Alphinity Global Sustainable Equity Fund – Active ETF

QUARTERLY REPORT – MARCH 2025

Performance[1]	1 Month %	Quarter %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception[2] % p.a.
Fund return (net)	-6.3	-8.0	0.6	9.0	-	9.6
MSCI World Net Total Return Index (AUD)	-4.7	-2.4	12.1	14.5	-	13.1

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	$85m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%
Carbon Intensity (ave weighted) Scope 1 & 2	123.5 (vs MSCI Benchmark 103.4)

Top 10 positions

Company	Sector	%
Microsoft	Info. Technology	5.9
Mastercard	Financials	4.9
Motorola Solutions	Info. Technology	4.3
DBS Group	Financials	4.1
Proctor & Gamble	Consumer Staples	4.1
Thermo Fisher	Health Care	4.0
CBRE	Real Estate	4.0
Linde	Resources	4.0
Bank of America	Financials	3.9
Schneider Electric	Industrials	3.8
Total		**43.1**

Data Source: Fidante Partners Limited, 31 March 2025

Fund features

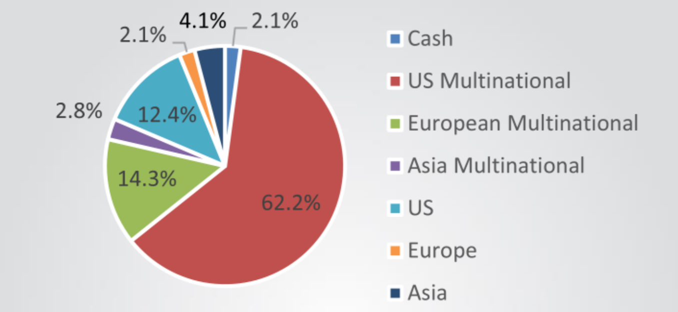
Sustainable: A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Diversified across sectors and regions.

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.

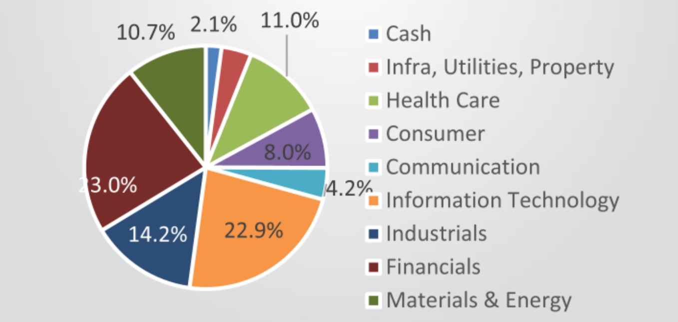
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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

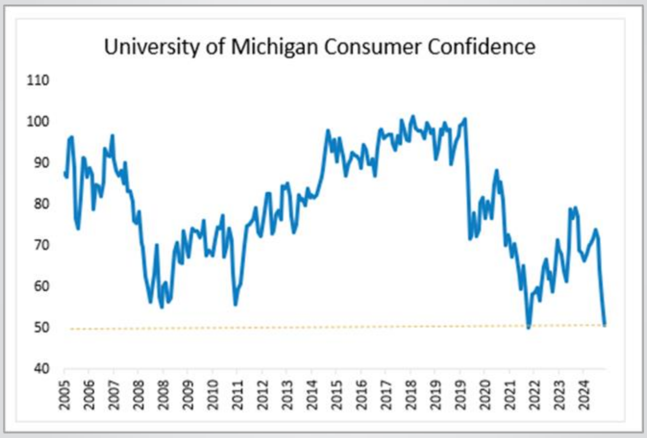


1 Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance.
2 The inception date for the Fund is 3 June 2021

Market comment and outlook

The first quarter of 2025 began on a positive footing as market momentum continued into Trump's inauguration, but it quickly dissipated as the reality of policy uncertainty kicked in, especially around tariffs and potential global trade wars. Feedback from company management teams across the globe suggests that companies are holding back on investment and spending decisions until there is a clearer outlook, which appears unlikely in the near term.

US Consumer Confidence plunged to the second lowest level since 1952



Source: Bloomberg, 31 March 2025

Global stocks fell 3% over the March quarter in AUD terms, with the US under-performing (-5.4%) as investors rotated away from the US into other regions including Europe (+8.9%) and Emerging Markets (+1.5%). Hong Kong was among the best performing developed market, gaining 14%. The US Dollar continued to slide, falling 3%, while US bond yields fell 36 basis points to 4.2% reflecting economic growth concerns. In addition to country rotation out of the US, value stocks also outperformed stocks growth, while the best asset class was the safe-haven gold space.

Economic data wasn't out of line with what played out in financial markets, where sentiment indicators such as consumer and business confidence trended lower. The widely followed University of Michigan US consumer confidence was below expectations for three straight months, its latest reading representing a 2½ year low. Despite poor sentiment, the 'hard' data such as manufacturing indices and industrial production remains strong. We are yet to see the uncertainty around tariffs and trade wars migrate from sentiment to the real economy although one would think this is only a matter of time, should the uncertainty persist. On the other hand, China data offered some green shoots and, while we are yet to see evidence of a rebound in the property market, demand for credit has improved as new loan activity increased and both manufacturing and non-manufacturing indices were stronger.

Commodities outside of Gold were generally weaker with oil prices falling 15% in early April as the OPEC+ countries are expected to make a larger than expected supply increase in May. A weaker oil price to combat the inflationary effects of Tariffs is a convenient countermeasure and supply increases can come from many countries, including the US. Copper prices also slumped in line with global markets given their high correlation to global economic growth.

Portfolio comment and outlook

Markets have witnessed significant and rising turmoil over the last two months, driven by the US announcing trade tariffs at a scale and breadth not seen for nearly a century. This is leading to substantial changes to market views on the outlook for various key macro indicators, and a high level of uncertainty. Not only is this inflationary, but it is also a downward shock to the outlook for growth. At the same time, Trump 2.0 is pursuing an aggressive reset of various long-standing international alliances, which has also translated into an important re-appraisal of various geopolitical risks. One immediate consequence has been an announcement by Germany to substantially increase defense and infrastructure spending, which if executed would likely significantly improve the relative growth outlook for Europe. At the same time, China has signalled that more stimulus and reforms are coming.

Regional FY1 – 3 months Earnings Diffusion – US leading declines

Source: Alphinity, Bloomberg, 14 April 2025

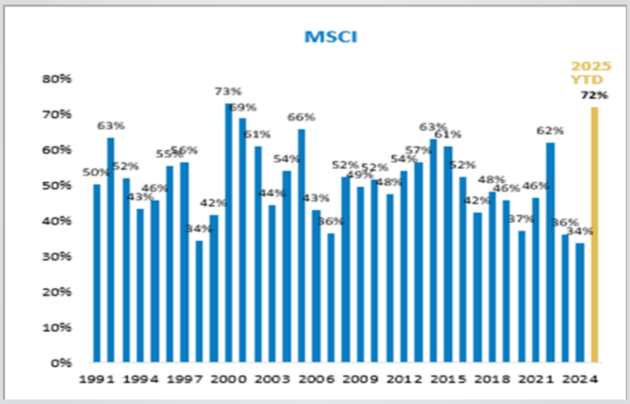
At this stage, economic weakness is primarily apparent in softer survey macro data such as consumer sentiment and CEO confidence, but real recessionary risks are rising as companies and consumers digest these abrupt changes. US policies remain highly unpredictable and may yet pivot back towards a more pro-growth agenda. Furthermore, there is some potential offset from any stronger fiscal stimulus and growth in Europe and China.

The global earnings cycle continued to slightly weaken during the last month, with market 2025 earnings expectations trimmed to another -0.4% (-1.0% for the quarter). Our Alphinity Global diffusion ratio, measuring the frequency of analysts' earnings upgrades-to-downgrades, fell again to -10%, a similar level to the 2022 rotation and bear market. There are also implications for US leadership more broadly - from a regional perspective, the US market weakened the most. The only sector with upgrades in March was the defensive Utilities and the relative leadership shifted somewhat with Financials losing its top position, while Health Care and IT Hardware improved. The first quarter reporting season is about to start, and we would expect further negative change. Given the lack of clarity around tariffs' impact on growth, margins and investments, management teams may find it challenging to update full year guidance with enough certainty, most likely opting to err on the side of caution or even pulling official guidance whilst assessing impacts. This could especially be true in the more cyclical sectors

During the quarter, portfolio management activity continued to be relatively high, driven by the rotating leadership and emerging earnings risks. We exited Cadence after another relatively weak guide. We also sold out of Merck (continued weakness in China Gardasil sales with limited visibility on recovery) and Trane Technologies (taking profit to recognize a maturing earnings cycle). In addition, we also chose to further reduce our exposures to Mag-7 stocks including Microsoft, Nvidia, Apple and Alphabet recognizing weaker relative earnings momentum, partly from the maturing Ai Capex cycle. We also trimmed our position in Chipotle on the weakening US consumer outlook. New investments were initiated in CRH (high quality construction aggregates exposure with pricing power), AstraZeneca (consistent growth with the largest late-stage pipeline in global pharma), DBS Bank (leading Asian bank with growth upside from wealth management and regional growth) and Caixa Bank (leading retail bank exposed to the relative strength of the Spanish economy). We also initiated positions in Spotify (with positive momentum across users, monetisation and margins) and Sprouts Farmers Market (a specialty natural and organic food retailer with strong unit economics and multiple growth drivers). It is noteworthy that several new ideas entering the portfolio were non-US companies, reflecting the rapidly deteriorating earnings outlook of parts of the US market after its two years of clear leadership in global equities.

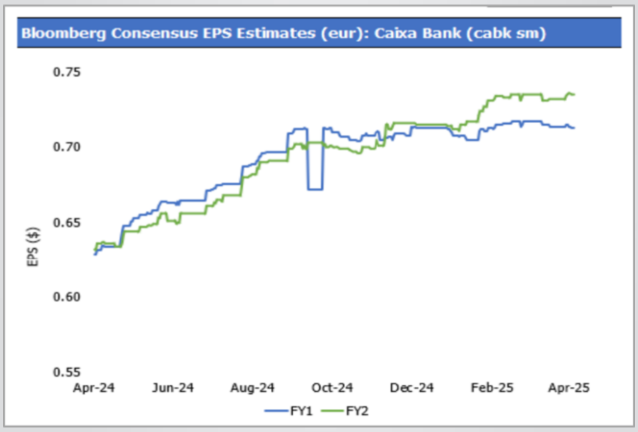
The Portfolio overall remains invested in our highest conviction Growth stocks, with capital increasingly concentrated around stocks which we expect to be less impacted by current tariff and geopolitical uncertainty. These are combined with a selective range of Cyclicals and Defensives, and the portfolio also remains diversified across most sectors. It is clear that policy and geopolitical risks have materially increased, with potential downside risks to the outlook for economic growth and the earnings cycle. The team will continue to travel widely to test conviction in our current investments and search for new ideas across a wide range of different sectors and geographies. We believe that our disciplined, bottom-up stock-selection focus which follows earnings leadership will be important in navigating a difficult period in the cycle.

Global market breadth returning with selloff - % of companies outperforming the market



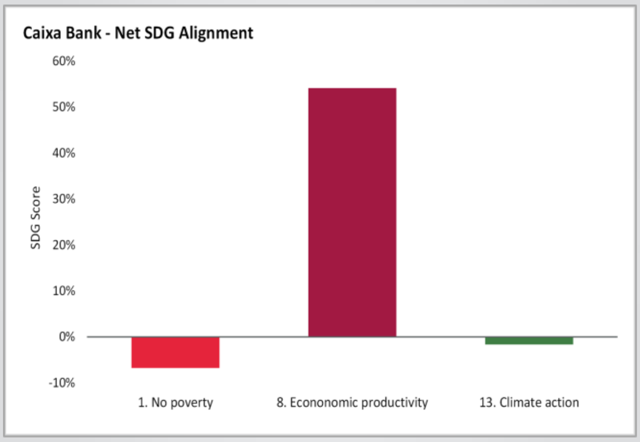
Source: Bloomberg, 31 March 2025

BOUGHT: CaixaBank – Leading retail bank exposed to relative strength of the Spanish economy



Source: Bloomberg, 15 April 2025

CaixaBank – SDG Net Alignment = 46%



Source: Bloomberg 15 April 2025

Travellers' Tales

Alphinity hit the road with a vengeance in March, with our people trawling through Asia, Europe and North America – and there's more to come in April.

Stephane, a PM in our domestic team, started with China, conducting one of his regular visits to see companies, mines and steel mills. It was a timely trip given the recent rotation in equity flows out of the US into regions like Europe and China. Is it a short-term rotation? Or are the economic fundamentals in China finally beginning to turn? Time will tell, but Australian mining companies are highly exposed to Chinese growth across a range of commodities.

The government there seems determined to stabilise its economy, lift the consumption of consumer goods, increase childbirth rates, expand domestic demand and continue the country's transition from the 'old' (heavy industry) to the 'new' economy (tech, AI, robotics, batteries, EVs). The old, which is 60% of GDP, might still grow but its share of the economy will shrink. Sentiment in China has improved but is still subdued, with another year of decline in the property market likely. Consumers are still reluctant to spend although there are some anecdotes about improving shopper traffic.

There is a more positive outlook for steel. He heard rumours of a 50 million tonne cut to production which, if true, would be supportive of steel prices. It would represent downside risk to the iron ore price, though, especially later in the year as seasonal demand falls, tariffs impact and the large project in Guinea starts to produce ore.

Andrew, also a PM in our domestic team, went to London and through Europe seeing insurers, then on to the US to meet with a range of industrial and financial companies. Unlike his other trips to London this time of year, there was some sunshine. It was not a metaphor for sentiment, however, because it didn't feel like blue skies on the investment horizon, despite the UK share market having a strong quarter. Two weeks of travel was made up of 40 meetings across France and the UK and New York, Chicago and Dallas in the US. The overall tone across both continents was one of uncertainty, with a persistent view from companies being "let's wait and see for now, in the end it will probably be fine". The daily announcements around US tariffs produce noise and unpredictability, making it hard for companies to make sensible investment decisions. As a result, many capital spending plans are being put on hold until there is more clarity on the path forward. Given the chaos of the first couple of months, this could become a problem if it goes on too long.

He found that people in Europe are still talking a lot about data centres, even more than AI. One company he met said it was considering building a powerful data centre in orbit and linking it back to earth by low orbit satellites like Starlink: this possibly signifies peak data centre hype! Although compared to Elon Musk's aim of colonising Mars, data centres in space seem quite sensible. His time in New York coincided with St Patrick's Day, where he witnessed the big parade from the balcony of Macquarie Group's new US head office on 5th Avenue, appropriately in view of St Patricks Cathedral.

There was an interesting change of tone around energy policy, with the talk changing from 'energy transition' to 'energy security', both in Europe and the US. Of course, renewables will still be part of that but there felt to be a lot more pragmatism around the timing, mix and source of the energy required. There was a lot of discussion around how nuclear fits in, with its baseload power availability. Of course, Europe and the US are in a much more advanced stage of nuclear energy than Australia, although aspiring next PM Dutton has nuclear ambitions. Let's see how this plays out at the election in May.

Meanwhile our global equity PM Jonas went to a healthcare conference in the US. What stood out to him was the amount of security in force. Not just security guards, there was actually a police presence in the hotel corridors. This was a response to the murder of United Healthcare CEO Brian Thompson in New York in December last year, while he was walking to the Hilton Hotel to present an investor day. The extraordinary public reaction, with sections of US society supporting and even celebrating this unprovoked killing as a reaction to the seemingly dysfunctional healthcare system there, was quite disturbing. It was very clear at this conference that the risk tolerance of healthcare CEOs generally has plummeted, with many of them attending by video rather than in person.

Chris, another global PM, complemented an earlier trip to the US with a week in China, specifically focused on the consumer. Amidst the Tariff chaos, Chris's conclusion was that Chinese consumers are currently exhibiting a cautious "wait and see" attitude towards spending, despite their overall financial health being reasonably stable. This reluctance stems from cyclical economic factors compounded by structural issues like demographic pressures and the expectation to support elderly family members. A notable shift in consumer preference is the emphasis on value for money, prioritizing quality and innovation over brand prestige, leading some to believe that traditional brand loyalty is declining. Encouragingly, there are signs of stabilization, with the second derivative of key economic indicators showing potential improvement, such as mall traffic, housing prices in top-tier cities, and a decrease in property inventory. Independent data suggests year-to-date sales performance that is better than initial executive expectations, albeit with significant variation across brands and luxury tiers. Premium luxury is still experiencing a decline, while the ultra-luxury segment is relatively stable, with fashion and leather goods outperforming jewellery and watches. This is largely in line with consensus forecasts for Chinese luxury spending for 2025. Analysts anticipate a modest range from negative to slightly positive, heavily reliant on a significant second half rebound after a weaker first quarter.

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