Alphinity Global Equity Fund – Active ETF

QUARTERLY REPORT – JUNE 2025

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)	1.8	4.3	8.1	16.5	14.7	13.2	12.8
MSCI World Net Total Return Index (AUD)[3]	2.4	6.0	18.5	20.2	15.7	13.5	12.9

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	$778m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
Microsoft	Information Technology	5.9
Nvidia	Information Technology	5.0
Netflix	Communication Services	4.1
ServiceNow	Information Technology	3.9
The Coca Cola Company	Consumer Staples	3.9
Linde	Materials	3.6
American Express	Financials	3.5
Morgan Stanley	Financials	3.4
Costco	Consumer Staples	3.3
TSMC	Information Technology	3.3
Total		**40.0**

Fund features

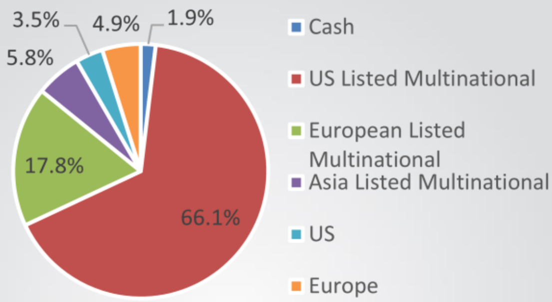
Consistent returns: Aims to provide consistent strong risk-adjusted returns across different market cycles

Style agnostic: Can invest in growth, value, cyclical or defensive companies, because we aim to own them at the right time in their earnings cycle.

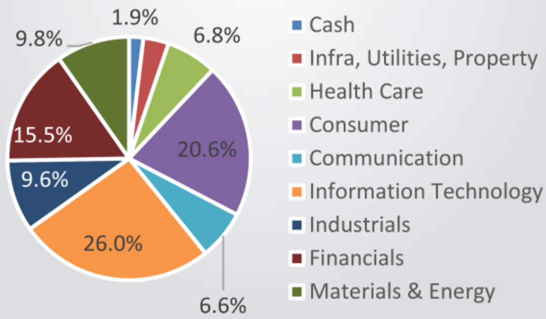
Concentrated: An actively managed, long only portfolio of 25-40 high conviction, quality companies, which is also diversified across sectors and regions

Robust process: A disciplined and repeatable investment process finding high-quality businesses with strong earnings that are under appreciated by the market.

Geographical exposure



Sector exposure



Data Source: Fidante Partners Limited, 30 June 2025
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

Aspire.Sustain.Prosper.

alphinity INVESTMENT MANAGEMENT

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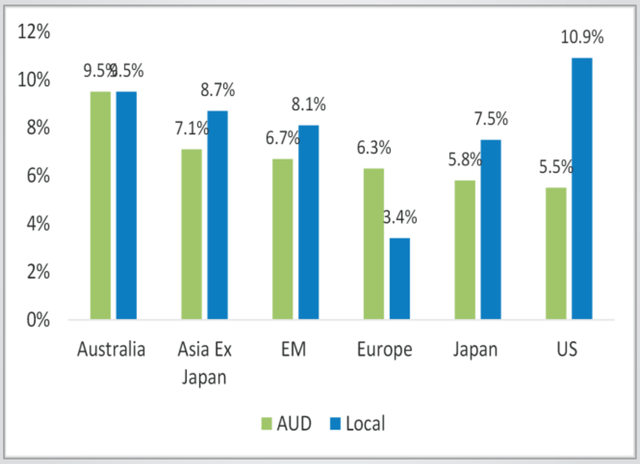
Market comment and outlook

Despite a number of headwinds, both geopolitical and tariff-related, equity markets displayed resilience following the initial "Liberation Day" sell-off in early April. Threats of escalation in the Middle East and the impact of US-imposed tariffs on global trade was offset by expectations of further rate cuts, and a "worst is over, buy the dip" mind-set that sent markets rallying to finish the June quarter with healthy gains. The US S&P 500 index reached all-time highs, gaining 11% last quarter, although a weaker US Dollar more than halved the return to 5% in AUD terms. Technology stocks drove the US and global indices higher (MSCI World +5.4% in AUD), with the TACO trade (Trump Always Chickens Out) in full effect as markets priced in further watering down of highly punitive tariffs on the rest of the world.

2Q25 Equity Market Returns – in AUD and Local Currencies



Source: Bloomberg, 30 June 2025

Despite the weakening US Dollar (now down 12% from its highs at the start of 2025), there hasn't been the large rotation out of the US into Emerging Markets with China still underperforming the US so far this year. Europe has fared better, attracting more capital from the US, with the Euro Stoxx 600 index posting a 4.8% return last quarter in AUD terms, and +14% year-to-date. In terms of broader style characteristics, global growth (MSCI World Growth +11.5%) outperformed value stocks (MSCI World Value -0.7%). A return to form in the MAG-7 stocks with Nvidia and Microsoft up 38% and 25% respectfully, drove a large portion of the market returns, although Apple was a notable laggard (-12%) with legal concern around service payment fees leading to earnings downgrades.

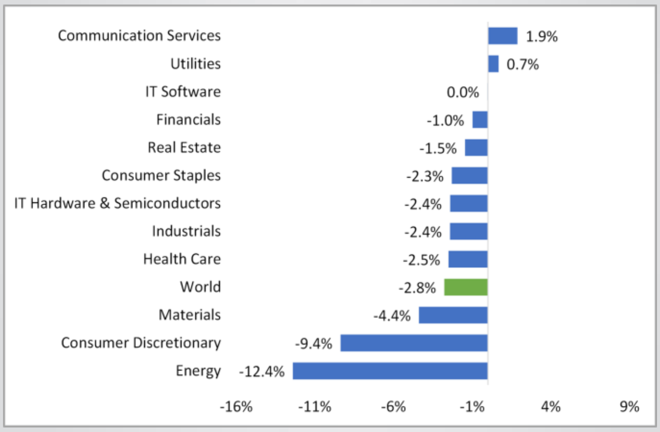
On a global sector level, Technology (+17%) and Communication Services (+13%) were the best performers while resources and defensive sectors including Consumer Staples (-2.7%) and Healthcare (-9.3%) lagged. A fall in oil prices also dragged energy stocks lower (-10%) while mining and materials stocks also closed out the June quarter, well below benchmark as commodity prices were generally softer, except for gold and a sharp rebound in copper.

With inflation seemingly under control in the US, and housing and construction data a bit softer, US 10-year bond yields dropped in June but still finished the quarter marginally higher at 4.23%. Expectations for rate cuts increased and are currently priced around 2.5 cuts before year-end. In terms of earnings, while the magnitude of downgrades has moderated, earnings revisions are in negative territory, although the market is still somewhat optimistic on earnings growth with +6.8% / +12.2% for 2025 / 26 respectively.

Portfolio comment and outlook

The global macroeconomic outlook remains uncertain and unusually driven by policy decisions. In the second quarter, the U.S. administration backed off - at least temporarily - from its most punitive tariff plans, helping to drive global equity markets back to historic highs. Economic growth and employment indicators also held up relatively well, albeit at weaker levels than expected early in the year. The ongoing policy uncertainty has led to falling consumer and business confidence and will likely continue to play a key role in terms of the market outlook and risk. After the fiscally expansionary U.S. budget passed into law, any renewed attacks on the independence of the U.S. Federal reserve are an additional tail risk, potentially triggering bond market volatility and impacting global equity markets.

3-month FY1 EPS Revisions – Downgrades across most sectors



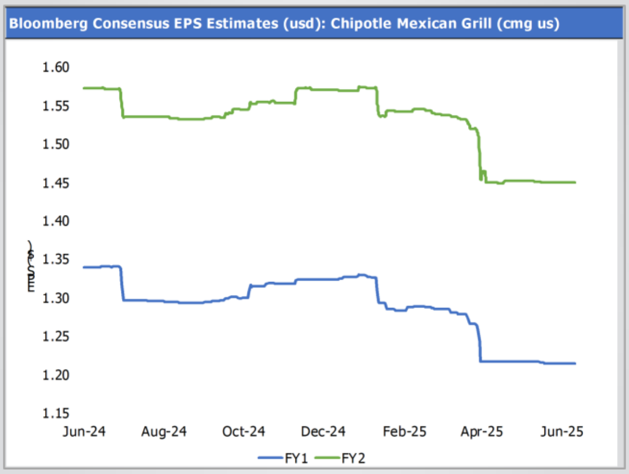
Source: Alphinity, Bloomberg, 4 July 2025

Against this backdrop, first quarter company reports were relatively robust, albeit on recently lowered expectations. Full-year earnings guidance updates were softer than usual, reflecting the more uncertain outlook. During the quarter, overall global earnings downgrades accelerated slightly to -2.8% for 2025 and -2.6% for 2026. Most sectors saw earnings downgrades in the quarter, but the relatively more resilient Communications, IT Software, Real Estate and Utilities fared best. The largest downgrades are coming through in cyclical sectors Energy, Consumer Discretionary and Materials. The exception to this cyclical pressure is Financials, which continue to be part of the market leadership on the back of a recovering financial cycle - not least in Europe - as well as deregulation and subsequent potential for capital returns to shareholders. With earnings forecasts progressively being trimmed, analysts now expect global earnings growth of +6.8% in 2025, down from >10% at the start of the year.

Estimates have been cut slightly less for 2026, and expectations are for an acceleration to +13.4% next year. We expect 2026 to increasingly come into focus, and it is reasonable to assume this downgrade cycle has some further ground to cover.

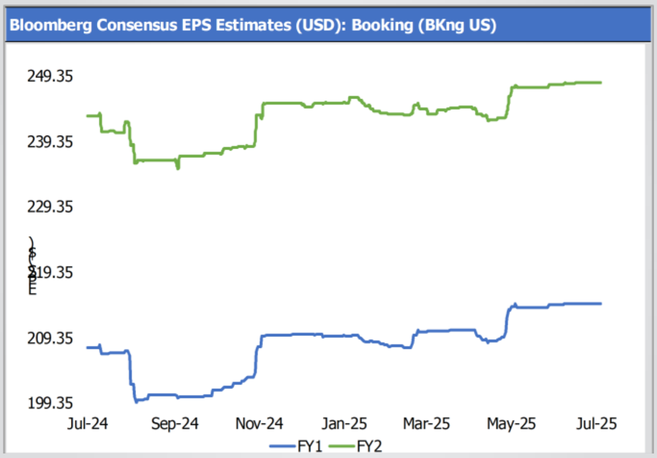
In times of changing earnings and market leadership like these, we re-align the portfolio in a disciplined way as our conviction grows or wanes in individual investment cases. Recent changes have reflected emerging leadership within select Defensives and non-US stocks, whilst some of our high-quality growth compounders continue to perform well through the turbulence. Some of the noticeable portfolio changes involve rising stock selection within the 'Mag-7' stocks, including divesting Apple and Alphabet this quarter on weaker earnings and rising structural risks. We invested in Amphenol in the Technology sector, with its broad growth momentum across multiple customer segments. In Financials, we added NatWest Group (strong business momentum and compelling valuation) and switched from Bank of America to JPMorgan (stronger earnings momentum with less volatility and tail risk exposure). Healthcare has been under increasing policy pressure from the U.S. administration, and we divested both Thermo-Fisher on a worsening earnings recovery outlook, as well as recently added UnitedHealth after its profit warning (unclear timing of earnings recovery). Within Consumer, we replaced Chipotle (weaker U.S. restaurants trends) with Booking.com and Tencent, bringing more idiosyncratic and global exposure. We continue to manage portfolio risk to maximise stock-specific risk and diversify away most of the more unpredictable macro and regional risks.

SOLD: Chipotle – Weaker US restaurant trends



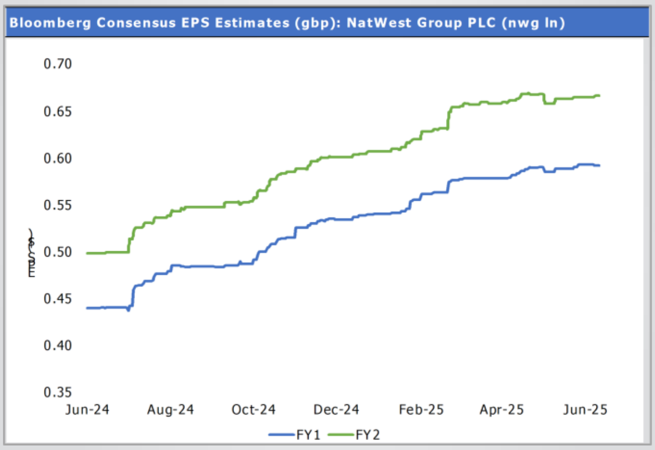
Source: Bloomberg, 10 July 2025

BOUGHT: Booking - High quality leader in the OTA segment



Source: Bloomberg, 10 July 2025

BOUGHT: NatWest – Strong Business momentum & compelling valuation



Source: Bloomberg, 10 July 2025

Travellers' Tales - The Sustainability of AI: Insights from Asia's Innovation Hubs

As the global AI race accelerates, so too does the scrutiny on its environmental, social, and governance (ESG) implications. A recent thematic research trip across Seoul, Taipei, Beijing, Shanghai, and Shenzhen offered a rare window into how Asia's tech giants and infrastructure providers are navigating the complex intersection of AI innovation and sustainability.

AI's expanding footprint: Capex, chips, and cooling: The AI value chain is booming. In 2024 alone, hyperscalers like Microsoft, Amazon, Google and Meta spent more than $200 billion in capex with the vast majority of this being on AI infrastructure. Forecasts for 2025 have capex investments for these four key players reaching $320 billion. It's not only US hyperscalers; other companies like XAi, Oracle, Coreweave, Alibaba, and Tencent are also investing significantly. Sovereign AI clouds are growing as well. This surge is driving growth not only in semiconductors, data centres, and cooling technologies, but also in numerous other supporting industries such as power and real estate. Companies like SK Hynix and Samsung Electronics are doubling down on high-bandwidth memory (HBM), a critical enabler of AI workloads. However, HBM consumes three to five times more electricity than traditional memory, raising concerns about energy intensity and water consumption. Cooling is a major ESG pressure point. It accounts for 20–40% of data center energy use. Firms like Delta Electronics, Envicool, and Asia Vital are innovating with liquid and hybrid cooling systems. Envicool noted that liquid cooling penetration across their mostly Chinese customer base is still only ~10% but is growing fast. Delta's modular containerized data centers are also gaining traction, offering flexibility and improved energy efficiency.

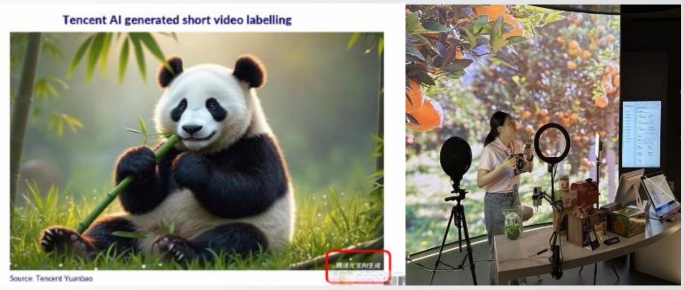
Geopolitics and supply chain resilience: Tariffs and chip bans remain a moving target. Companies like Voltronic and Delta Electronics began diversifying manufacturing as early as 2018, with new capacity in Vietnam, India, and even the UAE. While some, like Samsung, await clarity on Korea-US tariffs, others are proactively stockpiling GPUs or developing local alternatives. Baidu's Kunlun chip cluster, for example, is reportedly capable of training DeepSeek-like models. Despite geopolitical headwinds, AI capital expenditure remains resilient. Delta noted that hyperscalers still account for 50% of their data center business, and modular solutions are helping customers manage privacy and security concerns.

Winners, losers, and the east-west divide: The AI race is not just about chips—it's about ecosystems. While the West leads in hardware, the East is catching up fast in applications and user adoption. iFLYTEK's AI-powered education tools are already deployed across Chinese schools, offering real-time translation, grading, and personalized learning. The contrast in AI integration between the East and West was striking. In the search vs. chatbot debate, companies like Naver and Baidu are finding ways to coexist. Naver's AI-powered ad solutions reversed a -10% decline in 2023 to +20% growth in 2024. Meanwhile, Baidu's AI-enhanced search is improving user engagement and retention.

Tencent's strategy of integrating a mix of proprietary and open-source models, like DeepSeek, exemplifies a flexible approach to AI development, allowing for more versatile and complex task handling. This contrasts with Naver's exclusive reliance on their own models and Samsung's dependence on Google Gemini. By leveraging various tools, companies like Tencent, Zhihu, Kuaishou, and iFLYTEK are better positioned to innovate and adapt in the rapidly evolving AI landscape.

Responsible AI: governance, ethics, and regulation: The ethics of AI were front and center. From AI interview bots to facial recognition tools, the spectrum of use cases was vast, and sometimes controversial. Companies like Tencent and Baidu stood out for their robust governance frameworks, including internal AI ethics committees, structured approval processes, ISO42001 AI Management System certifications, and clear oversight mechanisms. China's regulatory environment is also evolving. In 2024, the government introduced three national standards on generative AI security and governance, including mandatory labelling of synthetic content. While some companies rely on government-led frameworks, others like Naver, Tencent, Baidu and Zhihu are embedding ethics into product design and deployment. Data privacy and energy efficiency were the most frequently cited ESG priorities. Baidu reported a PUE (Power Usage Effectiveness) of <1.15, while SenseTime aims to reach a PUE 1.1 by 2050. These metrics are becoming key differentiators in a crowded market. They are also highly variable depending on data centre locations, renewable energy uptake, ambient temperature, and the design of the servers.

Tencent: Example of GEN AI content labelling & AI marketing tools



AI sentiment and ESG maturity: Globally, sentiment around AI remains mixed. However, in China, there is a notable sense of optimism, less concern, and a greater rate of adoption. This positive outlook can be attributed to the government's centralized approach to the AI technology transition, comprehensive job retraining programs, and ongoing promotion of AI as a strategic priority. Despite this enthusiasm, data privacy and security continue to be top priorities. ESG maturity is uneven. Tencent and Baidu emerged as leaders, with integrated ESG strategies and strong investor engagement. Others still view ESG as a compliance exercise. Human rights and modern slavery were rarely discussed, and in one case, questions on human rights were met with resistance.

Conclusion: A complex, evolving landscape: The AI value chain is expanding rapidly, but so are its ESG challenges. From energy-hungry chips to ethical dilemmas in AI deployment, there are many trade-offs to consider. Companies that can balance innovation with responsibility—like Tencent, Baidu, and Delta Electronics—are likely to emerge as long-term winners. As investors, the opportunity lies in identifying those who are not just riding the AI wave but shaping it sustainably.

Link to note here: [2025-07-Sustainability-of-AI_on-the-road.pdf]

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