity](#)

Podcast: Perspectives on Net Zero and A.I Perspectives on Zero: Episode 8 – Recent Progress on Net Zero and A.I. Considerations for Responsible Investing: Alphinity head of ESG and Sustainability, Jessica Cairns, joined Escala Partners "Perspectives on Zero Podcast" with Investment Analyst, Darragh Kennelly to discuss recent progress from Australian companies transitioning to net zero. We hear about some of the innovative ways companies are reducing their CO2 emissions. Finally, the rise of A.I. will have many implications for ESG investing, Jess and Darragh discuss some of the early work Alphinity have done around Responsible A.I. and the risks and opportunities it presents in the investment landscape. [Podcast: Perspectives on Net Zero and A.I - Alphinity](#)

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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



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.