Alphinity Global Equity Fund (Managed Fund)

MONTHLY REPORT - OCTOBER 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)	4.3	2.2	32.4	9.6	14.1	13.9	13.3
MSCI World Net Total Return Index (AUD)[3]	3.8	2.1	29.2	11.3	13.2	13.0	12.5

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	$625m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
Nvidia	Info. Technology	6.5
Apple	Info. Technology	6.1
Microsoft	Info. Technology	5.9
Bank of America	Financials	4.8
American Express	Financials	4.2
Morgan Stanley	Financials	4.1
Alphabet	Communication Services	4.1
Netflix	Communication Services	4.1
Sherwin Williams	Materials	3.8
Linde	Materials	3.7
Total		**47.3**

Fund features

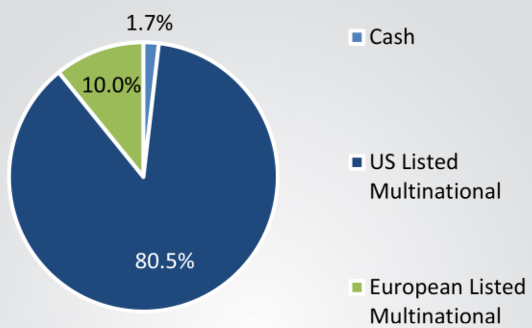
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

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.

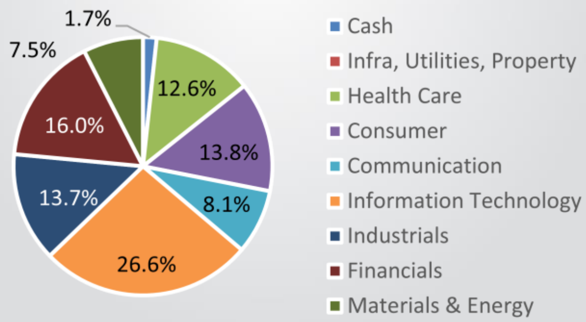
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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 October 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

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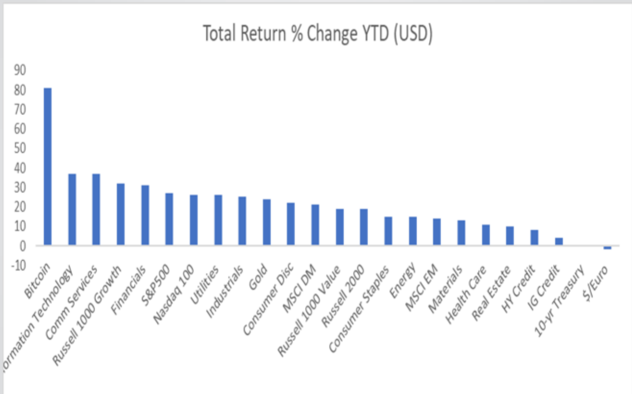
alphinity INVESTMENT MANAGEMENT

Market comment and outlook

Global equity markets declined in October with investor caution around rising bond yields, third quarter company earnings, the impact (if any) of China stimulus and uncertainty around the 5 November US election weighing on returns. The stronger US Dollar provided a translation benefit which converted a -2% USD based return for the MSCI World Index into a +3.5% gain in AUD terms. The extent of the Trump victory surprised markets, with a clean sweep of the ‘swing states’ and the Republican Party now close to clinching control of the US House of Representatives. This ignited the “Trump Trades” where the US Dollar, Financials and crypto all rallied in response. Although a November story, there was evidence of this building October as the likelihood of a Trump victory was becoming more apparent.

In Australian Dollar terms, the US S&P 500 index outperformed global markets, rising 4.6% in AUD terms with the tech-heavy Nasdaq gaining 5.1%, despite an end of month wobble as some of the US mega cap tech stocks fell post their Q3 earnings results. While overall, there was a healthy beat rate on EPS of around 70%, some cautious guidance and CAPEX increases have driven downward earnings revisions. Equities outperformed the bond market, with a sharp 50 basis point move higher in US 10-year bond yields to 4.28%, despite the Fed cutting 50 bps in September, and a further 25bps this month. Although it remains to be seen how the Trump policies will play out, the consensus appears to be ultimately inflationary which is driving up yields further.

Pro-Trump trades outperforming YTD



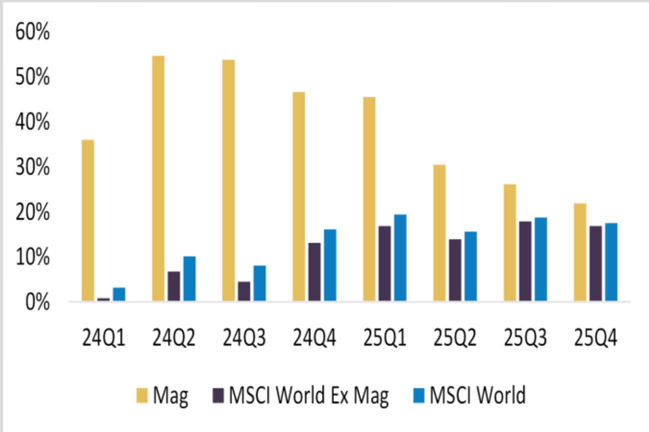
Source: Bloomberg, 12 November, 2024

On a sector level, Communication Services, Financials and Energy stocks were the strongest, while Materials, and the more defensive Healthcare and Consumer Staples sectors lagged. Economic data was generally positive with US Services PMIs continuing to print around the 55 level (expansionary) while the Manufacturing PMI of 48.5 was slightly ahead of forecasts. Inflation data continued to trend lower with annualised CPI trending down from 3.5% in March to its latest reading of 2.4%, giving the Fed enough reason to justify cutting rates by 75 basis points in the last 3 months. With tax cuts and more fiscal stimulus on the agenda, its becomes more challenging to envisage a continued path of rate cuts in the near term.

Portfolio comment and outlook

Recent months have been eventful, with the Fed cutting rates, China boosting economic stimulus due to weak growth, rising geopolitical tensions in the Middle East, and a fractious US election. Meanwhile Treasury yields have surged again due to renewed concerns about higher fiscal deficits and associated inflationary pressures. While considerable uncertainties remain, we continue to view the outlook for economic growth as supportive and consistent with a soft landing. The US labor market and consumer spending have remained resilient throughout, even if slightly weaker over the last few quarters. Importantly inflation has continued to moderate, opening a path to further rate cuts across most major geographies. China stimulus is also encouraging, and likely removes a potentially significant tail risk for growth, even if considerably more will likely be required to fully reverse a difficult deflationary spiral. The principal risk to global growth is likely fiscal and/or monetary policy mistakes which re-ignite inflation and reverse the outlook for interest rates.

Quarterly EPS Growth for MSCI ex Mag 5 broadening out



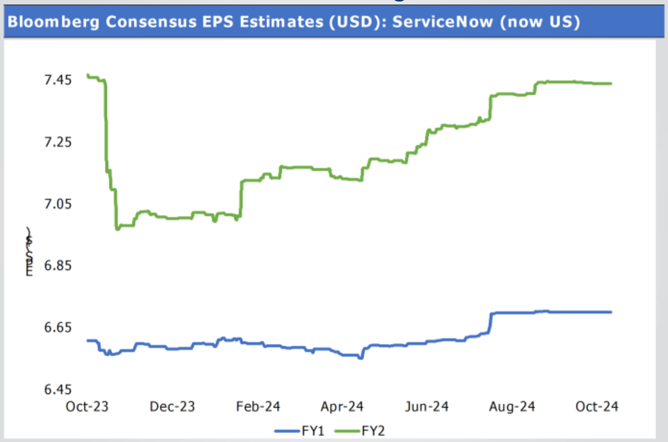
Source: Alphinity, Factset, 31 October 2024

Earnings also remain a tailwind for equity markets. Consensus expects a steady acceleration in earnings growth in 2024 (+7.8%) and 2025 (+12.2%), although the upgrade cycle so far has been weaker than usual. In fact, over the past three months consensus estimates for both this year and next have edged lower overall (-1.1% and -1.9% respectively), with Communications and Financials continuing to lead with positive revisions, while consensus estimates for Energy, Consumer Discretionary and Materials have fallen sharply. In this context it’s reassuring that third quarter results were robust and better than expected. With most companies in the S&P 500 having reported, approximately 67% of companies beat EPS expectations, with earnings 6.6% better in aggregate. Quarterly revenues (weighted) grew by 5.2% y/y and EPS by 8.2% y/y. Financials overall were a stand-out, with notable ‘green shoots’ in capital market and generally stable credit metrics. Interest income was resilient with encouraging signs that consumer rate seeking behavior is beginning to subside, which is supportive for margins. Nvidia is yet to report, however the rest of the Magnificent 7 reported well, with still market-leading EPS growth of c.30% y/y versus only 3% growth for the rest of the S&P 500. Consensus continues to expect this growth differential to narrow significantly in 2025, which if realized suggests market leadership will begin to broaden out.

The Portfolio overall reported good third quarter earnings, with particularly strong reports from Netflix, Intuitive Surgical, Morgan Stanley, Amazon and Alphabet. On the other hand, ASML reported weaker than expected orders and lowered 2025 sales and gross margin guidance. With significant negative revisions to estimates, and low visibility on recovery, we chose to sell out. We also continued to take profit in stocks including Nvidia, Schneider Electric, Motorola Solutions and Trane Technology after strong performance. This capital was mostly invested into a new position in ServiceNow, a leading, high-growth enterprise software business where we expect earnings upside from further expansion into broader enterprise workflows.

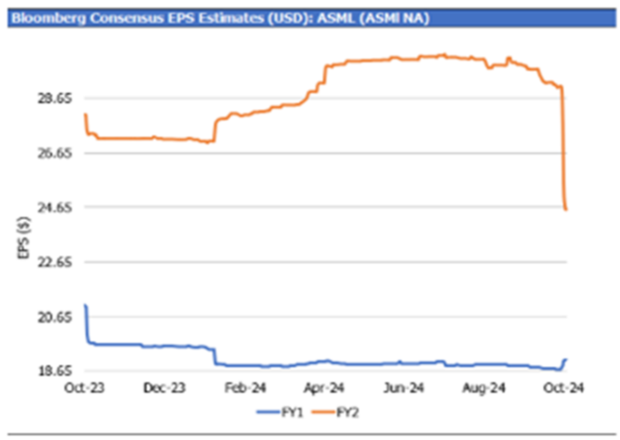
The Portfolio overall remains invested in our highest conviction Growth stocks, with selective Cyclical and Defensives, and remains diversified across most sectors. The outlook for inflation and rates continues to be unusually uncertain and we will be disciplined about following earnings leadership as the macroeconomic outlook evolves. After period of extensive travel by the investment team, there are several promising new ideas which are likely to challenge for inclusion in the portfolio over the next few months.

BOUGHT: ServiceNow – Leading software business



Source: Bloomberg, 31 October 2024

SOLD: ASML -



Source: Bloomberg, 31 October 2024

AI will change the world.....eventually

> *"The risk of underinvesting is dramatically greater than the risk of overinvesting" (Sundar Pichai, Alphabet CEO, 23rd July 2024).*

This quote from the Alphabet CEO during the Alphabet 2Q earnings call amplified investor concerns around the current Artificial Intelligence ("AI") investment landscape. The technology industry appears to be engaged in a high-stakes race to develop AI infrastructure, while the potential returns on these massive investments remain ambiguous.

Given the substantial market share and valuation premiums now commanded by AI-focused companies, there's mounting pressure for these firms to demonstrate tangible returns on their AI investments. Investors are increasingly looking for concrete evidence that the massive capital inflows into AI infrastructure and development will translate into sustainable revenue streams and long-term profitability.

Despite market impatience, we are observing encouraging signs of AI's impact Magnificent 7 reported well, with still market-leading EPS growth of c.30% y/y versus only 3% growth for the rest of the S&P 500. Consensus continues to expect this growth differential to narrow significantly in 2025, which if realized suggests market leadership will begin to broaden out.

Where are the returns?

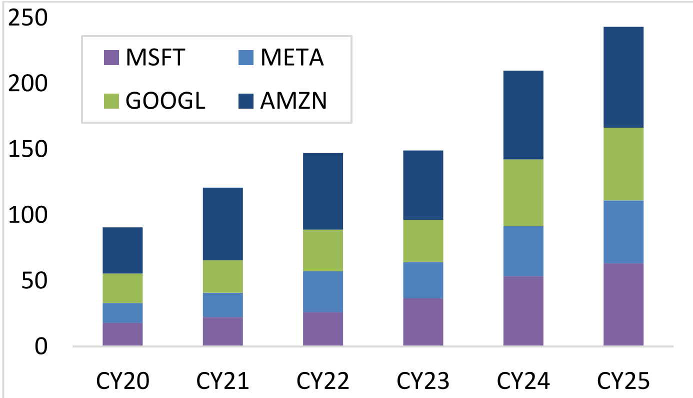
Market concerns around overinvesting in AI are not without precedent given the technology sector's history of several technology boom-and-bust cycles: From the 1990's internet era exuberance leading to the dot.com crash, to the recent hype around the metaverse (virtual worlds), Web 3 (decentralised internet vision), and even non-fungible tokens (NFT's). These examples serve as cautionary tales, illustrating how technology hype can outpace real-world applications, leaving a trail of poor returns and crushed share prices in their wake.

Current investment levels into AI architecture are extraordinary. Hyperscaler (Microsoft, META, Alphabet & Amazon) capex will rise more than 40% in CY24 and is expected to rise further in CY25 to levels 2.5x what they were in CY20. This level of investment is starting to have an impact on financial returns for these companies, both in terms of cash flow returns and on margins as higher depreciation flowing from this investment begins to bite in the P&L.

Returns take time to materialise

In any major technological transition – be it internet, cloud computing, or the current wave of generative AI, there is a consistent pattern: infrastructure development precedes widespread application and the realisation of value. The internet evolution provides a compelling case study, where the true value from end applications and the resultant share price movements only started to emerge after 3 years and really gathered momentum after 5 years.

Hyperscaler Capex ($bn)



Source: Company Financials, Alphinity

Where are the end applications?

Contrary to the notion that end applications of AI are not yet visible, we're witnessing a robust proliferation of AI-powered solutions across various sectors already emerging just ~20 months after the emergence of GEN AI.

Customer Relations Management	IT Service Management	Productivity and Collaboration	Creative Tools	Digital Advertising
Salesforce Einstein enhancing customer interactions and sales processes salesforce	**ServiceNow's Pro+** streamline IT operations and service delivery servicenow	**Microsoft's 365 Co-pilot** augments office productivity tools Microsoft Copilot	**Adobe's Firefly** is revolutionising digital content creation Adobe Firefly	**Meta and Google** leverage large language models (LLM's) for ad targeting and creation Meta AI

While these applications are in their initial phases and will take time to scale, their market potential is substantial. Take for example the M365 co-pilot example: a US$30 subscription fee per month across their 160m high value commercial users, could add $58bn revenue annually (a +23% lift to FY24 revenue). Expansion to the remaining 200m commercial users and integration into broader product offerings offer additional upside.

Please find a copy of the full note here:
[Artificial Intelligence will change the world (eventually) - Alphinity](#)

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