# Alphinity Global Equity Fund (Managed Fund)

## QUARTERLY REPORT – MARCH 2024

| 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) | 3.7 | 18.4 | 25.7 | 16.0 | 15.5 | 15.5 | 13.7 |
| MSCI World Net Total Return Index (AUD)[3] | 3.0 | 13.9 | 28.4 | 14.4 | 14.0 | 13.7 | 12.6 |

### 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 | $586m |
| Distributions | Annually at 30 June |
| Min. Investment | $10,000 |
| Max. cash position | 20% |

### Top 10 positions

| Company | Sector | % |
|---|---|---|
| Nvidia | Info. Technology | 6.0 |
| Microsoft | Info. Technology | 5.7 |
| Alphabet | Communication Services | 4.5 |
| Parker Hannifin | Industrials | 4.0 |
| Trane Technologies | Industrials | 3.8 |
| ConocoPhillips | Energy | 3.8 |
| Bank of America | Financials | 3.7 |
| Merck & Co | Health Care | 3.7 |
| Novo Nordisk | Health Care | 3.7 |
| Home Depot | Consumer Disc | 3.5 |
| **Total** | | **42.5** |

### Fund features

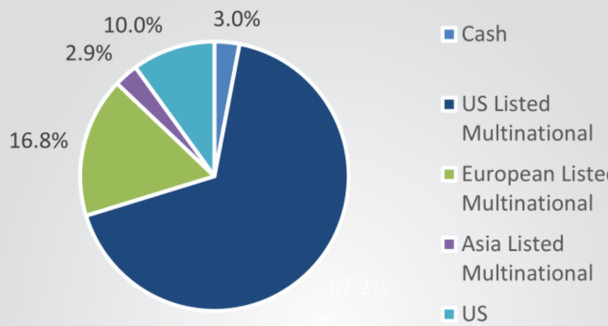
**Concentrated:** A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

**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.

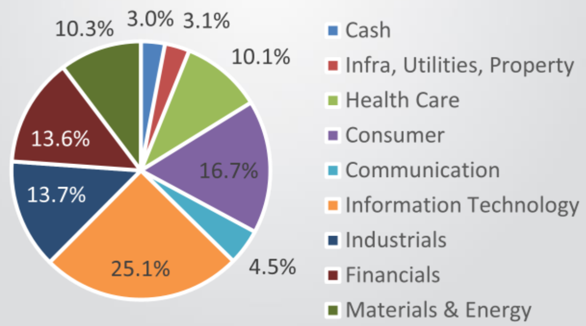
**Talent:** A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

**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

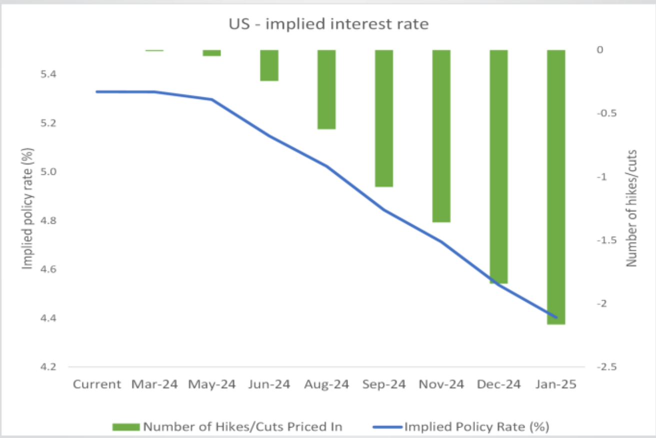



Data Source: Fidante Partners Limited, 31 March 2024
1 Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.
2 The inception date for the Fund is 21 December 2015
3 From 21 December 2015 to 30 April 2019, the Benchmark was the MSCI World Equity ex Australia (Net) Index. The current index is effective from 1 May 2019

## Market comment and outlook

Equity markets closed out the first quarter of 2024 with solid performances across both developed and emerging markets, with participants appearing to become more comfortable with equities exposure during a period of stable interest rates, even though rate cut expectations have been pushed further out. US equities gained 15.5% in AUD terms in Q1 2024, outperforming the MSCI World Index (+13.7%) and Emerging Markets (+6.8%). Encouragingly in March, performance leadership broadened beyond the Tech heavy lifters, with Energy, Materials and Financials all contributing a greater proportion of relative outperformance. This was a relief particularly in the US, where the mega cap tech stocks had dominated the contribution of returns to a concerningly large degree. China still lagged the broader developed markets, and despite a stand-out month in February (+10%), the market has only posted 3 positive monthly returns in the last 12 months as weaker credit demand and a slowing property market are yet to show signs of a recovery.

**Rate cut expectations being dialed back – market currently expecting 43bps of cuts in 2024**




Source: Bloomberg, 12 April 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. Semiconductors led Tech stocks higher, although some diversion between the MAG-7 mega caps became increasingly evident. Nvidia (+91%), Meta (+44%) and Amazon (+25%) significantly outperformed, while Apple (-6.6%) and Tesla (-26%) lagged. The Retail sector also displayed large divergence, with luxury brands like Ferrari and LVMH performing well, while apparel and footwear companies like Nike and Lululemon delivered softer outlooks and cut earnings guidance.

As the market weighed up the trade-off between stronger economic data in the developed world against relatively stable inflation, bond yields moved gradually higher over the quarter. US 10-year bond yields rose 32 basis points to 4.2%, still well below the 5% peak levels seen late last year. The US continued to add more jobs than expected, with nonfarm payrolls well above expectations in each month this year, adding a total of 931k in Q1 vs expectations of ~600k. In addition, both manufacturing and services PMIs are in expansionary phases and printing around the 52.0 levels. The stronger data has pushed back rate cut expectations, with consensus for the first cut now pushed back later in 2024. Inflation data, both in the US and in Europe, did start ticking marginally higher than expectations throughout the quarter, which pushed out rate cut expectations further. Annualised CPI in the US came in at 3.5% at end of March, ahead of expectations of 3.4%, with a stronger oil price a large contributor.

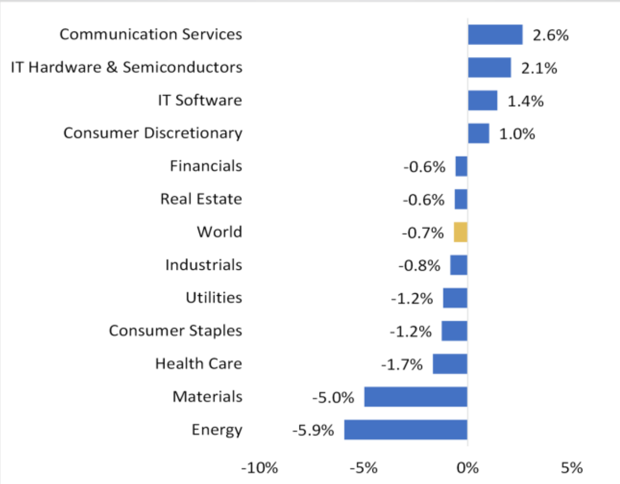
## Portfolio comment and outlook

The U.S. labor market remains strong, with still low unemployment and rising wages, which together have continued to underpin consumer confidence and spending. At the same time, moderating inflation has opened up the possibility of falling interest rates and easier financial conditions. This is a more constructive outlook than most expected, and global equities have rallied strongly in response. Recent economic data suggests that growth is beginning to gradually broaden out, although at the same time there is a growing risk that the Fed's credibility on inflation may re-emerge as a concern. There are a complex mix of early and late cycle dynamics across different sub-sectors and geographies, which continue to create uncertainty around the appropriate monetary policy stance and consequently the risk of policy error remains high.

So far this year analyst revisions have remained flattish overall, albeit with a wide dispersion by sector. Energy and Materials have both experienced downgrades, although at current commodity prices revisions could turn positive again quite quickly. Elsewhere, earnings leadership is mixed, with the Communications and Technology sectors continuing to enjoy positive revisions, while more traditional defensive and rate-sensitive sectors such as Consumer Staples, Health Care, Utilities and Real Estate are all lagging. Consensus currently expects 2024 earnings growth of +7.7% for the MSCI World Index, accelerating to +12.7% in 2025. After a strong recovery in markets, the upcoming earnings season will provide an important expectation refresh. Mega-cap Technology stocks remain a key focus, although investors will also be looking for an update on the health of the US consumer, as well as confirmation that the outlook for growth is improving.

Market leadership has now decisively returned to fundamental earnings, an encouraging sign for the overall health of financial markets, but also a tailwind for our process and a driver of positive performance in the quarter. Growth stocks, including many of the mega-cap Technology titans, continue to lead; although there is now significant dispersion within this group, as well as some early signs of broader market participation. Many of the traditional Defensive sectors such as Utilities, Health Care, Real Estate and Consumer Staples continue to underperform, while select, cyclical sectors such as Semiconductors, homebuilders, transport, and industrial distribution are all performing strongly. We continue to watch this closely and will follow new earnings leadership if it continues to evolve.

**2024 3-month Earnings Revisions – Materials and Energy the main drag**

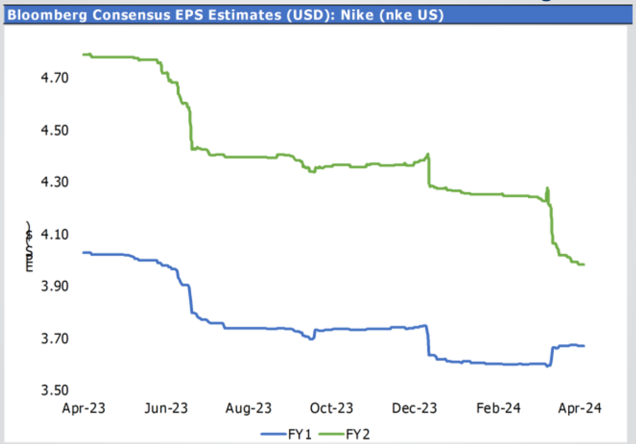



Source: Alphinity, Bloomberg, 7 April 2024

During the quarter, we initiated new positions in Home Depot and American Express, both strong franchise businesses where we believe earnings expectations are too low as cyclical headwinds begin to abate. We also invested in Prologis, a high-quality industrial real estate business with powerful structural tailwinds and increased visibility on improved cyclicality going into 2025, and Merck, which continues to surprise on rebuilding its' long-term drug pipeline. These were financed by the sale of positions in Starbucks, Nike and Zoetis after weak earnings reports failed to confirm our investment thesis. We exited a long-held position in PepsiCo, reflecting headwinds from lower inflation, and took profits in Chubb to acknowledge higher valuation. We also exited lower conviction investments in Sandvik, Baker Hughes, L'Oréal and Freeport-McMoRan.

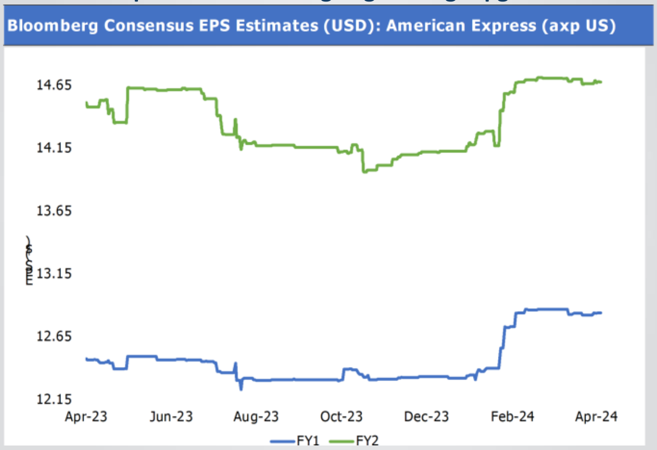
The Portfolio continues to see significantly better earnings revisions than the market and should continue to generate a superior earnings growth in 2024-2025, which we expect to drive performance over time. After a period of strong market performance, we are cognisant of valuation risks and the investment team intends once again to travel widely over the next few months to validate conviction on existing investments, but also refresh our best research ideas across different sectors and geographies.

**SOLD: Nike -Lower conviction with turn around timing unclear**



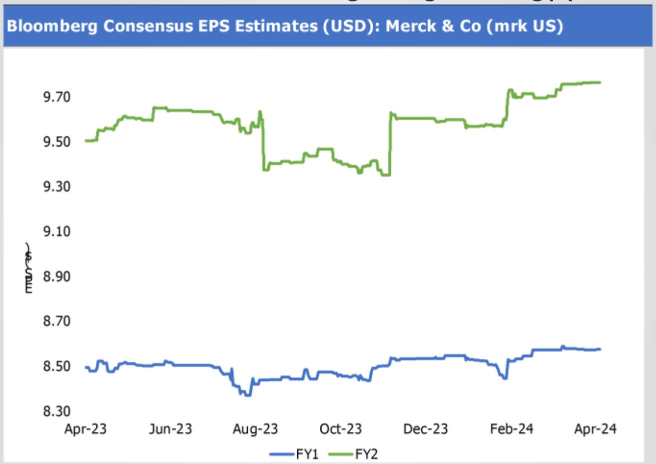

Source: Bloomberg, 12 April 2024

**BOUGHT: American Express – Unique business model beating expectations with ongoing earnings upgrades**




Source: Bloomberg, 12 April 2024

**BOUGHT: Merck & Co – Building its long-term drug pipeline**




Source: Bloomberg, 12 April 2024

## GEN AI & GLP-1: Why 2024 will be a "show me" year

2023 global equity returns were dominated by an alphabet soup of megatrends. From (Chat)GPT shining the spotlight on the lifechanging potential of Generative Artificial Intelligence ***(GEN AI)***, to a broader adoption of Glucagon-Like Peptide -1 ***(GLP-1)*** diabetes drugs for weight loss and other obesity-related diseases. These megatrends resulted in extraordinary share price movements across multiple sectors as investors crowded into the themes and quickly decided who the winners and losers may be.

As we head into the third month of 2024, we continue to see these megatrends dominate equity market returns. In contrast to 2023, there is a clear bifurcation between megatrend beneficiaries that can deliver revenue and earnings growth and those that can't. This is not only evident within the Magnificent 7 ("Mag 7"), but also across other so-called GEN AI and GLP-1 winners and losers.

Alphinity continues to have selective exposure across both megatrends. Within GEN AI, we have exposure to early AI winners, such as Nvidia and Microsoft. In addition, we continue to invest in opportunities across the broader AI ecosystem. SK Hynix, ASML, Cadence and Accenture are examples of technology enablers and facilitators where AI is augmenting company performance. Importantly, we continue to look further afield across sectors to companies not only enabling AI but those that will also reap its benefits.

We also have a nuanced exposure to the GLP-1 megatrend where the initial market clamour to define "winners" and "losers" delivered some interesting opportunities. While market leader and key GLP-1 winner, Novo Nordisk, has seen strong share price gains, assisted robotic surgery company Intuitive Surgical was initially dropped into the loser bucket on account of minor exposure to gastric banding. The market has since recalibrated ISRG expectations, and the shares have more than recovered the initial knee jerk reaction.

A further broadening out of these megatrends should continue to create exciting new "show me" opportunities in 2024 and beyond.

### GEN AI – Show me the earnings

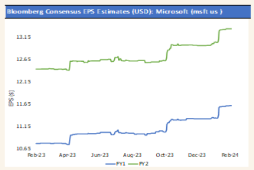
Throughout 2023 and into 2024, Alphinity has maintained a selective exposure to the AI ecosystem. We own 4 of the Mag 7 early AI winners (Nvidia, Microsoft, Alphabet and Amazon) for their exposure to various AI segments, including semiconductors, cloud, datacentres, large language models and other applications. Complimented with other AI technology building blocks, including design (Cadence), equipment suppliers (ASML), memory chip manufacturers (SK Hynix) and other services (Accenture).

Importantly, we continue to look further afield. To companies producing the building blocks of the building blocks. And others using AI effectively to expand their product offering and improve productivity and efficiencies. Interesting examples include Trane Technologies, Prologis, AirBnb, and London Stock Exchange.

These stocks have all recently delivered strong 4Q23 results and continue to enjoy earnings upgrades.

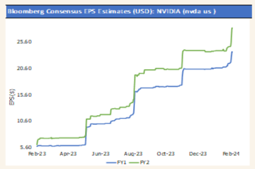
**MICROSOFT – Leading global software technology company**

- Early winner in AI with large monetisation potential – Uplift in Azure (cloud) consumption, relationship with OpenAI, infusion across Office 365 office suite etc.
- Strong earnings upgrades and consistently high quality.
- Our conviction into 2024 remains, primarily underpinned by cloud demand then accentuated by the initial emergence of AI revenues




**NVIDIA – Leader in Graphics Processing Units & AI posterchild**

- GEN AI has created a powerful demand for NVDA's market leading GPU's and associated software.
- We see this proliferation of NVDA's GPU solutions in data centres still in an early phase & product innovation remains unmatched.
- New product launches H200 & B100 on the horizon
- Significant revenue and earnings upgrades keeping the multiple low.

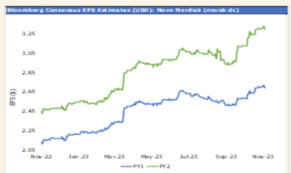



### GLP-1 Therapies – Show me the results

Despite the outperformance over the last year, we continue to see upside in GLP-1 winner, Novo Nordisk. With big investments in additional capacity, new trial outcomes scheduled from April 2024 onwards and continued innovation, we expect Novo to continue to defend their current 80-90% combined market share (with Eli Lilly) for years to come in this ultra-growth market. This class of drugs is in a very interesting part of its cycle, with medical trials starting to show their potential positive impact on other medical conditions (cardio, kidney, sleep apnea etc). The total long-term market potential for GLP-1 drugs is still expanding.

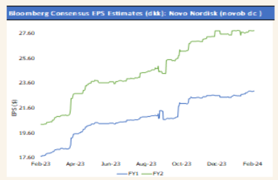
**Novo Nordisk – Leading position in diabesity with continued unmet needs across all areas**

- Evidence of obesity drugs also addressing co-morbidities in cardio, kidney disease, sleep apnea which increases likelihood of wider cost and insurance coverage.
- Strong focus on capacity expansion and new innovation.
- Strong 4Q23 results and guidance with GLP-1 demand driving continuous strong earnings upgrades.
- 40 trial read-outs and presentations expected in 2024.




**Intuitive Surgical (ISRG) – Global leader in minimally invasive robotic assisted surgery**

- GLP1 impact is more nuance around longevity being a positive for procedures to balance out the potential loss from a healthier population
- Strong recovery on better outlook and abating GLP1 fears. Bariatric surgeries account for only c4% of revenues.
- Strong 4Q23 results ahead of expectations. 2024 earnings forecasts will be quite detached from the strongest investment case driver for a little while: the announced launch of the da Vinci 5 platform.




### Conclusion:

In times when the stock market is infused with captivating megatrends, such as GEN AI and GLP-1, there is a tendency for investor expectations to overshoot. Resulting in share prices of perceived beneficiaries running on speculation and the fear-of-missing-out rather than fundamentals. The intense market concentration and diverging price movements of the last 14 months is a good case in point.

Looking ahead, we expect to see a continuous evolvement and adoption of both GEN AI and GLP-1. Assessing long term winners and losers along the way will be crucial and fluid. At Alphinity, we will continue to deploy our agile, tested investment process to find "show me" megatrend earnings leaders in 2024 and beyond.

**Author:** Elfreda Jonker – Client Portfolio Manager

**For a copy of the full note,** visit our website: [Why 2024 will be a 'show me' year - Alphinity]

## Traveller's Tale

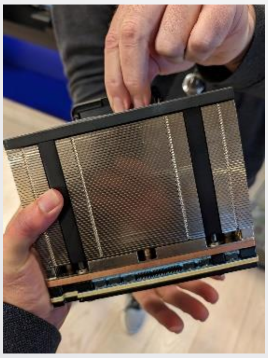
As fourth quarter earnings wrapped up for the Global team, it was time to once again pack their bags and venture off on overseas research trips. During March, Alphinity had four of its global portfolio managers on separate trips; Jeff to the US and the UK, Chris to the US, Jonas to the US and Trent to the US and Asia. Mary was back in the Gateway building minding the fort, although she will be visiting the HQ of Fund holding Ferrari in Italy in May, a trip that probably trumps all the others. Ferrari has been a great performance contributor to our Global Fund, a true Alphinity stock in a sustained earnings upgrade cycle that benefits from unique pricing power and great order visibility. We're looking forward to sharing some of Mary's insights post that visit.

Back to the extensive March travel. Trent's adventures across US, Korea, Taiwan and Japan could supply a year of Traveller's Tales by itself but we'll do our best to filter out the best bits. The US TMT conference he attended delivered some memorable moments, not least of which was

Elon Musk delivering an almost incomprehensible rant that had many struggling to understand what he was saying. Replays of conference presentations were available but the link to Elon's has mysteriously gone missing. The companies Trent met

with included AI chip powerhouse Nvidia, AMD, ServiceNow, Korean memory play SK Hynix, Perplexity, Anthropic, Apple, Towa, Wistron and Asia Vital Components. Some of these are key holdings in our Global Equity Fund, while some are being carefully considered as stocks on the warm-up bench. It's always nice to have a solid bench of companies waiting for their opportunity to enter the Fund.

Trent had to wear a hat → while visiting Towa Corp, a Japanese Semiconductor equipment-making company to make sure no stray hairs would be getting into any of their sensitive equipment. While visiting Nvidia, Trent got his hands of one its latest Graphics Processing Units→. GPUs are the AI chips that many of the largest companies are desperate to get their hands on. Imagine having a customer base that includes Microsoft, Meta, Google, Amazon and Tesla: essentially the other six of the Magnificent 7 are your biggest clients. Nvidia's latest Blackwell platform will set you back a cool $US30-40,000 per unit!



It would be remiss of us not to include the cultural highlight of the trip. While in Kyoto with Geisha, he played the Japanese equivalent of Rock-Paper-Scissors, which is Tiger-Sword-Old Lady. In this instance, he won the game: Old Lady beats Sword (Samurai culture would not allow an attack on such a vulnerable person) but a Tiger will beat an Old Lady.

Skipping across to South Korea, Trent was able to meet with SK Hynix, a leading supplier of memory chips, one of only three companies in world to do memory, along with Micron and Samsung. Knowing all about Nvidia's H100 GPU, it became very clear the importance of High Bandwidth Memory. HBM is an acronym you're bound to hear a lot more about in coming months. Demand for it is ripping, which is tightening overall markets and driving ASP's (average selling prices) higher. SK Hynix is maintaining a leadership position in the HBM market, although Micron and Samsung are starting to close the gap.

The final leg of his tour, to the geopolitical hotspot of Taiwan, was an opportunity to gather more insights into the semiconductor supply chain. Pull apart an iPhone and more than half the components come from Taiwan. It was his final overnight, and when Trent got off the bus and was surprised to see all the locals scurry away rather than checking into the hotel recommended by the organiser. When he asked why, they replied "everyone in Asia knows that the Hyatt in Taipei is haunted". That memo hadn't reached Trent! By this stage of the tour, however, no ghosts or evil spirits could curtail the excitement and growth potential of semi-conductor stocks. There are many companies in Asia with a sliver of the AI pie who are now lining up to drink from the firehose of activity. One company worth mentioning was a server cooling manufacturer (currently making the fans in PCs but moving into full cooling systems): its units are meant to be growing from 200,000 to 4 million over the next two years.

We've hardly touched the surface of just one PM's trip, let alone the other three, so we'll save those for next time. For instance, Chris toured New York and Orlando, attending conferences as well as the GE Aerospace capital markets day, where he saw this cross section of wind turbine blade which is largely made of balsa wood, not the more common but energy-intensive aluminium.

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