Alphinity Global Sustainable Equity Fund (Managed Fund)

MONTHLY REPORT – FEBRUARY 2024

Performance[1]	1 Month %	Quarter %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception[2] % p.a.
Fund return (net)	8.0	15.9	27.3	-	-	12.1
MSCI World Net Total Return Index (AUD)	5.8	12.7	29.4	-	-	12.7

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	$99m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%
Carbon Intensity (ave weighted) Scope 1 & 2	89.9 (vs MSCI Benchmark 99.7)

Top 10 positions

Company	Sector	%
Microsoft	Info. Technology	6.9
Nvidia	Info. Technology	6.2
MasterCard	Financials	4.9
Proctor & Gamble	Consumer Staples	4.5
Alphabet	Communication Services	4.3
Novo Nordisk	Health Care	4.1
Accenture	Info. Technology	3.9
Trane Technologies	Industrials	3.7
Schneider Electric	Industrials	3.7
ASML	Info. Technology	3.5
Total		**45.7**

Data Source: Fidante Partners Limited, 29 February 2024

Fund features

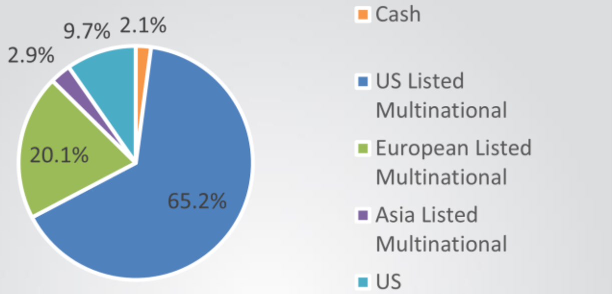
Sustainable: A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Diversified across sectors and regions.

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.

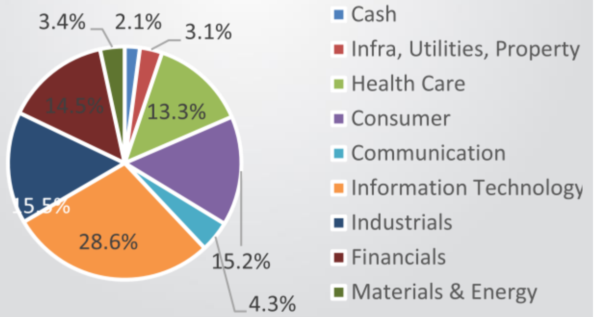
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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

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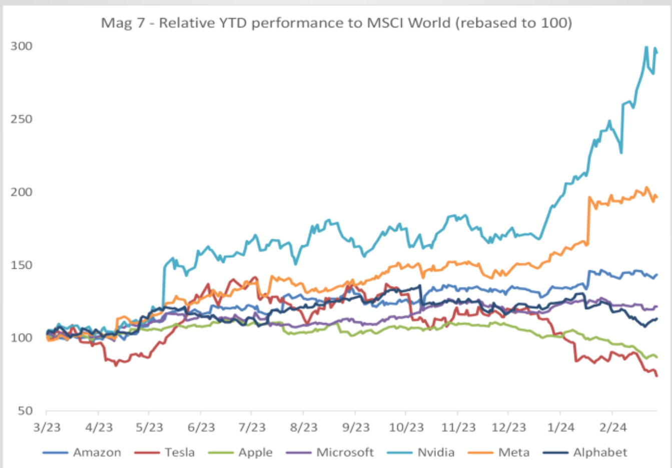
alphinity INVESTMENT MANAGEMENT

Market comment and outlook

Equity markets enjoyed broad-based gains in February, with fourth quarter earnings the main driver of share price performance rather than macro. The MSCI World Index gained 5.7% in AUD terms, and the US and Japan both rallied 7% to reach all-time highs. China (+11%) and Hong Kong (+8%) recovered from 6 months of declines, helping Emerging Markets to rise 6.3%, although it remains to be seen whether these gains can be sustained in this region. Economic data in the US, including jobs and inflation data, were both stronger than expected and contributed to a rise in bond yields with the market increasingly pricing in further delays to rate hikes. Despite the move higher in yields, US mega cap tech stocks dominated as most continued to deliver on earnings. AI chipmaker Nvidia has gained 58% already this year, resulting in a market cap over USD2 trillion, while companies like Meta signalled its intention to grow earnings and return capital, sending its shares up 28% in the month. It wasn't a knock-out for all MAG-7 stocks, with both Apple and Tesla underperforming the market year-to-date. Apple has fallen 14% from December highs, with increasing concern around its growth outlook.

Bifurcation within the Mag7 YTD following result releases



Source: Alphinity, Bloomberg, 14 March 2024

The recent fourth quarter earnings results in the US showed strong breadth, with 10 out of 11 sectors beating estimates and quarterly EPS expectations growing 8% year-on-year, notably higher than the 4.3% expectations heading into the quarter. In Europe however, EPS growth was sequentially lower versus Q3, resulting in a further widening between US and Europe earnings delivery. On a global sector level, Consumer Discretionary (+9.1%) and Tech (+7.7%) were the best performers, while Energy (2.7%), Consumer Staples (1.8%) and Utilities (0.2%) relatively underperformed.

Commodities were mixed, with strength in oil (+3% to USD78/bbl) off-setting weakness in iron ore (-9.4% to USD115/t) and a softer copper price that has been largely range-bound over the last 3 years. Saudi Arabia delayed oil expansion plans and signs of rational supply responses helped support oil prices, while lithium continued to fall with rising battery inventories and subdued EV sales in some markets. Economic data generally pointed to stronger economies, both in the US and in Europe. US inflation came in higher than expected (annualised CPI 3.1% vs 2.9% exp) which, combined with a labour market that continues to beat expectations of jobs growth, sent bond yields higher. In January and Feb, the US has added 628k jobs compared to estimates of 385k. US 10-year bond yields rose 33 basis points to 4.25%. With stronger jobs and persistently higher prices - the 2 data points most closely watched by the Fed – expectations for rate cuts have been pushed further out until later in the year.

Portfolio comment and outlook

The US labour market remains strong which has continued to underpin consumer confidence and spending. At the same time, moderating inflation has opened the possibility of falling interest rates and easier financial conditions. On balance, this is a more constructive backdrop than most expected, which we believe has reduced the odds of recession and improved the outlook for growth. Of course, we remain mindful of various risks including geopolitics, commercial real estate concerns and the potential for central bank policy error as they continue to navigate the macro environment. We will continue to monitor the environment closely and manage portfolio risk accordingly.

The fourth quarter earnings season in global equities delivered both earnings 'beats' (~70%) and raised guidance (~45%) in line with historic averages. It was another confirmation that the previous, broad downgrade cycle is increasingly behind us. Positive earnings growth year-on-year (+8% in the U.S. in the quarter) means that earnings are back contributing positively to equity markets again, after rising valuation multiples did the heavy lifting for most of 2023. It's worth noting that we are not seeing a significant upgrade cycle playing out at the moment, but market expectations and reality have become much better aligned. On this note, global earnings revisions for the last month have inflected to being marginally positive: +0.1% for 2024 forecasts, and +0.3% for 2025. These numbers are still being held back by commodity-related sectors Energy and Materials with -1% to -3%, but most global sectors are now seeing upgrades overall. The relative leadership has continued to strengthen for sectors with a growth profile such as Technology and Communication Services. At the same time, earnings revisions in more cyclical sectors such as Financials and Industrials continue to improve, leaving the more defensive sectors Consumer Staples, Health Care and Utilities further behind.

Market leadership continues to be mainly with Growth stocks, including many of the mega-cap Technology titans which dominated performance in 2023; however, it's noteworthy that there is now increased dispersion within this group, as well as some early signs of broader market participation outside the 'Mag-7'. For example, both Tesla and Apple are underperforming year-to-date after disappointing earnings, while most of the other 'Mag-7' stocks reported strongly. This is a diverse range of businesses, with different earnings outlooks, and we would expect further performance dispersion going forward. We also believe it's reasonable to expect market breadth to improve if the Fed pivots decisively to rate cuts and macro uncertainty keeps normalising. Many of the traditional Defensive sectors such as Utilities, Real Estate and Consumer Staples continue to underperform, while select, cyclical sectors such as semiconductors, US housing and industrial distribution are performing strongly. We continue to watch this closely and will follow new cyclical earnings leadership as it continues to evolve.

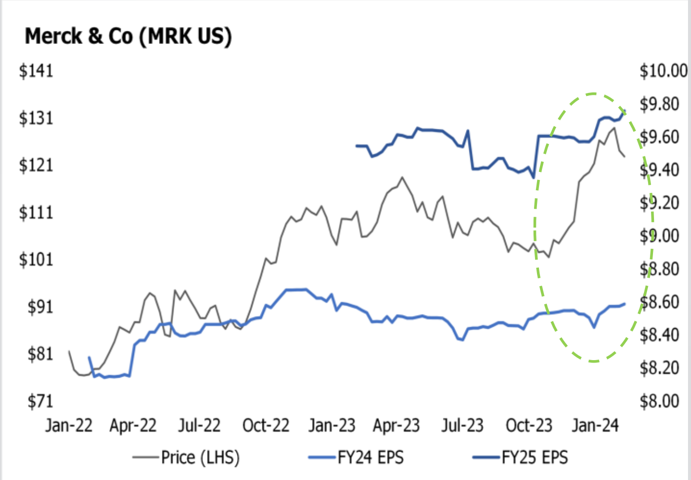
MSCI World 4Q23 Quarterly Results: % of companies beating & raising EPS estimates in line with LT averages

Source: Alphinity, Bloomberg, 14 March 2024

During February, we invested in Merck & Co, with the company entering a new earnings cycle driven by oncology, vaccine flagships and oral covid. The stock replaced ING, who guided to weak 2024 Net Interest Income ahead, resulting in earnings downgrades post the recent result. We also continue to add to our Home Depot position, bringing more high-quality exposure to the US housing cycle, which is showing growing signs of bottoming out. We reduced our exposure to Zoetis on slightly weaker reported margins relative to our expectations. Finally, we took some profits in our AI and GLP-1 beneficiaries, including Alphabet and Novo Nordisk, following the recent rally.

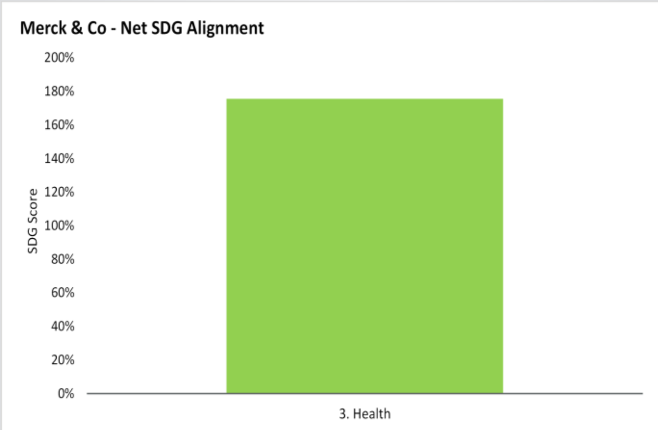
Overall portfolio positioning has not changed materially recently. We are invested in high-quality growth cases across many sectors and have in addition over the last few quarters gradually added selective, cyclical stocks with idiosyncratic earnings stories. This has largely been financed by a continued trim of more defensive stocks, as they fall in relative attractiveness under our investment process. In some cases, we have also re-allocated capital between different cyclical stock ideas, to stocks where we have the firmest conviction. Our ongoing global research trips are overall producing some higher convictions, and 'competition' for portfolio capital between stock ideas has clearly been rising.

Merck & Co – entering a new earnings upgrade cycle



Source: Alphinity, Bloomberg, 14 March 2024

Merck & Co – Strong alignment to SDG 3 – Good Health & Wellbeing



Source: Alphinity, 14 March 2024

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