Alphinity Australian Share Fund

QUARTERLY REPORT – September 2025

Aussie Gold

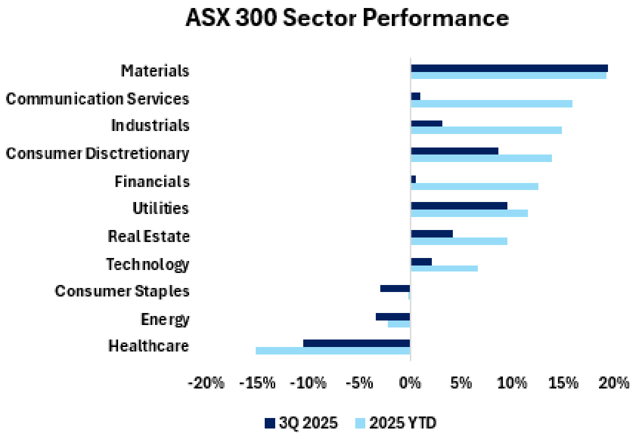
Market comment

While our athletes did us proud at the World Athletics Championships in Tokyo, even winning gold in the High Jump, the Aussie share market also celebrated its share of gold with strength in gold miners being the main driver of market gains over the September quarter. While gold stocks comprise only a small portion of most global exchanges, they represent more than 5% of the ASX300, meaning the Australian market disproportionately benefitted from the gold price surge in the quarter. The Metals and Mining Sub-Index gained 24% over the September quarter, led by global gold producer Newmont's 50% gain. The mining sector gains were relatively broad based, with recent commodity price strength supporting potential future earnings upgrades for much of the sector for the first time in a couple of years.

Global shares (MSCI World) gained 6.2% last quarter in AUD terms, while our market (ASX300 including dividends) was a little behind with a 5% gain, even with the gold sector support. The resurgence in Tech stocks, led by a rebound in the MAG-7 group, dragged up the US S&P 500 index (+7% in AUD). Emerging Markets rose 9%, with China leading (Shanghai Composite +13%) although India (-8%) and Argentina (-24%) were notable laggards, driven by outflows and currency weakness. Another thematic of 2025 – the declining USD - began to flatten out last quarter, with the DXY Index (average of USD versus a basket of major world currencies) largely trading range-bound. The US has fallen more than 10% since Trump got the keys to the Whitehouse in January.

It felt a little strange that multiple global equity markets reached record highs throughout the quarter. The prospect of rate cuts in the US, led by weaker jobs growth and companies still managing to grow earnings (just), gave investors' confidence that perhaps the shock of Trump's tariffs have largely played out and we can move on. Oh, and there's also the hundreds of billions of dollars being spent on AI by the world's biggest Tech companies, including Microsoft, Meta and Google, which showed that the AI trade still has legs despite productivity gains yet to be fully understood or realised. A bubble? Perhaps, but bubble can hang out a long time before popping.

On a sector level back home, it was the strength in the Materials (+19%), Utilities (+10%) and Consumer Discretionary (+9%) that were the largest contributors while Healthcare (-11%), Energy (-3%) and Consumer Staples (-3%) were among the weakest. Energy, Healthcare and Consumer Staples have been relatively consistent underperformers throughout the year.



Australia's central bank delivered another 25bp cut in August but, disappointingly for some, kept rates on hold at 3.6% on the final day in September. Unlike in the US, where Trump is doing his best to influence the Federal Reserve's interest rate policy, Australia is maintaining its central bank independence, much to our Treasurer's dismay. Inflation, while under control, is proving a little stickier than expected and employment numbers are still solid, enough for Governor Bullock to warrant keeping some dry powder at their September meeting.

Portfolio comment

The Fund lagged the market a little over the September quarter. The biggest contributors were gold miner Newmont, miner BHP, safety app Life 360, as well as being underweight Commonwealth Bank not owning either James Hardie or Woolworths. Exposures to insurer QBE and packaging maker Amcor and not owning rare earth play Lynas or gold miners Evolution or 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)	-1.7	4.0	12.7	15.4	13.2	10.4	9.7
S&P/ASX 300 Acc. Index	-0.7	5.0	10.8	15.0	12.9	10.1	9.1

* 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, 30 September 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

It was tempting to write a very concise Outlook this month, which would no doubt be much appreciated by our readers. Something along the lines of, "The market is highly likely to continue to go up. We remain focussed on the potential change and sustainability in the mix of that growth."

For those wanting more detail, here we go. The most likely direction of a stock, or market, is its current trend direction. Typically, people downplay that explanation because it feels too simple. However, price momentum is one of the strongest predictors of the market's future direction… until it's not. It's just that people underestimate how long the time periods between the "it's nots" actually are. Price momentum already contains a lot of information, both actual and expectation, so we should always pay attention to it. Our starting point should be that the current direction will continue unless we can observe (not guess) a real change in underlying fundamentals, rather than starting with a belief the current direction is wrong.

The old adage that 'the market is always right' continues to play out in real time. By historical precedent and sound economic argument, Trump's actions should by now have been the tipping point for the US and global economies, and therefore markets, given how expensive everything already is. Six months on from 'Liberation Day' and global markets are making new highs regularly. Earnings have not rolled over; in fact, the US and most other markets are now actually experiencing earnings upgrades after being too pessimistic early on. Australia not so much, but there are now some signs of that turning). The US and global economies are adapting so far and, while undoubtably slowing in parts, have not to date been as materially impacted as expected. Even China is hanging in there without the big stimulus bazooka. So, is this just the calm before the storm, given we know economic impacts can take years to play out, or has the global economy and markets once again proven ultra-adaptable while liquidity keeps saving the day? The more time goes by, the more likely it is that the latter is true.

For direction to change, drivers must change. Why is the market charging ahead, and are any of these reasons likely to shift?

- In the US, economically things on 'average' are OK. Averages matter.
- While lower-end consumers struggle and Q4 could be tougher as tariff impacts hit, consumers have remained resilient by adapting their spending patterns (travel yes, housing related no) and staying employed with higher wages.
- The US economy has changed. AI-related spend and capex has transformed the drivers of US growth and share market.
- Rate cuts remain positive sentiment drivers, either offsetting economic weakness or through Trump's engineering over time.
- We don't want to say it out loud, but Trump is actually extracting a lot of what he told us he was going to do i.e. forcing major investment back into the US and collecting large dollars from tariffs while the economy holds in.
- The so-called Big Beautiful Bill will likely stimulate US consumers and business in 2026.
- Global trade is adapting quicker than many expected.

We think the bigger question now isn't the overall direction, but rather what drives future market composition of growth. In Australia we do see a potential change in mix beginning to come through, even if somewhat unconvincingly at times. For a long time, the driver of market returns in Australia have followed the scant positive earnings revisions we've seen i.e. financials, defensives, gold, and some idiosyncratic stories. Things are very slowly and tentatively beginning to change. Just in the last month we've seen emerge the first slightly positive trend in earnings revisions in Australia in years.

Global cyclicals are starting to respond to a better-than-feared global economic outcome. Commodity prices are holding up better. Interest rates are going down. The Australian economy is doing well, relatively. That sets us up for a potential sustained earnings leadership shift: from defensive and domestic in Australia to more global and cyclical. While the market has attempted to rotate a few times this year, the one that began in July seems to be more persistent than before, largely because commodity prices have held up and the global economy has stayed steady. It's still tentative, and we would not think definitive, until we roll into 2026 and see how earnings actually play out post US tariff implementation. That is nevertheless healthy for a market that, on the surface, looks stretched valuation-wise. We prefer to observe and respond rather than guess, but what we've observed to date does require some attention.

Portfolio outlook

As we have noted previously, and in line with subtle shifts in earnings leadership, rather than wholesale shifts, the portfolio has been slowly moving from what we would describe as being tilted defensively earlier this year to one that is becoming a little less so. We have taken a little out of insurance (late cycle, lower interest rates), added to domestic cyclicals (Australian consumer improving), added a bit to banks ex-CBA (Australian economy doing well, credit quality very strong), added to Resources (closed the iron ore underweight and lifted our copper exposure on supply disruptions), added to Property (lower interest rates, consumer and business stronger). We would say however that the trends over the last year in earnings are still holding in many cases. Resources are starting to see upgrades but Bank earnings are not yet rolling over, so merely swapping one for the other doesn't make complete sense at this point and would need to be done in a selective manner, based on earnings and valuation upside.

To be clear we have not gone 'full cyclical', nor do we feel we are headed that way in the near term. Indeed reporting season in August highlighted the risks. There were a lot of blow-ups, a mix of cyclical and defensive, and almost all of them were global-related. 'Not as bad' is not yet an endorsement of strong new cycle, but it could be enough to get a few companies that have underperformed over the last year or two off the floor. Valuation always matters eventually, just not all the time. Sometimes 'not as bad' is enough for valuation to matter.

That said, we are looking for opportunities to add to more cyclical exposures if the right earnings outcomes materialise, especially as we get through Q4 and into 2026 when we will have a clearer picture (if that is possible under Trump) about the direction of the US economy, rates and stimulus. Australian earnings too are looking a little better and continue to be well represented in the portfolio.

Top five active overweight positions as at 30 September 2025	Index weight %	Active weight %
Newmont Corp	0.5	3.5
BHP Group Limited	7.8	3.3
ResMed Inc	0.8	2.0
JB Hi-Fi Limited	0.5	2.0
Suncorp Group LTD	0.8	1.9
Asset allocation as at 30 September 2025	**%**	**Range %**
Securities	98.9	90-100
Cash	1.1	0-10

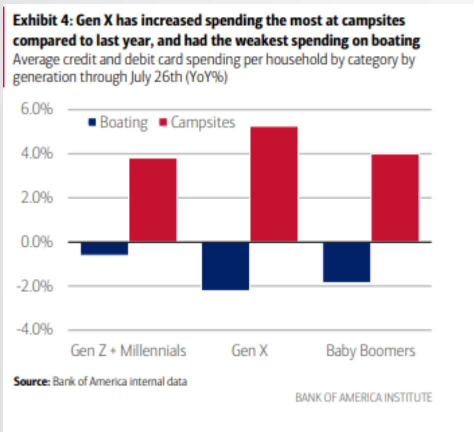
BTW

When looking at the state of the economy, the health of the consumer is by far the biggest and most important contributor to overall GDP growth. In most of the developed world, consumer spending is the backbone of the economy. In the US, consumer spending accounts for more than two-thirds of total GDP, more than twice that of other components such as business investment and government spending. Much like the evolution of the Technology sector, the Consumer sector is very broad, with many important distinctions, such as the things we want to consume (i.e. goods, services or experiences) and the demographic or socioeconomic status of the consumer (often categorised as high, medium or lower end). For example, a rise in interest rates might be trouble for the young first homebuyers or those with credit card debt, but for retirees who are mortgage-free and have accumulated savings, it would be positive.

The other more nuanced characteristic of consumers is how quickly their preferences can change. This can be due to popular trends, like influencers selling products online, people desperate to follow their heroes, like young guys getting a “Beckham” haircut, or when the “Rachael” cut was popular with fans of the long running sitcom Friends. And who can forget Taylor Swift friendship bracelets? Or it could be from a greater awareness of lifestyle and environmental issues. Cigarettes and alcohol have been swapped for protein shakes and Acai bowls, suits and ties have been replaced by activewear, casinos and pub trivia have given way to gym memberships and wellness retreats.

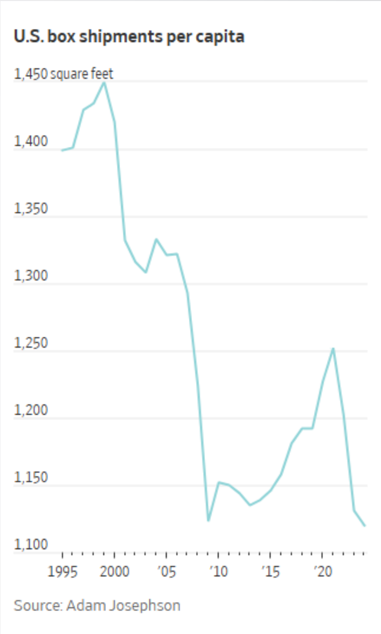
As a natural progression from our BTW last month on declining trends around alcohol consumption, we look below at a couple of other recent consumer trends: greater demand for experiences, ranging from cruise ships to camping, and the decline in demand for cardboard boxes (which in the packaging industry has sparked the term “Boxpocalypse”) which is another indicator of consumer health, and some measure of how consumer preferences are moving away from goods to services.

Bank of America has some comprehensive aggregate credit and debit card data in the US, and their recent analysis of this data has shown that spending on outdoor recreation has been performing better than indoor recreation the last six months, the first consistent period of relative strength since 2021, which was the post COVID period when outdoor recreation went crazy. Interestingly, within the outdoor recreation category, spending at campsites was up 16% year-on-year as at end of July 2025, while spending on boating was actually the weakest.



The trend towards camping and domestic road trips could be the result of better affordability combined with an increase in wellness trends. Analogous companies here include BCF (owned by Super Retail) and Anaconda (owned by private company Spotlight Group). In our recent reporting season, Super Retail’s BCF business was particularly strong, with growth in key categories such as fishing and touring. Of course, it is too simple to make a conclusion that the consumer sector is weakening if goods are being replaced by services. It may even point to a more resilient consumer, and one that is seeking a more enriched, even wholesome, lifestyle.

This takes us to the humble cardboard box. While you probably couldn’t think of anything more boring to talk about, the importance of demand for these boxes should not be under-estimated. In fact, they can offer up an important macroeconomic indicator. Recent trends in the US are pointing to a slump in demand for boxes. Why is this important? Well, boxes contain products that people are buying, and everything from phones to ovens are transported in corrugated cardboard packaging. US packaging analyst Adam Josephson has graphed US Box shipments per capita and you can observe that box shipments have fallen from their highs during the Pandemic to the lowest levels since 2016.



Does this fall in box demand mean a slowing in consumer goods consumption? Yes. Around 50% of boxes consumed in the US are moving through grocery stores, which gives a clear indicator around consumer goods demand. While an indicator of the general health of goods demand it also has some direct implications for segments of the economy such as paper and packaging companies. According to a Wall Street Journal article from Ryan Dezember, when International Paper (the biggest box maker in the US) closes two of its containerboard mills at the end of September, the US will have shed about 9% of its containerboard production capacity in less than a year. This equates to roughly twice the capacity that was lost during the recession in 2009.

Back in Australia, our biggest packaging company is Amcor, which also operates in the US. It has been seeing similar trends with declining volumes in US flexible board. While companies such as these can often exercise pricing power, the declining volumes are of concern.

Travellers' Tales

Stephane and Jacob both travelled to the US on separate trips. Jake's trip was largely focussed on consumer staples with a little bit of discretionary thrown in, attending a consumer conference and meeting with a number of companies including SharkNinja, Danone, Pepsi, Mondelez, and Kraft Heinz. The conference also had a number of presentations and group meetings including from Walmart, Estee Lauder, Pernot Ricard and Yum! Brands.

The feedback from Jake was quite bearish on the consumer. He also did some meetings around Guzman and Gomez and the QSR (quick service restaurant) industry. General feedback was that the US consumer is weak, and that the QSR industry has pushed up prices too far and as a result is losing share of aggregate consumption. McDonalds is the largest example of this and it has launched a range of initiatives to reduce price points and bring back better value bundles in order to try to regain some share.

A persistent theme across virtually all his meetings was that consumers, particularly in the lower and middle-income cohorts, remain under significant pressure. Companies mostly reported an extended period of consumer weakness, with a shift towards smaller package sizes and lower absolute dollar price points. In general, companies do not expect any clear signs of improvement in the next 6 to 12 months.

Jacob's meetings with various management teams led him to viewing the current consumption weakness as cyclical versus structural, with similar patterns across multiple geographies, suggesting macro rather than category specific issues. Additionally, there has been a notable redistribution of consumer shopping patterns, with mass retailers (Walmart) and club stores (Costco, Sam's Club) gaining share while the very low-end Dollar stores are capturing lower income consumers. Traditional supermarkets and drug stores are losing relevance, although e-commerce continues to grow for beauty and consumer products.

Stephane's trip encompassed a broader range of industries and companies, travelling through Dallas, New York, Atlanta and Charlotte. He came away a bit more positive about the outlook for the US, although much of this was driven by what he was hearing from financial companies as the shorter-term outlook for the consumer (especially in fast moving consumer goods) was still quite subdued given the expected fourth quarter tariff impacts amid weakening volumes.

Consumer and housing activity was steady but subdued, with resilience in everyday spending but deferrals on major purchases. Housing starts and renovations remain weak, constrained by high mortgage rates, though long-term undersupply remains supportive. Financials were a standout in terms of strength: investment banks, private equity, and asset managers report accelerating deal pipelines, strong funding inflows, and optimism for IPO/M&A recovery in 2026. Infrastructure demand is beginning to materialise in cement and steel, while data centres are expected to drive enormous electricity demand growth.

In terms of investment implications, he came away short-term cautious in building materials and FMCG due to Q4 tariff impacts and weak volumes but felt that these cyclical sectors could improve should interest rate cuts and tax breaks take effect. Structural winners will be those able to pass through costs, leverage AI to expand margins, and capitalise on secular growth in infrastructure, defence, energy, and data centres. Financial firms like Macquarie, Blackstone, and Morgan Stanley are well-positioned for accelerating deal activity, while select consumer names such as Block and the platforms with improving spend momentum offer upside. Overall, the U.S. economy appeared to be on a stronger footing, with 2026 expected to bring renewed cyclical and structural growth opportunities.

Stephane checking out a Home Depot store in Atlanta.

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