Alphinity Global Equity Fund (Managed Fund)

MONTHLY REPORT - MAY 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)	2.1	1.8	20.7	12.5	14.9	13.9	13.1
MSCI World Net Total Return Index (AUD)[3]	2.0	1.6	21.6	12.2	13.7	12.4	12.2

Fund facts

Portfolio managers	Jonas Palmqvist, Jeff Thomson, Trent Masters, 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	$580m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
Nvidia	Info. Technology	6.8
Microsoft	Info. Technology	6.1
Alphabet	Communication Services	6.1
Bank of America	Financials	4.3
Motorola Solutions	Info. Technology	3.9
Merck & Co	Health Care	3.8
Trane Technologies	Industrials	3.6
Costco	Consumer Staples	3.5
ConocoPhillips	Energy	3.5
Novo Nordisk	Health Care	3.3
Total		**45.0**

Fund features

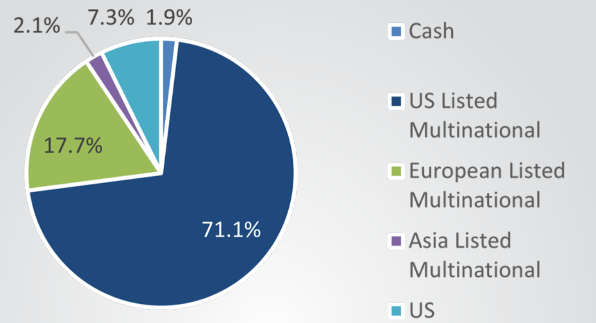
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

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.

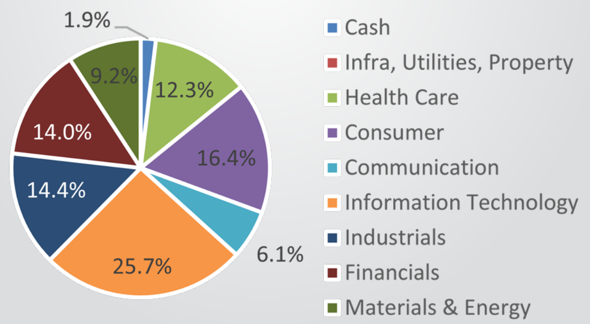
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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 May 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

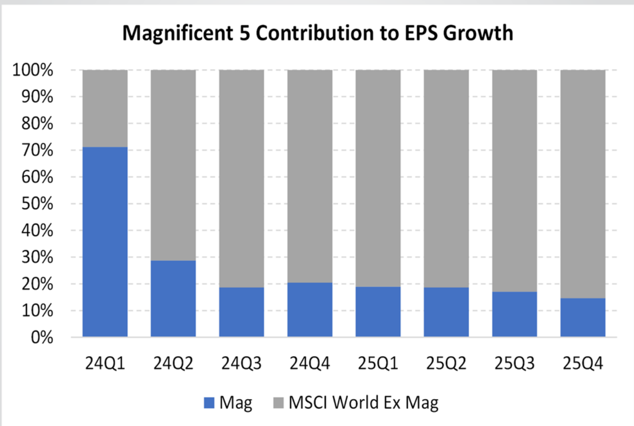
3 From 21 December 2015 to 30 April 2019, the Benchmark was the MSCI World Equity ex Australia (Net) Index. The current index is effective from 1 May 2019

Portfolio comment and outlook

The US labour market continues to show impressive resilience, with unemployment remaining low and wages rising, which is supporting consumer spending and the broader economy. At the same time, moderating inflation has cleared a path toward policy normalisation, albeit at a pace that will be slower than most hoped for at the start of the year. As long as growth remains positive, a 'higher for longer' environment can remain supportive for financial markets despite stickier inflation and an unsettled geopolitical backdrop. Nevertheless, a complex mix of early and late cycle dynamics across different sub-sectors and geographies means that uncertainty is still present, and there remains a risk of central bank policy error.

Following a solid first quarter reporting season, global earnings revisions have continued to be positive with consensus expectations rising another +0.3% in May for both 2024 and 2025. After expanding valuation multiples initiated the bull market in 2023, earnings have joined as a tailwind, which is in-line with historic patterns and a positive sign for the overall market. Importantly, the breadth of positive revisions improved notably in May with 55% of global companies seeing net upgrades, versus 50% in April and 47% back in January. Most sectors saw upgrades in May, with the difference in magnitude of revisions between sectors falling, as the earnings cycle broadens and matures. During May, revisions ranged from +1.8% for IT Hardware & Semiconductors as the strongest, down to -0.8% for Communication Services as the biggest laggard.

MSCI World Earnings growth expected to broaden out.

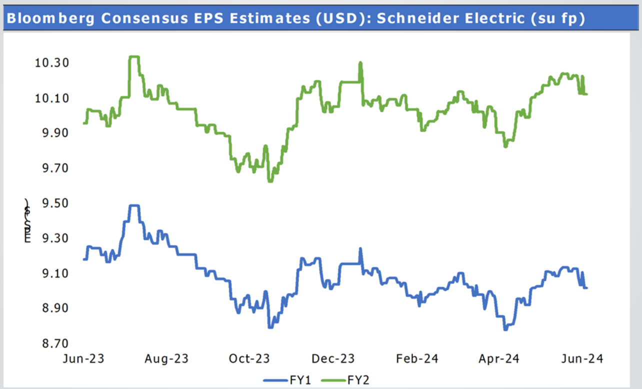


Source: Alphinity, Factset, 31 May 2024

Consensus currently expects 2024 earnings growth of +9.6% for the MSCI World Index, accelerating to +12.8% in 2025. The 'Big Five' growth tech stocks (Nvidia, Microsoft, Alphabet, Meta, Amazon) continue to enjoy some of the strongest earnings momentum in the market, but underneath this powerful driver, global earnings growth is expected to broaden across the market. In the first quarter, the 'Big Five' grew earnings nearly +40% y/y, a pace which they are expected to maintain by the fourth quarter this year. At the same time, the remainder of all the stocks in MSCI World are expected to accelerate from flat growth in the first quarter, to nearly +20% y/y by the fourth quarter.

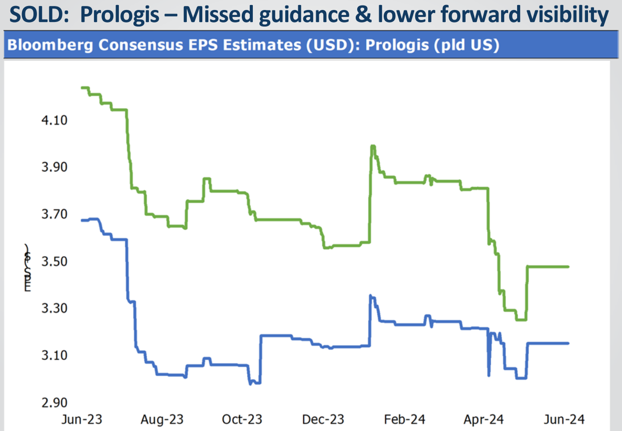
During the month, we initiated a position in Schneider Electric, a leading global manufacturer of equipment for energy management and industrial automation. This plays into the strong global electrification theme. We also added Apple to the portfolio as we are now beginning to see upside to the market's earnings expectations for the next hardware cycle, which could be boosted by Ai-enabled devices. We also added to the portfolio position in Microsoft after a strong report and our meeting with the company on a research trip. This was funded by some profit-taking within the tech sector, trimming both semiconductor companies Nvidia and SK Hynix after very strong recent performance. We sold out of the remainder of our holding in Prologis after a disappointing change to guidance recently, and lower visibility of a future improvement in parts of its industrial logistics portfolio. We also trimmed back Linde somewhat (still reporting some weak end markets), LSEG (lack of earnings upgrades) as well as Parker-Hannifin (taking some profit after strong performance).

BOUGHT: Schneider Electric – Benefiting from strong global electrification theme



Source: Bloomberg, 31 May 2024

SOLD: Prologis – Missed guidance & lower forward visibility



Source: Bloomberg, 31 May 2024

Travellers' Tales

May was a busy month for both local and offshore travel across both the domestic and global equity teams. Andrey went to France and the UK, looking at and meeting with a number of Australian-listed industrial companies. Jacob went to China, primarily to research the markets for both wine and infant milk formula. Landing in Shanghai, he was impressed by both the history and modernity of the city. He took the shot above of the Bund Area in Shanghai, a historically significant area which was central to trade between China and Europe from the mid-1800s up to the 1930s. It has some very interesting western architecture, and the place was packed with locals and tourists.

Possibly the most efficient way of travelling around China is on its impressive high speed rail network. There are more than 40 high speed train trip on the Beijing – Shanghai line daily, covering more than 1200km in less than six hours. For context, that's about the same distance from Sydney to Melbourne then back to Albury again. Jake was also impressed that it reached 350km/h and the quietness at high speed. The focus of the trip was largely on Infant Milk Formula (IMF) and wine, with A2 Milk and Treasury Wines being the two most relevant listed companies directly involved in these industries.

IMF is a huge market in China with almost all young mothers choosing formula over nursing the children themselves. The market comprises numerous domestic and international players, the latter of which includes A2 which is prominent and growing. The Chinese birth rate has been in a downward trend for almost a decade now and this is clearly an important headwind for IMF as a category, given that consumption is for a relatively limited period of time, with children aging out of the category. Jake met with A2 management, some IMF retailers and distributors and even had a (translated) interview session with a panel of young mothers to get a sense of the important issues. The summary of all these meetings was that the birth rate is essentially in structural decline without significant government intervention, which doesn't seem to be on the agenda at the moment. The one-child policy is long gone but there remains great resistance to larger families. The key reason young women don't want to have more children appears to boil down to the cost of raising and educating, not to mention the stress involved in securing one of the very limited number of places at higher level education institutions – high schools, not just university. Essentially only ~2 million people will be accepted into a domestic university out of the ~20m people in that cohort. Most view the probability of their child having a good life as very low if they don't get to university. This dynamic is the primary driver behind demand from Chinese students at international universities.

Jake wasn't quite able to link those stressed mothers with consumption of wine but a huge barrier to our wine industry in recent years has been the highly punitive tariffs implemented in 2021, which basically trebled the price of Australian wine to Chinese consumers. These were recently removed so it was an opportune time to undertake some market research. Penfolds is the most prominent and popular Australian brand in China, and remains a highly prestigious product. Jacob went to retailers and met with distributors and wine consumers, in order to understand its prospects now the tariffs have been reduced.

Penfolds did a good job of maintaining its brand in China during this barren period, although there have been some suggestions that wine was still finding its way into the market through unofficial channels. While this is positive in some ways, it also likely indicates that the latent demand for Penfolds product could be less significant than the boom conditions the market expects. The local liquor preference remains Moutai, a clear, grain-based spirit popular in business settings, which can run into thousands of dollars per bottle. This makes Grange look cheap!

For further information, please contact:

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