

Alphinity Australian Share Fund

MONTHLY REPORT – August 2025

Buy Now, Earn Later

Market comment

August is usually the month of reckoning in the Australian share market, when companies report their full year earnings and investors sort the wheat from the chaff. And boy, did this one produce a lot of surprises. The surprise wasn't so much the magnitude of earnings beats and misses (although there were some big ones), but more the share price reactions post the announcements. There was blood on the streets when CSL, one of Australia's highest quality healthcare companies, guided down earnings, specifically in its core business. This rattled investors and the stock fell 17% on earnings day. James Hardie was probably treated with the disdain it deserved, with analysts scratching their heads as to how a company could miss that badly on earnings so soon after making a huge acquisition, even despite the softer US housing market conditions. The stock fell 37% in the two days following their result. Another large cap staple, Woolworths, dropped 15% on its result day, with a weak start in Australian food setting the stock up for further downgrades. Coles is performing better operationally and Woolworths will likely need to further cut prices in order to compete more effectively.

Even after enduring one of our most volatile earnings seasons on record, during which aggregate earnings growth was going backwards, Australia's ASX 300 index reached an all-time high in August and closed the month up 3%. The index is now up 23% from its "Liberation Day" lows in early April. Many other major developed markets joined Australia in notching up all-time highs, including the US, Japan and Germany. Aussie shares outperformed the US (S&P 500 index +0.3%) although Japan's Topix was one of the better performers, closing up 5% in AUD terms. Emerging Markets, were mixed given increased US tariffs on India and Brazil along with volatile currencies hurting these markets. China A shares, however, stood out with the Shanghai Composite Index gaining 7%, led by strong performance in Chinese financials. Perhaps not surprisingly given some of the shocking results from some of the largest listed ASX companies, small caps outperformed, gaining 8% last month.

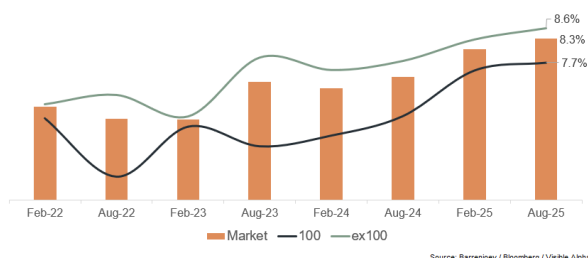
While it's easy to remember the large misses and that earnings in aggregate are slowing down, some sectors including the Insurers, Banks and Property Trusts, did indeed get earnings upgrades. Other positives included a more confident consumer sector with the lower interest rates and commodity spot prices increasing which could lead to upgrades in the Resource sector, something we haven't seen for some time.

Despite the overall negative revisions, the ASX300 reached another record high last month, which basically meant the moves higher were a result of share prices moving by more than earnings would suggest. This resulted in a Price to Earnings (P/E) ratio expansion of around 0.5 times. In other words, the market became more expensive relative to the earnings growth the companies generated. So what drove this market rally? While our investment philosophy, that earnings revisions drive performance, has proven to be the case over the long term, it doesn't always explain well month-to-month moves. Indeed, factors such as excess liquidity, rate cut expectations and general positioning and risk-on sentiment can also fuel market rallies.

While August did feel as though factors outside of earnings propped up equity markets, earnings still mattered a lot when companies missed expectations or cut guidance. That is, the market tended to react more negatively to earnings misses than it did positively to earnings beats, most likely due to the already lofty valuations the market was sitting on heading into the results.

The chart below from Barrenjoey shows the standard deviation of result day relative returns, with a trend of increased volatility as each earnings season passed. Stock selection has never been more important.

Standard deviation of Result day relative returns: Market, S&P ASX 100 and ex100



Source: Barrenjoey / Bloomberg / Visible Alpha

Portfolio comment

The Fund outperformed the market slightly in August. The biggest contributors were gold miner Newmont, milk producer A2 Milk and avoiding building products maker James Hardie. Exposure to packaging company Amcor, insurer QBE and not owning gold miner Northern Star detracted from performance.

Performance*	1 Month %	Quarter %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception^ % p.a.
Fund return (net)	3.3	7.7	17.3	13.6	12.7	10.3	9.9
S&P/ASX300 Acc. Index	3.2	7.2	14.9	12.8	12.2	9.9	9.2

* Returns are calculated after fees have been deducted, assuming reinvestment of distributions. No allowance is made for tax. Past performance is not a reliable indicator of future performance. Source: Fidante Partners Limited, 31 August 2025.

^ The Fund changed investment manager and investment methodology on 12 July 2010, at which time Alphinity Investment Management commenced managing the Fund and started the transitioning of the portfolios to a structure consistent with Alphinity's investment views. The transition was completed on 31 August 2010. The inception date for the returns for the Fund is 1 September 2010. For performance relating to previous periods, please contact the Fidante Partners Investor Services team on 1300 721 637 during Sydney business hours.

Market outlook

Australian equities continued on their upward trajectory alongside US markets, with both reaching new record highs during the period. The rally was supported by increased US tariff clarity (if any certainty is possible with Trump), the Big Beautiful Bill stimulus package, and growing Federal Reserve dovish sentiment – whether or not Trump induced! The US earnings season provided additional momentum, with positive earnings revisions emerging.

Domestically, while RBA rate cuts provide near-term market support, underlying earnings fundamentals remain challenging. More recent earnings leadership patterns persisted during the reporting period, with Financials continuing to exceed expectations, and most other sectors seeing earnings downgrades. The ASX300 now trades at 21 times earnings, a 30% premium to long-term averages, despite recording negative earnings growth for the third consecutive year. This disconnect raises sustainability concerns absent meaningful earnings revision improvements. We do however note some early positive signals are beginning to emerge for the more domestic-focussed businesses, beneath the broader downgrade environment. Indeed, looking forward, there are three key structural themes emerging that warrant particular attention when considering the market outlook.

The first relates to geographic performance divergence – offshore headwinds vs domestic improvement. Companies with substantial offshore exposure, particularly to US markets, are seeing headwinds from trade policy uncertainty, weakening consumer confidence, weak US housing, and elevated bond yields. This was evident in results from James Hardie, Reece, Reliance, Amcor, and CSL. While tempting to see these offshore companies as ‘cheaper’ post material share price corrections, it is far too early given the likelihood of those underlying trends persisting. Earnings downgrades are as serially correlated as upgrades.

Conversely, domestically-focused operators are benefitting from the improved interest rate outlook, consumer resilience, and employment strength. Discretionary retailers with housing and electronics exposure, including JB Hi-Fi, Harvey Norman, Nick Scali, Super Retail Group, and Wesfarmers, demonstrated particular strength as value-conscious consumers showed renewed spending propensity amid rising real incomes. This domestic consumer inflection point will only get reinforced by further rate cuts, a lift in real income, and possibly even in house prices, all leading to a higher propensity to spend. This positive momentum combined with productivity initiatives is likely to fuel a new source of earnings upgrades for our domestic retailers provided that they get their value proposition and product delivery right.

The second differentiated theme involves strengthening fundamentals within the Property sector, an area we have largely avoided in recent history. The eleven consecutive rate increases between May 2022 and November 2023 precipitated significant capital market disruption and asset value compression. Current indicators suggest that asset values have troughed, with early signs of capitalisation rate compression driving renewed capital allocation to the sector. Limited new supply due to elevated construction costs, combined with sustained demand fundamentals, supports a positive outlook. Given that this sector has lagged relative to others in recent years, we expect it to now attract more interest from equity investors. Valuations are still reasonable, and earnings are likely to enter a positive revision cycle. Asset selection will be critical, however.

The third development relates to a possible inflection point within the relatively value-attractive Resource sector. This segment is showing preliminary signs of earnings upgrade potential following years of analyst downgrades and capitulation, supported by improving spot commodity dynamics: Gold from US dollar diversification trends; Iron ore from Chinese export strength offsetting domestic weakness; Lithium from closure of non-compliant Chinese domestic mines, creating temporary supply deficits; and Rare Earth from US Department of Defence supply chain initiatives. An earnings lift in this sector could meaningfully contribute to overall market growth and partially justify the market’s elevated valuation. One needs to be very selective however given the fragility of the outlook for the various commodities and the strength of share prices during August.

So overall, we come out of this reporting season feeling a touch more positive on the market given the emergence of these green shoots and a background of Central Banks likely to continue cutting rates. There is some chance earnings are bottoming in large parts of the market – with some offshore and US exposure being the exception.

We are conscious however that the risks of a correction still abound, which, given current market multiples, provides minimal downside protection: tariff-driven inflation could resurface and complicate Federal Reserve policy normalisation. Potential legal challenges to tariff structures could refocus attention on US fiscal sustainability, and/or accelerating US employment deterioration could trigger a downturn to name a few. A focus on earnings upside with a risk adjusted mindset in terms of valuation is therefore paramount.

Portfolio outlook

While we anticipate continued resilience from banks, financials, and insurers, the emergence of new earnings leadership sources represents a positive development for market breadth. Following insights gleaned from reporting season, we have selectively increased exposure to Property, domestic Consumer Discretionary, and Metals and Mining sectors through position additions and new name introductions. These increases were funded by exits from lower earnings conviction positions and profit-taking in outperforming sectors, such as insurers.

Our largest active weight exposure continues to be the insurance sector, where a combination of underwriting margin expansion and capital management initiatives still supports the investment theses. We also maintain overweight positions in Telecommunications, Tech, Healthcare and Consumer Staples through selective idiosyncratic opportunities.

Conversely, we remain underweight Banks primarily via Commonwealth due to valuation considerations, although Strong fundamentals and a positive earnings outlook keep us overweight some banks. We also maintain underweight positions in international Industrials and Discretionary names in light of the headwinds they face. While underweight the metals and mining sector overall, we maintain neutral positioning in gold and iron ore while holding overweight exposure to copper.

Current elevated valuations leave little margin for error, reinforcing the importance of rigorous fundamental analysis and prudent risk management. We firmly believe our investment process, focused on identifying quality companies trading at attractive valuations that are most importantly within or entering earnings upgrade cycles, serves us well in navigating the current environment. This rigorous, disciplined approach has historically generated sustained alpha for our investors. May this long continue to be the case!

Top five active overweight positions as at 31 August 2025	Index weight %	Active weight %
BHP Group Limited	7.9	3.0
Newmont Corp	0.5	2.9
a2 Milk Co Ltd	0.2	2.1
Suncorp Group LTD	0.8	2.0
ResMed Inc	0.9	2.0
Asset allocation as at 31 August 2025	%	Range %
Securities	98.3	90-100
Cash	1.8	0-10

BTW

It's becoming clear that over the last few years (Covid lockdowns and small number of stressed analysts excluded), people are drinking less alcohol. Even before the likes of the GLP-1 wonder drugs (Ozempic, Mounjaro etc) which help to reduce food and alcohol cravings, there was already a trend towards lower alcohol consumption, particularly in younger age cohorts.

An interesting survey recently published by global analytics and advisory firm Gallup looked at the changing behaviour around US alcohol consumption, as shown below. Every category decreased alcohol consumption, with women scaling back a lot more than men. The least wealthy and the wealthiest recorded larger drops than those with average incomes (\$US40–99,000). The survey also broke down consumption by political affiliation with Republicans showing a massive decrease in alcohol consumption (-19%, with less than 50% of Republicans drinking at all) while Democrats were only down 3% to 61% drinkers. Perhaps losing the election to Donald drove Democrats to the drink, or Republicans followed their fearless leader into sobriety (Trump doesn't drink). Maybe it was a bit of both. From an age group perspective, it was clear that younger and even middle aged people are decreasing consumption while the older cohort reported the smallest decrease.

Recent Trend in Percentage of U.S. Adults Who Report They Drink Alcohol, by Subgroup

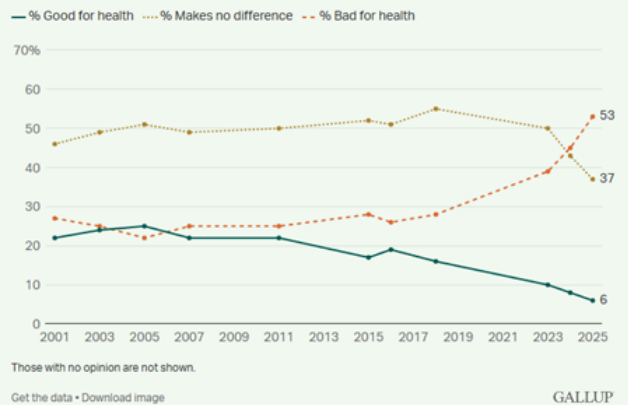
	2023	2024	2025	Since 2023
	%	%	%	(pct. pts.)
U.S. adults	62	58	54	-4
Gender				
Men	62	61	57	-5
Women	62	56	51	-11
Race/Ethnicity				
White adults	67	64	56	-11
People of color	54	48	52	-2
Age				
18 to 34	59	50	50	-9
35 to 54	66	70	56	-10
55 and older	61	54	56	-6
Annual household income				
Less than \$40,000	53	43	39	-14
\$40,000 to \$99,999	58	61	54	-4
\$100,000 or more	79	71	66	-13
Party ID				
Republicans	65	57	46	-19
Independents	61	58	55	-6
Democrats	64	61	61	-3

July 7-21, 2025
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The next chart shows that the number of people thinking that even moderate drinking is bad for your health tipped over half to 53%, while 37% thought it made no difference, down from more than 50% from 2005 through to 2023. Perhaps not surprisingly, only 6% of respondents thought moderate drinking (defined as one or two drinks per day) was good for health, down from 20% in the early 2000s.

Perceived Health Effects of Moderate Drinking

Do you, personally, think drinking in moderation — that is, one or two drinks a day — [ROTATED: is good for your health, makes no difference or is bad for your health]?

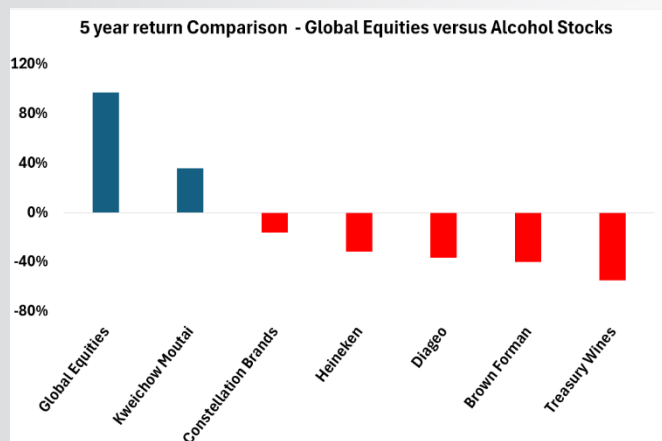
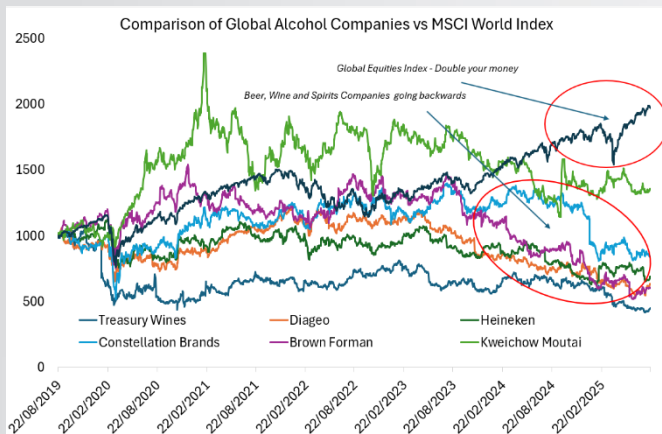


Whether it was a greater awareness of the health effects of alcohol through better education among younger people, cost of living pressures or just making healthier life choices, the trend is clear. Perhaps looking at unattainable body images on social media has also driven younger people to focus more on fitness than drinking. Less fun sure, but healthier and less chance of making regrettable decisions. We remember a decade or two ago that most young office workers would meet up for a drink after work. Nowadays, it feels like the option of going for a run or to the gym for a workout or pilates/yoga classes takes precedence over pints of lager and glasses of wine.

Bringing this social change back to our world of investing, the trend is also pretty clear in some of the world's largest alcohol producing and distributing companies. In the chart below, we've plotted five years of returns, all starting with a \$1000 investment, compared against a standard global equities index against six of the worlds biggest listed alcohol stocks. The companies selected include Diageo (a UK listed producer of vodka, beer and spirits), Heineken (the worlds biggest brewer of beers), Brown Forman (US listed whiskey/bourbon maker), Constellation Brands (US listed beer, wine and spirits producer), Kweichow Moutai (a luxury Chinese listed white spirits manufacturer) and last but not least, our very own Treasury Wines (Aussie listed wine maker famous for its Penfolds range). The summary is that you would've made a lot more money by simply investing in a broad index than owning any one of these stocks. Treasury Wines was hit particularly hard when China stopped buying Aussie wine as tensions rose under the previous Government, but expanding into the US market with some large acquisitions has only served to put further pressure on the share price. The Snoop Dog-endorsed 19 Crimes (was a crime selling it) contributed to large volume losses in its commercial portfolio, so some liquor stocks have suffered from poor management decisions in addition to the structural challenges facing the industry more broadly. In the most recent earnings season, alcohol retailer Endeavour Group, owner of Dan Murphy's, and US listed Constellation Brands both called out softer trends in beer and wine consumption.

BTW (cont)

The charts below show that you would have almost doubled your money by owning a global index while all the alcohol stocks, apart from Chinese-listed Moutai, are under water. It's enough to drive you to drink. If only.



Source : Alphinity / Bloomberg

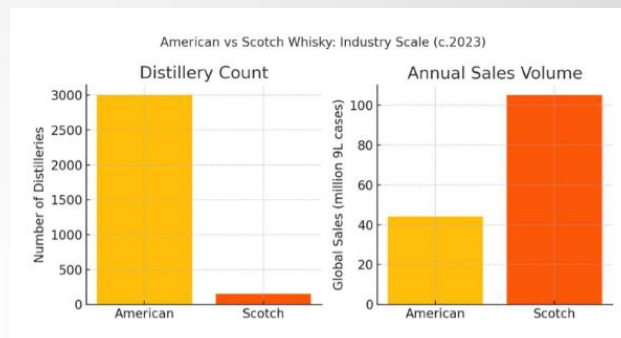
Outside of the subtle declining interest in alcohol, there are a number of other challenges facing the industry including tariffs, China demand (in the case of Treasury Wines) and dealing with a lot of inventory from over-supply in the case of the US bourbon market, which take a look at now.

The state of Kentucky is probably most famous for two things: Colonel Sanders and Bourbon. The state famous for KFC and Jim Beam enjoyed a renaissance of growth in its production of bourbon around 16 years ago after its State government implemented a series of initiatives to grow the industry. Tensions between whiskey makers and the government reached boiling point back in 2005 when whiskey barons poured gallons of their precious inventory on the steps of the Kentucky Capitol to protest looming tax increases on the spirits industry. In fact, inventories were so low back then that it turned out to be quite a costly protest for the distillers who were already running short of whiskey inventory to be pouring it out!

In a rare example of the Government working successfully with industry, Kentucky made a series of legislative actions (such as tax credits) which helped propel the industry's growth. According to the Kentucky Distillers' Association, 95% of global bourbon supply comes from this state alone.

The supply response from the bourbon distillers was remarkable. In 2009, AP News reported that total bourbon inventory in Kentucky was around 4.6m barrels. In 2023, they had record inventory of 12.6 million barrels ageing in warehouses. With maturity cycles ranging between four and eight years, this inventory build-up is bet on future demand. Build it and they will come. Distil it and they will drink....perhaps.

US retailer The Whiskey Lab produced the chart below comparing American Whiskey with Scotch Whisky. America generates less than half the sales volume of the Scots, yet it has thousands more distilleries.



The chart also highlights a large structural difference between Scottish and US spirit production: the huge explosion of smaller craft distilleries that have popped up everywhere in the US in the last few years. In fact, it has almost come full circle, back to the days before Prohibition when there were thousands of distilleries in the US. The American Craft Spirits annual report stated that at the end of the 20th Century, the US had as few as six major distilleries. Between 2000 and 2022, more than 2000 new ones opened. There is no denying that barrels are maturing faster in warehouses than consumers are emptying bottles off the shelf.

In classic economics, we have both a demand (slowing) and a supply (ramping) problem which looks set up for a perfect storm of huge inventory build, just at a time when demand is waning. The recent introduction of weight loss drugs and younger people changing their behaviour around alcohol only serves to exacerbate the issues facing the industry. Anyone for an Old Fashioned?

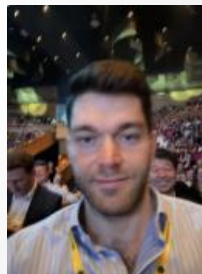
Travellers' Tales

Andrey travelled to Brisbane for Xerocon 2025. Xero is one of the world's biggest accounting software companies, valued at over A\$26bn, although some readers might be surprised to learn of its humble origin. This global software giant started with two guys in 2016 in a studio apartment in Wellington, New Zealand and, according to Business Insider, they had to access their wi-fi from a nearby café. The company was originally called Accounting 2.0, but that was just too nerdy – even for accountants – so it was later changed to Xero, named after a much less nerdy US metal rap band. In any case, the decimal point meant it was impossible to register the original internet domain name so it could never have had a website with its brand as the URL. The company's headquarters remain in Wellington.

In just under a decade, Xero has transformed from a wannabe (initial chat in the Kiwi financial circles was that Xero was 'the first IPO named after its revenues') into a global accounting software powerhouse that made A\$1.9bn of revenue in fiscal year 2025. Andrey had previously attended Xerocon in London and in the US, but the host city was Brisbane for 2025. The event shuffles around each year (was Nashville in 2024) with the 2026 venue yet to be decided. Andrey came away from the conference a bit more bullish on the stock. The Brisbane conference had 12,000 participants, three times bigger than any previous event.



PM Andrew had previously been to Xerocon and claims you haven't really been to a Xerocon until you jumped into a ball pit with pink flamingos. This pic of Andrew in the pit appeared in a previous Travellers Tales a few years back, but we're recycling it here for good measure! Andrey's view on Xero is that brokers are underestimating its revenue growth over the next three years. The new product launches look good, and its AI is getting much better. Xero is increasing its focus towards larger customers, and upselling is also starting to work. In addition, the company has some ambitious aspirations in the UK as part of its government's plan named "Making Tax Digital".



One of the biggest cheers during the event came from when the company announced a new complex transaction reconciliation feature. Seeing thousands of accountants going nuts for this feature was a sight to behold. Imagine what the after-party was like!



For further information, please contact:

Fidante Partners Investor Services

Phone: 1300 721 637 Email: info@fidante.com.au Web: www.fidante.com.au

Fidante Partners Adviser Services

Phone: 1800 195 853 Email: bdm@fidante.com.au Web: www.fidante.com.au

Alphinity Investment Management

Web: www.alphinity.com.au

 **alphinity**
INVESTMENT MANAGEMENT

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