Alphinity Global Equity Fund (Managed Fund)

MONTHLY REPORT – NOVEMBER 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)	5.6	-0.8	8.0	11.8	13.2	13.8	11.8
MSCI World Net Total Return Index (AUD)[3]	4.4	-0.7	14.1	10.9	12.1	12.1	11.1

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	$476m
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	5.9
Nvidia	Info. Technology	4.4
Parker Hannifin	Industrials	4.2
Linde	Materials	4.0
ConocoPhillips	Energy	3.9
Trane Technologies	Industrials	3.6
Accenture	Info. Technology	3.4
London Stock Exchange	Financials	3.3
Zoetis	Health Care	3.2
Total		**42.8**

Fund features

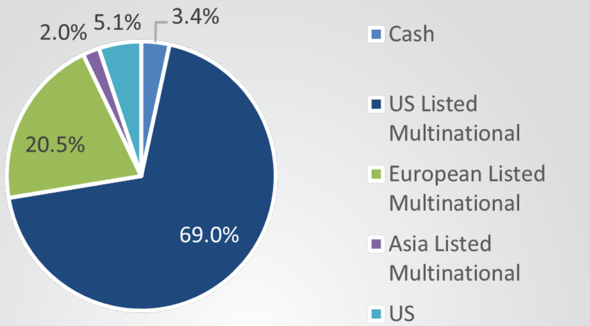
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

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.

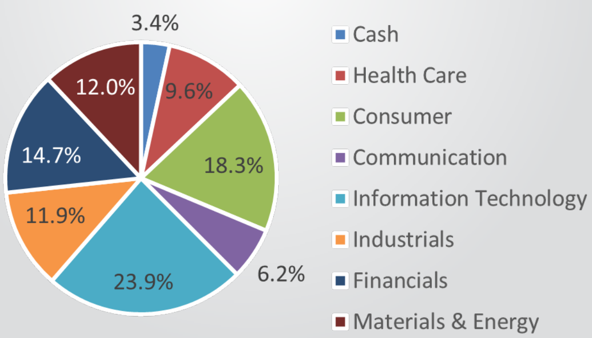
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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, 30 November 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

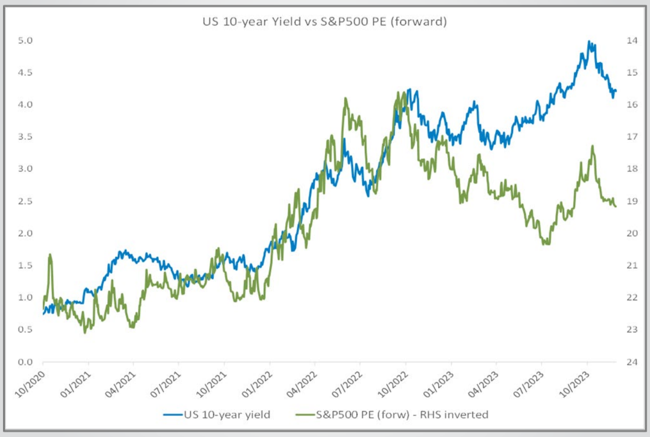
Aspire.Sustain.Prosper.

alphinity INVESTMENT MANAGEMENT

Market comment and outlook

In November, risk assets sharply reversed recent losses and rallied strongly as better-than-expected inflation data raised hopes that the Fed has done hiking and may begin cutting in 2024. Global stocks closed out their best month in three years, with investors rotating into risky assets in the growing belief the Fed and other central banks are close to winning the inflation battle. The S&P 500 index recovered from a 3-month losing streak and gained 9.1% in November in USD terms, while the US bond market staged its biggest rally since 1985. With year-to-date performance being dominated by the so-called "Magnificent-7" group of US mega cap tech stocks, it was encouraging to see some broadening out of performance last month. While tech stocks were still the best performers (+13.5%), Financials, Consumer Discretionary, REITS and Industrials all closed more than 10% higher.

Retracement in US 10-year yields supporting equity valuations

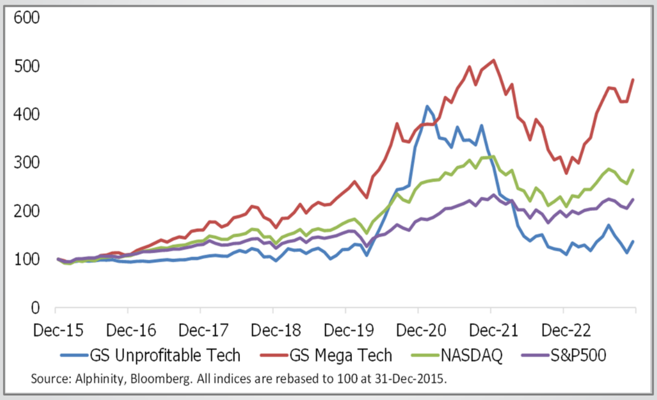


Source: Bloomberg, 12 December 2023

Even some of the most hawkish Fed policy makers like Chris Waller said he was 'increasingly confident' that monetary policy was in the right place. Market bulls are hoping for 'Goldilocks', whereby we don't get a recession and inflation falls, allowing the Fed to stop hiking and even potentially begin cutting. US 10-year bond yields fell 60 basis points to 4.32%. Inflation in Europe also dropped to 2.4%, the slowest pace in 2.5 years and well below expectations, which helped European shares. Emerging markets gained 8%, driven by Latam with strong performances in Argentina and Brazil after the far-right leader Javier Milei won a convincing election to become President.

Something else that fell beside bond yields was the US Dollar, losing nearly 3% against a trade weighted basket of global currencies as expectations for the US Fed to cut rates early next year gained traction. The MSCI World Index only gained 4.8% in AUD terms. The sharp depreciation in the USD also spurred a rally in gold, with the spot price moving well north of USD2,000/oz while copper prices also closed 4% higher. Oil prices declined for second straight month, falling 5% to USD81/bbl. OPEC+ delayed their meeting and was no closer to resolving a deadlock over oil-output quotas for some African members. The delays further hindered the oil price, which has helped to lower headline inflation.

November saw a strong rally across mega tech and unprofitable tech and the broader S&P500.

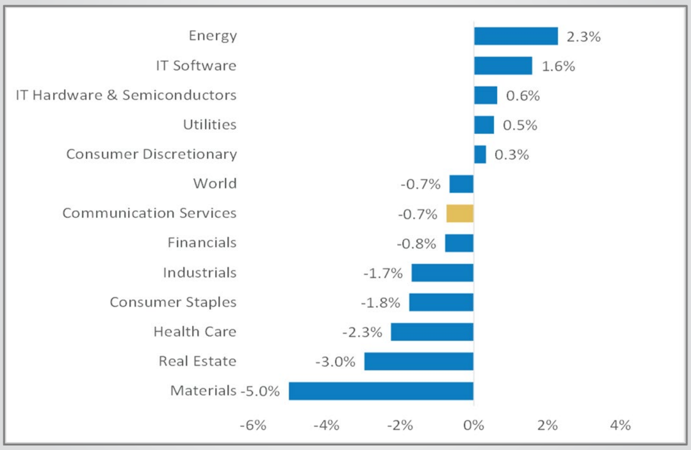


Source: Bloomberg, 30 November 2023

Portfolio comment and outlook

Inflation is trending lower in the U.S., and real-time data suggests that it will likely continue to do so for the foreseeable future at least. At the same time, U.S. economic growth appears to be decelerating again. Banks are tightening credit standards and the cumulative impact of rate hikes continue to feed into the real economy. Labor markets have remained resilient so far, however there are now signs of 'normalisation' there as well; and both consumers and businesses appear more cautious. All of this suggests that the Fed has likely done hiking for now and could begin cutting rates in 2024. An easing in financial conditions would be positive for risk assets, especially as we approach the 'wall of maturities' that corporates face from 2025 onwards. In the meantime, we remain vigilant about the near-term outlook for growth and corporate earnings. Policy error remains a significant concern, while geopolitical and election-related risks are also likely to continue to be prominent in 2024.

Mixed picture of style leadership across regions in 2023



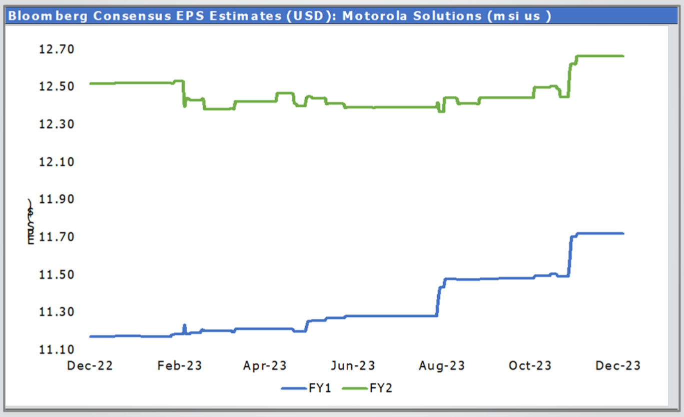
Source: Alphinity, Factset, 30 November 2023

Corporate earnings overall look set to contract modestly this year, although analysts currently expect a high mid-single-digit recovery in 2024, which may turn out to be optimistic. Earnings revisions over the last three months are modestly negative, with overall downgrades of -0.3%/-0.5% for 2023 and 2024 respectively. Energy continues to lead with upgrades, but IT Software, Hardware and Semiconductors are also experiencing upward revisions to 2024 estimates. It's interesting to see a mix of both defensive and cyclical sectors with the weakest analyst revisions, including Materials, Real Estate, HealthCare and Industrials.

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 ~70% of YTD market returns through to the end of November (down from ~117% at the end of October). Historically, such periods of extreme market narrowness have tended to be temporary, and it's notable that the market already appears to be broadening somewhat. It's likely that investment risks and opportunities may shift again as we head into 2024, especially if the Fed pivots decisively. There are some early signs of new price and earnings leadership in very select, cyclical parts of the market including memory semiconductors, homebuilders and industrial distribution, for example. We will continue to watch this closely given the maturity of the current downcycle, however so far it seems too early to draw definitive conclusions for broader market leadership.

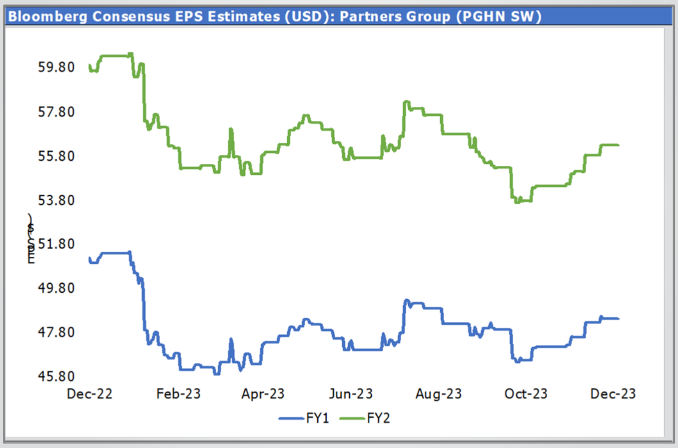
During November, we exited a long-held position in On Semi after a disappointing earnings report, which included a weak order book and low forward visibility. This was replaced, with a new position in Motorola Solutions, which reported strongly and guided higher. We expect Motorola to be a long-term winner from increased investments in public safety. Elsewhere we initiated new positions in Costco (the leading membership warehouse retailer) and Partners Group (a high-quality private market manager), where we have conviction on the outlook for earnings growth. This was financed through trims in Waste Connections, Chubb and Marsh & McLennan, amongst others. Overall positioning has not changed materially, with the portfolio well-positioned in high-quality, reasonably valued growth cases, well diversified across different sectors including Financial, Consumer Discretionary, Industrials, Communications, Health Care and Technology. We have over the last few quarters added some 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 has once again travelled widely over the last few months to meet and research companies across different sectors and geographies as the earnings cycle continues to evolve.

Motorola Solutions – Winner from increased investment in public safety with a record backlog



Source: Bloomberg, 30 November 2023

Partners Group – Leading global private markets asset manager benefiting from a number of structural growth drivers



Source: Bloomberg, 30 November 2023

What's on our mind

PRI in Person – Toyko 2023 – Four important takeaways

In this note our ESG & Sustainability analyst, Moana Nottage, shares insights from the PRI conference and outlines four important takeaways.

More than 5000 investors worldwide are now signatories to the Principles for Responsible Investment (PRI), as Alphinity has been since 2011. In October, I had the privilege of attending my first PRI conference which took place in Tokyo, Japan.

Under the resonating theme, "Moving from Commitments to Action", we covered a lot of ground in just two and a half days. Japan's commitment to net zero and renewed emphasis placed upon human capital, innovation and gender diversity served as a positive signal for Asia Pacific's ESG ambition. Complementing the main panels were side events that brought together 1400 delegates from more than 50 countries to explore the growing array of topics we must consider as responsible investors. Special academic break-out sessions invited scholars to present cutting-edge research that fostered debate and offered investors a chance to explore their studies and provide feedback. From physical climate risk and nature to intergenerational equity and human rights, there are many learnings to reflect on.

This article outlines four important takeaways from PRI in Person 2023:

#1: Japan's ambition in sustainability and responsible investment

#2: Looking beyond energy in the climate change conversation, and into nature

#3: Physical climate risk to accelerate in the face of a slow transition

#4: Challenges in Asia's net zero transition and ensuring interregional equity:

Conclusion:

The PRI brought together a passionate network of financial, ESG and sustainability experts. Japan's ambition in sustainability and responsible investment was emphasised through the Prime Minister's address, along with the PRI sponsorship of many Japanese companies. Nature and reforesting were positioned as important pieces of the climate change puzzle and progress is being made to collect baseline data to underpin the management of nature-related risks. Physical climate risk came through as an issue requiring more focus, in turn emphasising the need to lifting the bar in decarbonisation before weather-related costs worsen. I look forward to attending many more PRI conferences and helping to bring the conversation back to Australia.

Author: Moana Nottage – ESG & Sustainability Analyst

Please find a copy of the full note here: [ALPH-PRI-in-Person-1.pdf (alphinity.com.au)]

Traveller's Tale

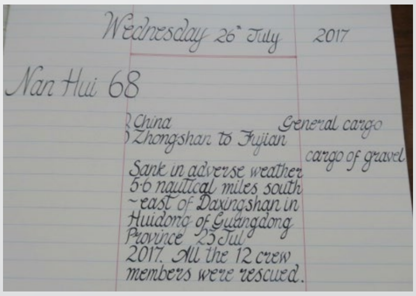
Most people associate the magnificent Seven stocks with Silicon Valley but two of the largest of the seven, Microsoft and Amazon, are actually based in Seattle, Washington. Global PM Mary spent some time in the Pacific Northwest region of the USA in November meeting with those magnificent two as well as a number of companies in the Global Equity portfolio based in that general area such as Nike, Starbucks and Costco.

Unfortunately, airline mishaps are universal, and her luggage didn't turn up; it turned out it never actually left the runway (Hawaiian Airlines was the guilty party this time, not Qantas). The result was that Mary had to attend some of her meetings in running shoes, although that was appropriate considering the pace of her schedule. She had been wearing head-to-toe Lululemon on the plane but luckily managed to get hold of some other clothes in time for her meeting with Nike in Oregon. It's not good form to show up at management meetings wearing apparel from a key competitor!

One of the highlights of her trip was going to a Starbucks roastery. Starbucks doesn't get a great rap from coffee snobs in Australia – one of the few markets where Starbucks has needed to close stores – but relative to coffee in the US it's pretty much as good as it gets. At the roastery (below) she was able to sample a few items from their famous seasonal menu. Pumpkin spice cappuccinos, peppermint mochas and gingerbread lattes were all available. Sounds great! Weighing in at a hefty 400 calories each, these "coffees" are targeted primarily at the US market and are more like seasonal desserts, but they are sure to drive sales growth for Starbucks in the fourth quarter. Happy Holidays!

Meanwhile, Andrew Martin in our domestic team went to London to meet with a number of banks and insurers to gain industry insights. While at Lloyd's, which is of course the epicenter of global insurance, the insurer of insurers, he was shown the famous Lutine Bell, its ornate surrounds clearly from different age to the modern building it resides in. The bell came from the ship La Lutine, which sank in the North Sea in 1799 with 240 crew, 239 of whom perished, and more than £1 million worth of bullion on board. According to the Bank of England's inflation calculator, that would be about £130 million worth today. Apparently much of the bullion was lost but they did manage to recover the bell in 1858 during salvage operations. It was a huge financial blow for Lloyd's members but it did cement the system's reputation for settling even the largest losses.

For a long time, the bell was rung to notify insurers that a ship had gone down, although an electronic bell is now used as the old bell has become quite fragile. It is now only used on momentous occasions, such as the recent coronation of King Charles III or the September 11 terrorist attacks. There is also a book on display nearby, written in a beautiful archaic cursive, which records the ships lost at sea. Lloyd's has many of these books in its vaults, covering its 350 years of operation, but has thus far resisted any urge to go electronic. We hope it never does.



For further information, please contact:

Fidante Partners Investor Services
Phone: 1300 721 637 Email: info@fidante.com.au Web: www.fidante.com.au

Alphinity Investment Management
Web: www.alphinity.com.au