Alphinity Global Sustainable Equity Fund (Managed Fund)

MONTHLY REPORT – AUGUST 2024

Performance[1]	1 Month %	3 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	Since Inception[2] % p.a.
Fund return (net)	0.1	3.8	22.2	6.8	-	12.1
MSCI World Net Total Return Index (AUD)	-1.2	4.5	18.8	9.6	-	12.7

Fund facts

Portfolio managers	Jeff Thomson, 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	$84m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%
Carbon Intensity (ave weighted) Scope 1 & 2	79.3 (vs MSCI Benchmark 98)

Top 10 positions

Company	Sector	%
Nvidia	Info. Technology	5.9
Apple	Info. Technology	5.8
Microsoft	Info. Technology	5.8
Motorola Solutions	Info. Technology	4.6
Alphabet	Communication Services	4.5
Thermo Fisher	Health Care	4.4
Merck & Co Inc	Health Care	4.4
Bank of America	Financials	4.3
Shneider Electric	Industrials	4.1
Novonesis	Materials	4.1
Total		**47.9**

Data Source: Fidante Partners Limited, 31 August 2024

Fund features

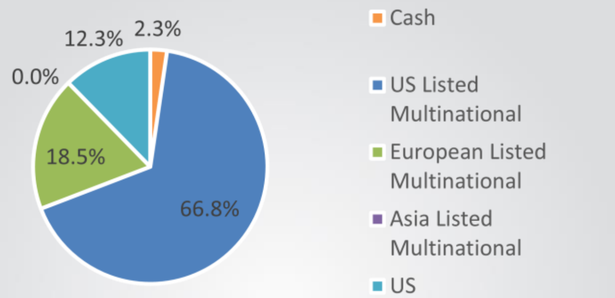
Sustainable: A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Diversified across sectors and regions.

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.

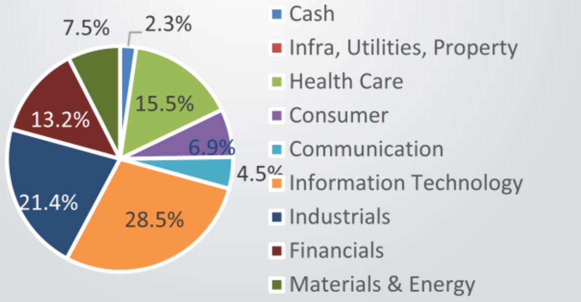
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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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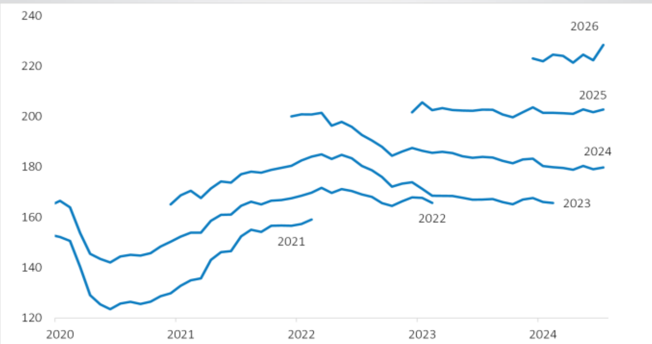
Portfolio comment and outlook

The ISM Manufacturing PMI and consumer spending have both weakened recently, and a soft August jobs report recently raised concerns that the Fed is behind the curve and may now push the US economy into recession. However, the labour market remains generally healthy, with no signs of significantly higher joblessness. Consumer savings and positive wage growth should offer further support for consumption and a potential "soft landing". Meanwhile, the Fed is on track for a September rate cut, and with more cuts expected to follow it's likely that easier monetary conditions will ultimately support economic growth and financial markets.

MSCI World CY EPS Forecasts – Return to growth expected from 2024

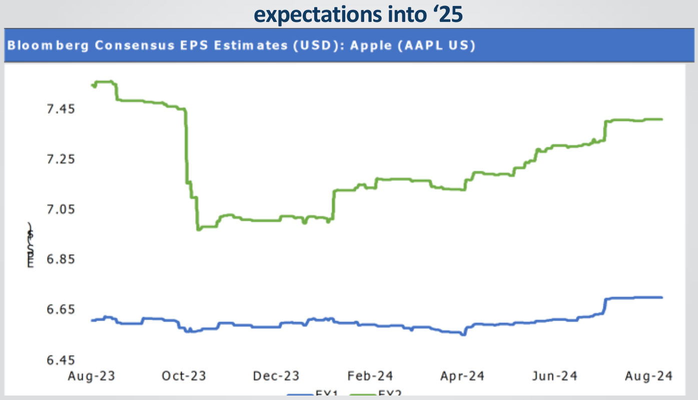


Source: Alphinity, Factset, 31 August 2024

The global earnings cycle outlook cooled off slightly over the last month but was overall supported by a solid second quarter earnings season. For the second quarter, EPS increased by 10.0% year-over-year, beating expectations, and accelerating from +3.2% in the first quarter. Notably, this marks the fourth consecutive quarter of positive annual EPS growth. The Alphinity Global Diffusion Index also remains positive, reflecting a constructive corporate earnings environment with more analyst upgrades than downgrades. Over the past three months, consensus estimates for the current financial year have been slightly upgraded (+0.1%), while projections for next year have been more positive (+0.8%). The relative sector earnings leadership is changing somewhat at the margin, with Financials, Industrials, Health Care and Utilities improving. Technology is still seeing upgrades albeit at a slower pace (Hardware & Semis positive but weighed down by Software), and the Communications sector experienced some weakening trends. The Energy and Materials sectors continue to see the largest downgrades. Consensus expects 2024 earnings growth of +9.0% y/y for the MSCI World Index, accelerating to +13.0% y/y in 2025, with a gradual broadening out of leadership. The so- called Mag-5 (Nvidia, Microsoft, Alphabet, Meta, Amazon) delivered the strongest earnings growth in the second quarter (+53% y/y) and the group has seen continued upgrades post reporting season. These leading Tech stocks are forecast to continue growing strongly, however the growth gap to the rest of the market is expected to narrow further over the next several quarters.

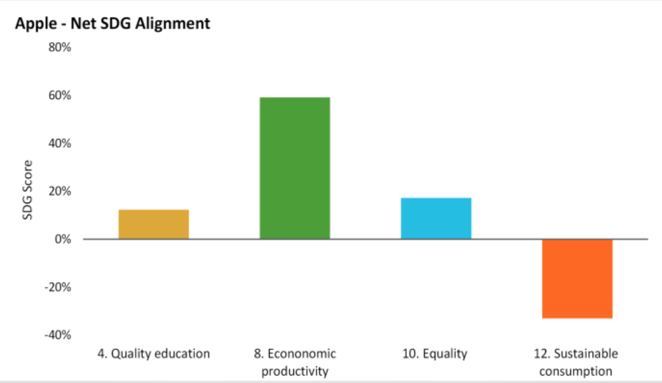
We divested three portfolio stocks in August, all for company-specific reasons. Following weak earnings reports from other travel-related peers, we sold AirBnB before its report. London Stock Exchange also left the portfolio as we see stronger earnings momentum in other holdings in the financials sector. Similarly, we divested the remainder of Home Depot after a soft report – we still see the US Housing cycle improving but have higher conviction in other portfolio stocks into this recovery. We also trimmed back positions in Trane Technologies and Proctor and Gamble (taking some profit in both). This capital was deployed to increasing positions in Apple (strong report and reasonable expectations into '25), Cadence (steady, long-term winner in Ai theme) and Novonesis (building position with growth acceleration supported by innovation, strong results and improved guidance). We will continue to be disciplined about following earnings leadership within a challenging macro backdrop, which has a complex mix of early and late cycle dynamics across different sub-sectors and geographies. The team is travelling widely in September to test conviction on our current investments, but also to maintain a fresh and diverse 'bench' of potential new investment ideas for any future changes to the global earnings cycle.

Apple – Building position following a strong report and reasonable expectations into '25



Source: Bloomberg, 31 August 2024

Apple – SDG Net Alignment = 56% (Driving economic productivity)



Source: Alphinity, 31 August 2024

On the Road with Alphinity IM – RI Europe

What were you looking for?

To expand Alphinity's knowledge of emerging ESG and sustainability trends, Moana traveled to London to engage with industry leaders and better understand the evolving regulatory landscape. At the Responsible Investor conference (RI Europe), she gained a deeper appreciation of the materiality of various ESG issues from asset owners, asset managers, regulatory bodies and sustainability organisations like the United Nations Environmental Programme Finance Initiative (UNEP FI) and the Transition Pathway Initiative (TPI). She also met with ESG specialists and research houses to document views on key topics like climate change, nature and human rights. As a highly influential ESG market, we were seeking insights from those leading the sustainable finance drive across Europe.

What did you discover?

This is the third time that Moana has attended the RI Europe conference. Reflecting on the top themes discussed this year, attention on climate change and regulation (both for corporates and investors) were consistent with interests in previous years. However, the emphasis on nature, transition finance and greenwashing stood out in 2024. While there was still little coverage of social elements, we suspect this may change soon given upcoming sustainability reporting regulations cover topics like human rights, diversity, equity and inclusion, and human capital.

Four dominant themes at RI Europe

1) **Nature and biodiversity, the main issue in focus**

As the world's largest carbon sink, it felt like nature was positioned as the next frontier in climate action. The term 'nature positive' was spoken about like a new 'net zero'. Mirroring the recommendations brought by the Taskforce on Nature-Related Financial Disclosure (TNFD), almost all panels emphasised the importance of managing impacts and dependencies within portfolios. While mapping all these intersections can be complex, starting by identifying and managing deforestation and water risk seemed to be a common first step among investors.

2) **Transition finance is gaining more attention**

With global emissions still rising, the importance of transition finance emerged as a dominant topic. There was a strong view that divestment or exclusions aren't conducive to real-world decarbonisation and that quality stewardship should remain the focal point for investors. Tools to build credibility and track progress on net zero strategies are therefore critical, such as systematic assessments of company transition plans and formal escalation mechanisms.

3) **Greenwashing was a focus, but enforcement remains in the early stages**

It was interesting to hear the Chair of ESMA (Europe's financial markets regulator and supervisor) communicating that the region's greenwashing approach is tending towards supervisory action, rather than enforcement action. This approach, that steers clear from penalties for now, is because of the evolving nature of ESG and sustainability regulation across Europe, and within its Member States. This highlights that, while greenwashing continues to be a priority for regulators globally, there are different approaches by region. The Australian regulator, for instance, has embodied a stricter penalty led approach.

4) **Focus on social issues was limited, but may change with new regulation on 'S' aspects**

Year after year, attention on social issues considered important in the Australian responsible investment community, such as human rights, psychological safety and traditional owner management, are yet to attract RI Europe's attention. While the mix of panels on climate change, transition finance, nature, biodiversity and regulation are relevant, it is a stark contrast to the mix of topics often discussed at other local responsible investment conferences. We do suspect, however, that key regulations like the Corporate Sustainability Due Diligence Directive (CSDDD) and the Corporate Sustainability Reporting Directive (CSRD) will move the spotlight on the 'S' over time and may provide a more balanced discourse. This may also influence company priorities and attention over time.

What does this mean for Alphinity?

Although EU and UK regulations do not directly affect Alphinity's operating and reporting requirements, we find it valuable to learn more about ESG trends and systemic risks from these influential markets. It helps us to prioritise future work, informs our expectations and tone in company engagement, and creates a broader perspective on what's important to responsible investors globally. We also know that Australian regulation related to sustainable fund labelling and climate reporting is likely to follow European regulation. It is therefore useful to look to these markets for a glimpse at what's to come in Australia.

RI Europe convened many different asset owners, sustainability organisations and other ESG leaders that reinforced the importance of key internal projects such as our Net Zero Asset Managers commitment, and emerging biodiversity-related research on antimicrobial resistance.

These global regulations often have an impact on our investee companies. For example, among the many different ESG and sustainability regulations in Europe, the EU Deforestation Regulation is coming into force at the end of 2024 and may impact companies trading raw commodities in their value chains. There may also be more of a social spotlight on human rights and supply chain due diligence, emphasising the need to continue engaging our investee companies on responsible sourcing practices. Attending global conferences, such as the RI Europe, and speaking with our peers outside of Australia helps us to benchmark best practice, continue our focus on thought leadership, and monitor critical regulation that often has a material impact on the companies within our portfolios.

Author: Moana Nottage, Senior ESG & Sustainability Analyst

[On the Road with Alphinity: RI Europe - Alphinity]

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