

Alphinity Global Sustainable Equity Fund – Active ETF

QUARTERLY REPORT – SEPTEMBER 2025

Performance ¹	1 Month %	3 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	Since Inception ² % p.a.
Fund return (net)	0.3	2.9	6.3	13.9	-	10.0
MSCI World Net Total Return Index (AUD)	1.9	6.1	22.7	22.5	-	14.5

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	\$203m
Distributions	Annually at 30 June
Min. Investment	\$10,000
Max. cash position	20%
Carbon Intensity (ave weighted) Scope 1 & 2	98 (vs MSCI Benchmark 91.4)

Top 10 positions

Company	Sector	%
Microsoft	Info. Technology	6.5
Nvidia	Info. Technology	6.1
JP Morgan	Financials	4.5
MasterCard	Financials	4.3
CBRE	Real Estate	4.3
CRH	Resources	4.2
AstraZeneca	Health Care	4.1
DBS Group	Financials	3.9
Morgan Stanley	Financials	3.8
Veralto	Industrials	3.8
Total		45.4

Data Source: Fidante Partners Limited, 30 September 2025



Fund features

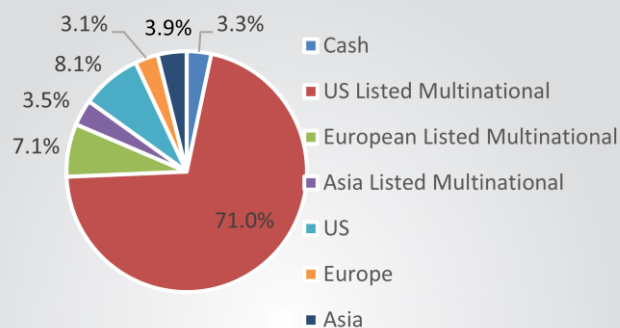
Sustainable companies: An investable universe of companies that we believe have a net positive alignment with one or more of the 17 United Nations Sustainable Development Goals (SDG's) and exceed Alphinity's minimum ESG criteria.

Exclusions: Exclusions from the investable universe, defined by a Charter, for activities that are considered to be incongruent with the SDG's

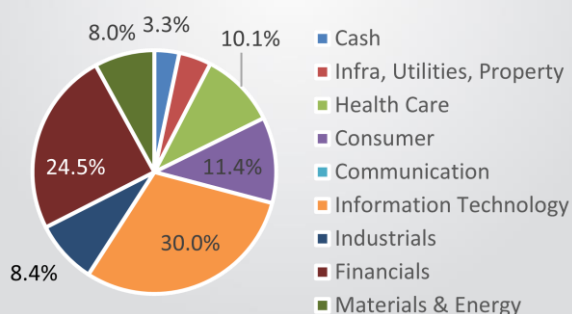
Active ownership and stewardship: We seek to engage with companies on ESG matters and also intend to vote all proxies put to shareholders

Consistent Returns: We can invest in growth, value, cyclical or defensive companies, because we aim to own them at the right time in their earnings cycle

Geographical exposure



Sector exposure



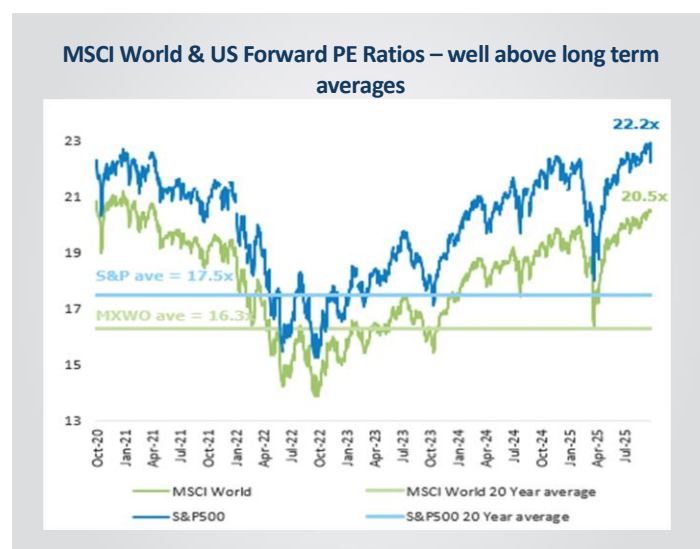
¹ Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance.

² The inception date for the Fund is 3 June 2021

³ Numbers may not add due to rounding

Market comment and outlook

Buoyed by the prospect of rate cuts in the US, the AI trade continuing to drive global technology stocks, and a better-than-expected second quarter earnings season; equity markets continued their march higher in the September quarter. Global shares rose 6.2% last quarter in AUD terms, driven largely by the US (S&P 500 index +7%), while strong performance in China led Emerging Markets higher by 9%. European stocks underperformed (Euro Stoxx 600 +2.3%) with political instability in France and the intention to reduce government debt leading to a widening in bond yields and a backlash from those opposed to tighter fiscal discipline. While the US performance was attributable to both earnings growth and a PE re-rating, earnings growth driving markets has been less prevalent in other markets like China. For example, through 2025 China's rally has been entirely driven by PE expansion with forward implied earnings growth going backwards, helping to narrow the valuation gap between China and the US.



Source: Bloomberg, 10 October 2025

Tariff talk took a back seat despite the full effects of these yet to play out, as investors shifted focus onto numerous deals happening in the AI space with OpenAI entering infrastructure and/or investment deals with a host of companies including AMD, Coreweave, Google, Nvidia and the list keeps growing. For now at least, the focus was more on buy-now, ask-questions-later. A surge in retail demand also helped push equity markets to record highs, and while it remains to be seen how much longer the rally can persist, the speculative element can leave as quickly as it arrives. Critical minerals including Lithium and Copper were also in focus as the US has been looking to shore up supply chains and make investments to reduce reliance on Chinese supply.

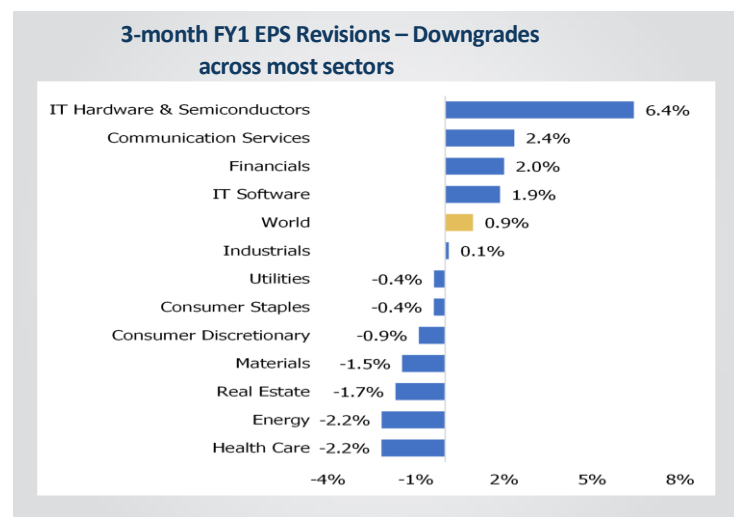
Looking at global sector level returns last quarter, Technology stocks (+11%), Communication Services (+9.8%), Consumer Discretionary (+7.4%), and Materials (+7.2%) were among the top performers. The laggards were the more defensive parts of the market, with Consumer Staples (-3.1%), Healthcare (2%) and Real Estate (1.4%) all relatively underperforming. Bond yields drifted lower in the US, with the 10-yr bond yield falling 7 basis points to 4.15%, while European

yields widened. Political uncertainty in France (a fourth Prime Minister resignation in 18 months) could also complicate the ECB's job in guiding monetary policy while the UK is facing its own share of pressure on domestic policy.

The US Federal Reserve cut rates by 25 basis points in a widely anticipated move, its first cut since December 2024, with weaker jobs growth the main driver of the decision. Inflation, although printing in line with expectations, has been marginally increasing from the 2.3% levels in Q2 up to 2.9% in August, muddying the waters of the Federal Reserve's interest rate policy outlook. The mix within the CPI showed services inflation accelerating with an uptick in hotels and airfares, while goods continued to show firmness, but less of a pick-up than in services.

Portfolio comment and outlook

After the volatile start to the year, global equity markets continued their positive trend through the quarter driven by a resilient economic cycle, financial easing through rate cuts, and an improved earnings cycle centered around AI capex. Tariffs (as they stand today) are lower than initially feared, and major economies have so far navigated the related recessionary risks relatively well. Yet signs of goods inflation are emerging as tariff-related costs work their way through supply chains, and it's unclear how a pressured consumer will absorb these additional costs, particularly as labour markets also show signs of softening. Against this mixed backdrop – combined with historically rich equity valuations - some caution continues to be warranted.



Source: Alphinity, Factset, 30 September 2025

After downgrades early in the year, the global earnings cycle turned positive in the quarter, with consensus forecasts rising by 1%-1.5% for both 2025 and 2026. However, the earnings cycle remains relatively uneven and narrow, with earnings leadership within the market clearly led by the Technology, Communications and Financial sectors. In contrast, cyclical sectors Materials, Energy and Consumer Discretionary continue to lag with earnings downgrades. Heading into the reporting season, overall earnings expectations for the third quarter appear reasonable and balanced in well-known quality companies.

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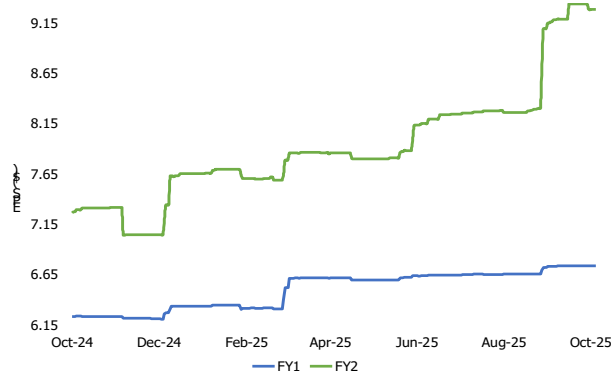
Nonetheless, at this time of year market focus typically lifts to the 2026 earnings outlook, where consensus currently expects the improvement in operating margins to accelerate (by ~1.5pp to 17.5%) for global companies. This will need to be corroborated by positive corporate commentary and guidance moving forward, for the earnings cycle to maintain momentum.

The portfolio continues to be strongly exposed to fundamentally driven, positive earnings revisions. During the quarter, our exposure to the market-dominant Tech & Ai-theme was maintained overall but continued to evolve at the stock level. We added Broadcom (order book inflection) and Amazon (leading e-commerce retailer and hyperscaler in upgrade cycle) to the portfolio but - being conscious of rising expectations around the Ai-theme - these were largely financed from trimming other Technology- positions. We also added O'Reilly Automotive (leading auto parts retailer with resilient growth drivers), Parker Hannifin (high quality diversified industrial with strong execution driving upgrades) and Veeva Systems (life science cloud software provider in a strong upgrade cycle) to the portfolio in the quarter, both idiosyncratic earnings stories. Partly driven by competition for capital in the portfolio, we exited our positions in Waste Connections and Sprouts Farmers Market (consumer headwinds and Amazon competitive threats) as well as Schneider Electric and Novonesis (losing earnings momentum from margin pressure and FX). Positions in JP Morgan and Walmart increased during the quarter.

At present, the Portfolio remains exposed to strong growth leaders along with select opportunities in more defensive businesses that are better positioned to withstand macro volatility. Cyclical exposure is mainly focused on high-quality Financials with strong fundamentals and established earnings leadership.

BOUGHT: Broadcom - Semi leader with accelerating AI pipeline

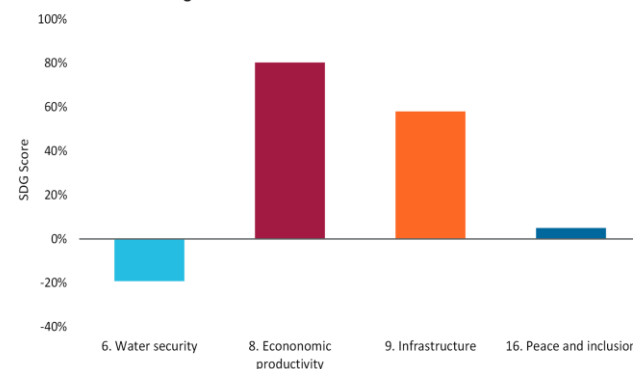
Bloomberg Consensus EPS Estimates (USD): Broadcom (avg US)



Source: Bloomberg, 15 October 2025

Broadcom Net SDG Score = +124%

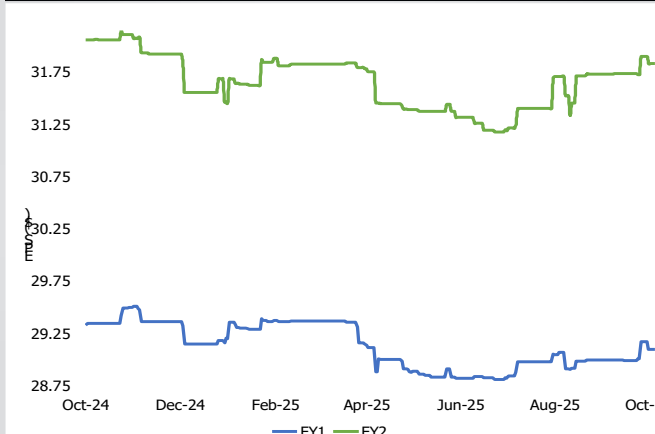
Broadcom - Net SDG Alignment



Source: Alphinity, 30 September 2025

BOUGHT: Parker Hannifin – Strong execution driving upgrades

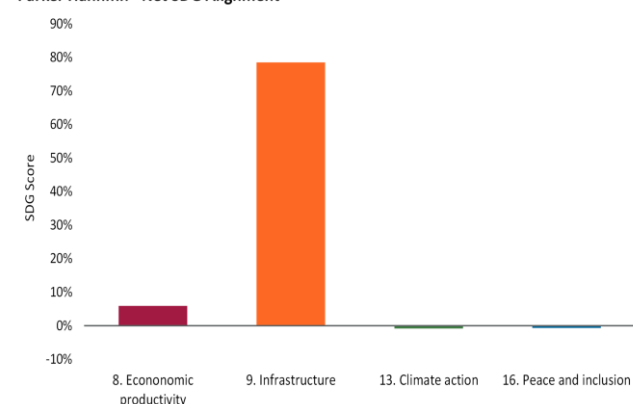
Bloomberg Consensus EPS Estimates (USD): Parker Hannifin (PH US)



Source: Bloomberg, 15 October 2025

Parker Hannifin Net SDG Score = +83%

Parker Hannifin - Net SDG Alignment



Source: Alphinity, 30 September 2025

What's on our mind: The Rise of the Retail Superpowers

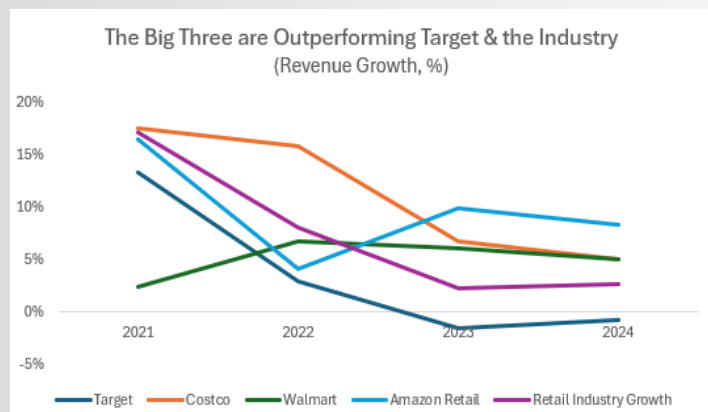
When you hear the term “The Big Three” you might instantly think of legendary Tennis players Roger Federer, Rafael Nadal and Novak Djokovic. Or if you're into music, perhaps Kendrick Lamar, J. Cole, and Drake come to mind. Investing now has its own version of The Big Three, which consists of **Amazon, Costco, and Walmart**. These three ‘retail superpowers’ have experienced sustained growth and are increasingly dominating the U.S. retail landscape.

Collectively, in the second quarter 2025, the trio accounted for an estimated 45% of incremental retail sales (Amazon 24%, Costco 11% and Walmart 10%). Said another way, 45 cents of every incremental dollar of U.S. retail sales is spent with one of these three companies, against an estimated 3 million U.S. retail businesses.

The sheer size of these business drives bargaining power with suppliers and the ability to absorb any incremental cost pressures across a larger base, limiting impact to profits. Keeping prices below peers, and even expanding the value gap, creates a flywheel of higher growth and profitability which can continuously be reinvested into lower prices and product assortment. From a customer perspective, that means lower prices, higher quality products, and more convenience.

Scale advantages are more pronounced in e-commerce, with the added benefit of accessibility and delivery squeezing out traditional bricks and mortar peers and smaller players who lack the financial and logistical capabilities to compete. E-commerce is the fastest growing retail channel, and within that the share gains are even larger - Walmart grew 26% in the most recent quarter and Amazon 12%. Combined they accounted for a staggering 85% of incremental e-commerce sales.

If they are winning, who is losing?: Smaller retailers generally are in a tough spot. However simply being big isn't enough to guarantee success. Other well-known stores such as Target are also suffering. Once labelled ‘Targét’ due to its slightly upmarket general merchandise and home goods offerings, the company has lost its way. Although much of Target's pain is self-inflicted, The Big Three's ability to provide an increasingly better quality of product for a lower price has led to market share losses for Target, with growth turning negative while The Big Three continue delivering solid revenue growth rates.



Source: Alphinity, company reports, 23 September 2025

Traditional pharmacies are also challenged as Costco and Walmart expand their competing offerings, allowing trip consolidation for customers as they no longer need to make an extra stop at the pharmacy for basic products. The outcome is CVS closing stores and adjusting pricing models. Walgreens previously announced it would close 1200 stores and that 1 in 4 were no longer profitable. It was recently acquired by a private equity firm with the goal of implementing a turnaround. While Costco and Walmart have grown net income at attractive rates post-Covid, the large pharmacy chains are less profitable today than they were five years ago, with Walgreens now loss making.

Stock selection within the Big Three: It's no surprise all three have strong earnings momentum and as such our Portfolios have significant exposure (to varying degrees) to these winning stocks. However, there are notable differences in the strategies these businesses deploy.

Amazon is the undisputed leader in e-commerce, with an estimated 80% of U.S. online shoppers having purchased from the website in the past year. Costco sits at the other end of the spectrum, with e-commerce accounting for only 7% of total sales. Instead, it sells a limited amount of high-quality goods, usually in bulk quantities, at industry-leading prices. The assortment is different to other retailers and various items on the shelves regularly change, providing a treasure hunt experience which lends itself to shopping in person and has been hugely successful.

Walmart is a blend of Amazon and Costco. With a heritage in groceries and the need to keep produce fresh, Walmart historically lent on in-person shopping. More recently the company has leveraged the >4,500 store footprint to double as distribution centres for online ordering and delivery, with the ability to reach 93% of U.S. households in under three hours, creating a promising growth avenue.

Although the approaches may differ, the common characteristics they share are scale and strong execution against their preferred strategies. We see a continuation of these recent trends and believe The Big Three will continue to dominate U.S. retail for the foreseeable future.

Retail opportunities outside the Big Three: That doesn't mean all retail is out of bounds and will be consumed by the The Big Three. Opportunities remain in a select number of high-quality specialty retailers that are thriving despite the success of Amazon, Costco and Walmart.

One of these is O'Reilly Automotive, a recent addition to the Portfolio. O'Reilly is the second largest auto parts retailer in the U.S. and the largest supplier to the professional market. O'Reilly benefits from a dense hub-and-spoke distribution network, providing the best reliability and delivery times, which has driven customer loyalty and market share gains over decades, leading to consistent EPS growth.

Please find a copy of the full note here: [Rise of the Retail Superpowers - Alphinity](#)

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