# Alphinity Global Equity Fund – Active ETF

## MONTHLY REPORT - NOVEMBER 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) | 6.9 | 9.2 | 34.0 | 10.3 | 14.3 | 14.4 | 14.1 |
| MSCI World Net Total Return Index (AUD)[3] | 5.2 | 8.7 | 30.1 | 11.9 | 13.3 | 13.3 | 13.0 |

## 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 | $710m |
| 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 | 6.3 |
| Microsoft | Info. Technology | 6.0 |
| Bank of America | Financials | 5.1 |
| Netflix | Communication Services | 4.6 |
| Morgan Stanley | Financials | 4.5 |
| American Express | Financials | 4.5 |
| Sherwin Williams | Materials | 4.1 |
| Motorola Solutions | Info. Technology | 3.7 |
| Merck & Co | Health Care | 3.4 |
| **Total** | | **48.5** |

## Fund features

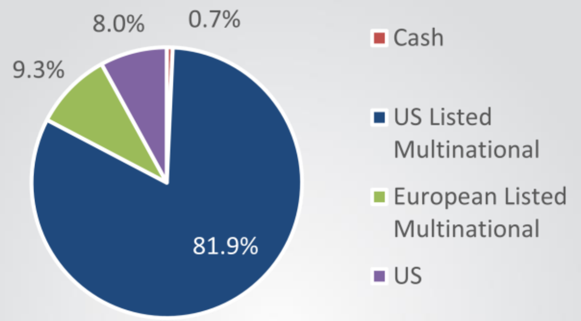
**Concentrated:** A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

**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.

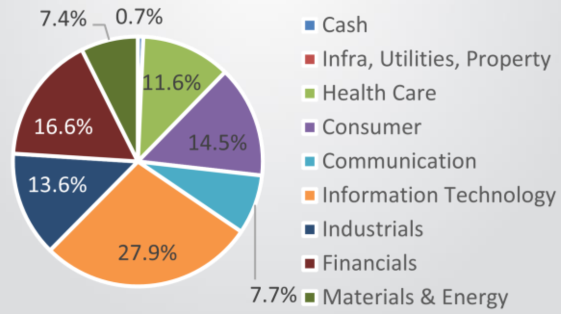
**Talent:** A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

**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, 30 November 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

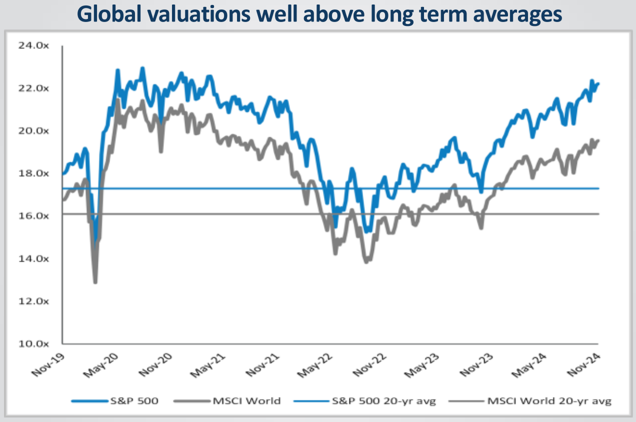
3 From 21 December 2015 to 30 April 2019, the Benchmark was the MSCI World Equity ex Australia (Net) Index. The current index is effective from 1 May 2019

## Market comment and outlook

Equity markets responded positively to the landslide Trump victory in early November and were further boosted on his choice of pro-market members into his Administration that were announced in the following weeks. The MSCI World Index gained 5.2% in AUD terms, led by outperformance in the US (S&P 500 index +6.5%) while Europe (-1%) and Emerging Markets (-3%) were notable laggards on the risk of Trump tariff policy and its trade implications. With the prospect of increased tariffs, increased fiscal spending and tax cuts, inflation expectations increased which sent bond yields higher, although this reversed sharply after the appointment of Scott Bessent as Treasury Secretary. Bessent, widely regarded as a fiscal hawk with a pro-growth agenda but with a more moderate view on tariffs, was taken as a positive counterbalance to Trump's intended policies and the bond market joined equities in notching up gains.

US share gains were broad, with Industrials +8% and Tech stocks +7%, creating some much-needed breadth across market segments. Despite concern around the market being driven by a small number of mega cap tech stocks, the equal weighted S&P 500 index also reached all-time highs in November, somewhat allaying those concerns of a few big companies doing all the heavy lifting. China and Hong Kong were weaker in response to weaker exports given increased US tariffs and there will still be some time lag between the multiple stimulus measures announced and any proof they are working, and stimulating demand, particularly for credit. In December, China announced the adoption of "appropriately loose" monetary policy in a reversal of its previous stance, but again, time will tell on whether these policies stimulate a sustained increase in demand and consumer confidence. Something more than short-term gains driven by short covering. China bond yields have not risen, indicating that onshore investors are still flocking to the safety of bonds.

**Global valuations well above long term averages**



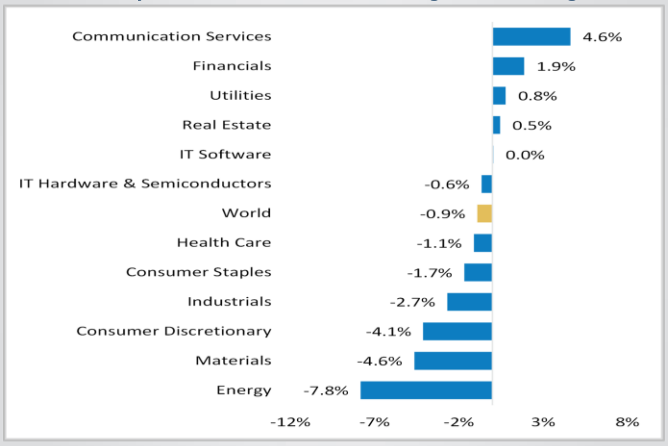

Source: Bloomberg, 30 November, 202

Commodity prices were generally lower during November, with Resources stocks relatively underperforming. Copper prices, generally considered a pointer to future economic growth, was down 5% in the month. The price of Oil also fell, with Brent Crude futures falling 0.8% to finish just under $US72/barrel as geopolitical tensions in the Middle East dissipated, for now at least, after a ceasefire agreement was signed by Israel, Lebanon and other mediating countries, including the US. Natural gas, on the other hand, ran higher in both Europe and in the US due to a cold weather snap; Putin's firing of an inter-continental ballistic missile into Ukraine also pushed up the price of gas.

## Portfolio comment and outlook

Recent months have been eventful with the Fed cutting rates, the US election outcome, China boosting economic stimulus due to weaker growth, and rising geopolitical tensions in the Middle East. While considerable uncertainties remain, we continue to view the outlook for economic growth as supportive and consistent with a soft landing. The US labour market and consumer spending have remained resilient throughout, even if slightly weaker recently. 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 significant tail risk for growth, even if considerably more will probably be required to fully reverse China's 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**

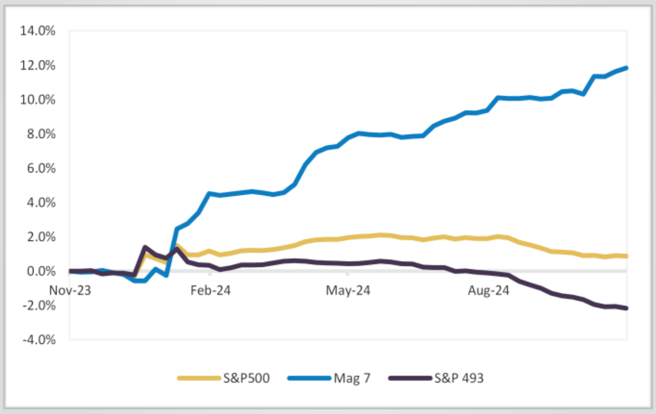



Source: Alphinity, Factset, 30 November 2024

Earnings also remain a tailwind for equity markets, and consensus expects a steady acceleration in earnings growth in 2024 (+8.5%) and 2025 (+12.4%). With the MSCI World up >60% since its trough in October 2022, higher equity valuations have raised the stakes, and the outlook for earnings growth is an important market driver from here. In this context it's reassuring that third quarter results were overall resilient and approximately 68% of companies beat EPS expectations, with earnings 6.6% better in aggregate. However, many company outlooks remain muted, and from a historical perspective this earnings cycle continues to be relatively narrow and weak. In fact, over the past three months consensus estimates for both this year and next have edged slightly lower

(-0.9% and -1.7% respectively), with Communications and Financials continuing to lead with positive revisions, while consensus estimates for Energy, Consumer Discretionary and Materials have fallen sharply. Financials overall were a stand-out in the third quarter, with notable 'green shoots' in capital markets 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. The big 'Magnificent 7' tech stocks all beat expectations and reported still market-leading EPS growth of over 30% y/y, versus only c. 3% growth for the rest of the S&P 500. Nonetheless, consensus continues to expect this growth differential to narrow significantly in 2025, +17% for Mag-7 vs +13% for the rest of the market, which if realized suggests market leadership will broaden out.

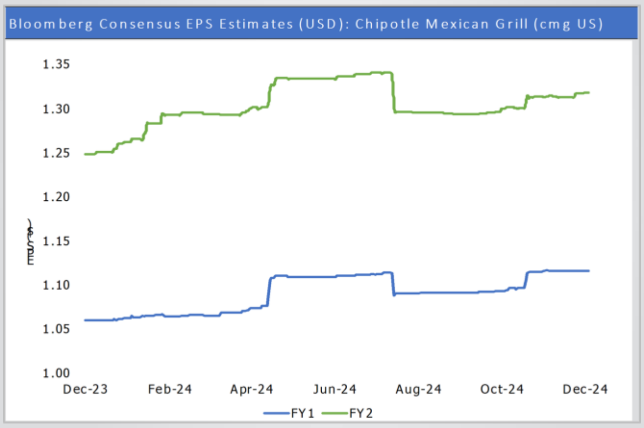
**Change in consensus FY25 EPS – Mag7 delivering market leading EPS growth**




*Source: Bloomberg, 30 November 2024*

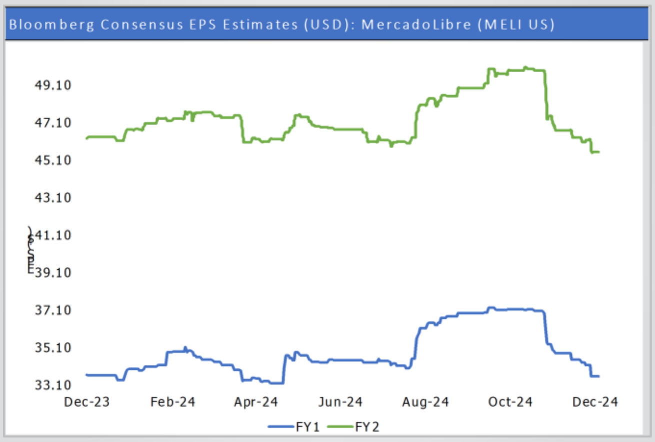
Portfolio changes were relatively limited during the month. MercadoLibre reported weaker than expected earnings from higher costs and a significant ramp in credit card growth (higher provisioning, lower margins), and we divested the position. We also trimmed positions in Costco, Alphabet and Marsh & McLennan somewhat into strength. This capital was mostly invested into a new position in Chipotle Mexican Grill, a winning chain in the fast casual dining segment with industry-leading unit economics and growing North American footprint. We also added somewhat to our position in ServiceNow. The Portfolio overall remains invested in our highest conviction Growth stocks, combined with selective Cyclicals and Defensives, and remains diversified across most sectors. We enter 2025 with some important question marks around the current outlook for earnings expectations as well as interest rates, and we will be disciplined about following earnings leadership as the economic outlook evolves. After a 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: CHIPOTLE – Industry leading unit economics & growing footprint**




*Source: Bloomberg, 30 November 2024*

**SOLD: MELI – Lower 2025 guidance drivers EPS downgrades**




*Source: Bloomberg, 30 November 2024*

## AI Journey with Alphinity Global – Key themes and top picks from across the globe

In September, all six members of the Alphinity Global investment team embarked on international travel, collectively visiting eight countries, and engaging with over 200 companies.

Here are five key themes and standout companies from our respective trips, reaffirmed during the recent 3Q24 reporting season:

1. AI: Revenues are coming & infrastructure spend persisting.
2. Consumer: Generally resilient although some weakness at the low-end
3. Europe: Slim pickings.
4. US Industrials & Materials: End market exposure and pricing power is key.
5. Financials: Capital markets opening and broadening out

Buckle up for more feedback from our current and upcoming journeys before year-end!

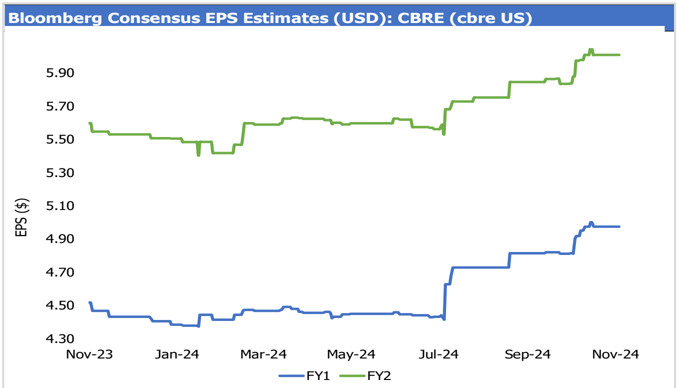
| Key Themes | Key stocks |
|---|---|
| AI: Revenues are coming & infrastructure spend persisting<br>• Overall tech spend is still constrained, but **AI momentum remains strong** across infrastructure & development<br>• Early signs of tangible AI use cases across different sectors | NVIDIA, Apple, servicenow, cadence |
| Consumer: Generally resilient although some weakness at the low-end<br>• **High-end remains resilient** (air travel, corporate rentals), **low-end downtrading** (private label, food-at-home increasing, smaller basket sizes etc.)<br>• Many companies are struggling to adjust back to a **lower-inflation world** (i.e. higher marketing spend, more promotions), but volume outlook remains unclear<br>• **"Club"** business models keep winning at the expense of convenience & dollar stores | Chipotle Mexican Grill, Coca-Cola, Costco Wholesale |
| Europe: Slim pickings<br>• **Consumer is weak** and traditional industries that were driving the economy are suffering<br>• **Automakers in a world of pain**, including EV's<br>• **Luxury earnings remain soft** mainly due to China weakness | Schneider Electric, Ferrari |
| US Industrials & Materials: End market exposure and pricing power is key<br>• **Bulls:** HVAC, Electricals (grid, DC's), Aerospace<br>• **Bears:** Agri, Construction, Autos, Industrial Automation<br>• Focus on costs & headcount<br>• China remains wait and see; US housing early signs of recovery | Trane Technologies, Parker, Sherwin Williams |
| Financials: Capital markets opening up<br>• **M&A activity** recovering given more confidence with soft landing & interest rate cuts<br>• **Debt origination/Commercial Real Estate** were in a deep recession, now more resilient<br>• **Deregulation** under a Trump presidency positive | Morgan Stanley, American Express, Bank of America, CBRE |

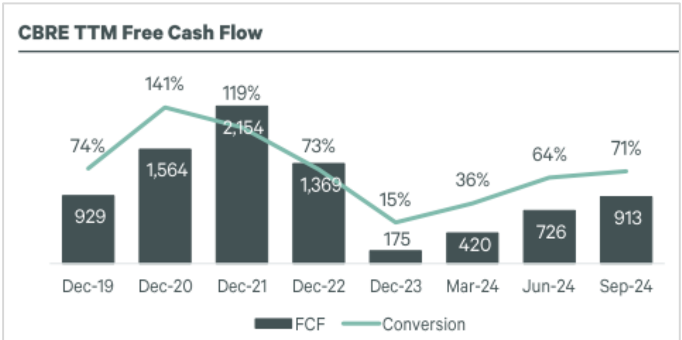
## Capital markets gaining (even more) momentum.

After a challenging 2023 for global banks and the financial services sector, there are growing signs that capital markets are gaining momentum. Investor confidence is rising as the US economy appears poised to avoid a recession, aided by recent Federal Reserve rate cuts and a resurgence of market optimism. **Jeff's** September trip to New York, and the latest 3Q24 earnings season, confirmed this trend. Most banks reported healthy trading revenues and a recovery in Investment Banking fees. Rate seeking behaviour from clients appears to be abating, increasing confidence that net interest margins are bottoming. Credit trends overall remain resilient. Expectations of deregulation and tax cuts under a potential Trump administration have further energized the sector. Current positions within US Financials currently include **Bank of America, Morgan Stanley, and American Express.**

Following Matisse's recent trip, we expanded our capital markets exposure in our Global Sustainable strategy by including **CBRE**, a leader in commercial real estate (CRE) leasing and sales. After a slowdown during COVID, CBRE has diversified its revenue exposure across asset and client types, lines of business and geographies. Capital markets are now seeing improved bidding activity, larger deal sizes, and increased institutional capital allocation. The demand-supply imbalance—driven by a flight to quality and reduced supply from low construction starts—suggest a multi-year recovery is underway in this segment.

**CBRE – Seeing strong earnings upgrades and meaningful free cash flow improvements with**




*Source: Alphinity, Bloomberg, November 2024, CBRE 3Q24 results presentation.*

Overall, these themes reflect a dynamic global investment landscape characterised by technological advancements, shifting consumer behaviours, a challenging environment in Europe, strategic positioning in industrials and resources, and an evolving financial sector. The Alphinity Global investment team looks forward to sharing more insights from our ongoing journeys as we continue to monitor existing and new trends leading into the end of the year.

Please visit our website for a copy of the full note:
[Journey with Alphinity Global - Key Themes and Top Picks from Across the Globe - Alphinity]

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## "A is for Ambition": Apple and Amazon Bet Big on the Future

The recent Apple and Amazon **third quarter 2024 results** revealed further details around the critical leg of their strategies, with these tech giants continuing to lay down markers for how they see the next stage of tech evolution unfolding and staking out positions to profit from it. Looming large in this evolution is AI, with Apple looking to leverage capabilities across what is an enormous ecosystem of 2.2bn active devices while Amazon is focusing on pushing AI applications across their Cloud and consumer business. The recent results also provided key insights into shorter term business performance.

APPLE - World leader in consumer electronics with an expanding product platform and evolving services offering

### Key takeaway from the result?

The key takeaway from the Apple result is that while the gains from the release of "Apple Intelligence" will be significant, they will take time. This was evidenced by the fact that despite this recent result coming in ahead of expectations, it was coupled with a guide for the coming quarter that was mildly below what the market was looking for (Apple guided to revenue growth of low to mid-single digits vs a market that was expecting +7%).

This makes sense as "Apple Intelligence" has only just rolled out in the US in recent weeks, and will not become available in the UK, Australia, Canada, and New Zealand until December 2024. Other geographies will follow over the course of 2025. Most importantly, it is also December 2024 before we see a meaningful expansion of the AI features including the long-awaited Chat GPT integration. As such, the powerful iPhone upgrade cycle that we expect to come with "Apple Intelligence" is likely to be a slow burn, with momentum building through 2025 and into 2026.

### What impressed?

The ability of Apple to turn a benign demand environment into double digit EPS growth is impressive. Products growth has been tepid but the higher growth Services business, margin expansion and a buy-back continues to drive EPS growth above 10%.

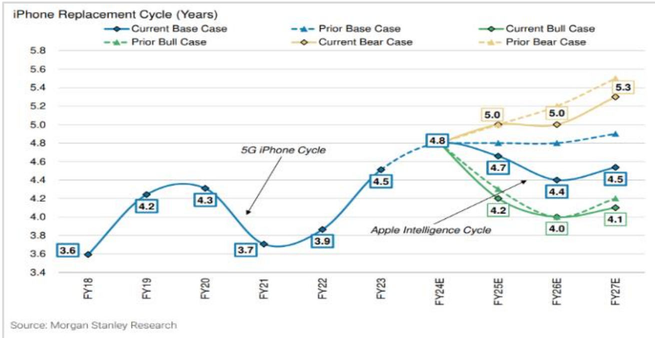
### What disappointed?

While we appreciate that Apple Intelligence will take time, the pace of the roll-out driving the weaker than expected outlook for 4Q (which is their biggest quarter of the year) was mildly disappointing. However, Apple tend to focus on quality rather than speed, so we do think that their ability to monetise AI across an installed base of 2.2bn active devices is a compelling, multi-year opportunity.

### Interesting chart?

The next phase for Apple is all about an iPhone replacement cycle coupled with an expansion of associated Services revenue. The chart below shows what happened the last time a compelling technology shift occurred, with 5G driving a compression in this replacement cycle. Since the most recent trough in FY21, replacement cycles have shifted out by more than 12 months. compression of this replacement cycle back towards 4yrs will drive circa 10% EPS upgrades.

**IPhone replacement cycle: 1yr reduction = c10% EPS upgrades**




*In summary, Apple's ability to monetise their enormous consumer ecosystem is almost unrivalled. They will find a structure through which to monetise Ai, both through device sales but more importantly through an expansion of Ai related Services offerings. There is no company better placed to be the window into Ai for the average consumer.*

**AMAZON** - Leading cloud & e-comm platform benefiting from accelerated digital shift.

### Key takeaway from the result?

Margins, margins, margins. Given the scale of the Amazon business, a mild shift in margin outcomes can drive enormous gains in operating income and EPS. Amazon spooked the market during their 2Q24 results which showed margins for their core retail business to be weaker than expected, which was blamed on everything from mix (lower priced "everyday essentials" in baskets) to building extra satellites for their broadband business. However, come the 3Q24 result last week, all was forgotten as Amazon blew those margin expectations (that they ironically had guided to themselves) out of the water. So, the question becomes, will this margin expansion continue?

**Amazon's ability to show continued margin improvements can drive big earnings surprises**


*Source: Company results*

Please visit our website for a copy of the full note:
["A is for Ambition": Apple and Amazon Bet Big on the Future - Alphinity]
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