

Alphinity Concentrated Australian Share Fund

MONTHLY REPORT – OCTOBER 2025



Holding Pattern

Market comment

Investors holding out hope for further rate cuts were left a little disappointed in October as the tone from central bank governors, both here and in the US, suggested further rate cuts would be unlikely in the near term. Reserve Bank Governor Bullock pointed out that while inflation was easing, it was still persistent, and this comment quickly led to markets dropping its expectation of a Melbourne Cup Day rate cut. The US Federal Reserve's Jerome Powell played to a similar script, despite cutting rates by 25 basis points in a widely expected move. He later went on to say that a December rate cut is "not a foregone conclusion" and "if you're driving in fog, you slow down". The latter quote was a reference to the recent government shutdown and lack of reliable data. The response was a rise in bond yields towards the end of the month, leading to Property Trusts, Infrastructure and some retail names coming under pressure.

The rise in bond yields did not nothing to de-rail the equity market rally. Japan's Nikkei 225 index had its best monthly return on record with a whopping 16% gain, driven by its AI exposed chip and hardware stocks rallying, hopes of an aggressive fiscal stimulus agenda under its new government leadership and a depreciating Yen which helped its exporters. The South Korean market did even better than Japan, with the Kospi surging nearly 20% after tech giants Samsung and SK Hynix broke through record highs. In comparison, our market (ASX 300 including dividends) managed a rather paltry 0.4% gain, underperforming the US (+3.5%) and Europe (+1.7%) in AUD terms.

October was a stark reminder of the different composition of our index relative to the US. As an example, our tech stocks were the worst performers (thanks to yet more problems at WiseTech) while in the US, tech stocks were the biggest positive drivers of returns. While some smaller cap names did well, we lack the breadth and depth of AI exposed names that markets like US, Taiwan and Korea have. Also not helping the larger end of town was further weakness in global healthcare giant CSL which fell sharply after trimming growth expectations and delaying the spin-off of its Sequiris vaccine division. It was however encouraging to see a change in performance leadership in which Materials (+4%) and Energy (+3%) sectors were the top performers, while Tech (-7%), Consumer Discretionary (-6%) and Healthcare (-4%) dropped the most.

Financials held up well and outperformed the index, with Banks (+2%) doing a little better than the insurers. From an earnings perspective, our market is finally seeing some broader upward earnings revisions. After being starved of earnings upgrades for some time (banks had almost zero growth but were still relatively better than most other sectors), we are now seeing some pockets in the resources space (metals and miners) in which upgrades are likely should current spot prices prevail.

While the huge amounts of spending on AI and multiple deals with big US firms dominated news flow offshore, our market latched onto a few dominant themes more directly related to Australia's mining industry: critical minerals and rare earth supply chains. It was not just restricted to Open AI cutting deals with almost every big tech firm around; Australian companies were directly involved in a deal with the US. Albo finally got his date with Trump and signed a framework agreement on securing supply chains for critical minerals and rare earths. Laughing awkwardly as Trump lambasted our US ambassador and former Prime Minister 'Kevin 07' Rudd, Albo got down to business and came away with the goods. Companies like Lynas jumped 13% on the day of the announcement, although it was a good lesson to not follow the hype; Lynas shares subsequently lost all that and more after its quarterly production update which missed expectations. Reports towards the end of the month that the US and China were to pause planned export controls and tariffs on rare earths also didn't help.

At times, it felt like an unlikely bromance between Trump and President Xi was developing, with Trump saying multiple times "it was a great honour to be with President Xi". We'll see how long that lasts; Xi was less effusive.

Portfolio comment

The Fund lagged the market in October. The biggest contributors were glover maker Ansell, milk products maker A2 Milk and an underweight position in global blood products manufacturer CSL. Holdings in retailer JB Hi Fi, gold miner Newmont and not owning ANZ Bank were the largest detractors of relative returns.

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)	-0.6	0.8	12.9	12.7	12.4	10.3	10.2
S&P/ASX200 Acc. Index	0.4	2.7	12.5	13.1	12.6	9.7	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 October 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 1300721637 during Sydney business hours.

Market outlook

The evidence is increasingly pointing to a better-than-expected global economic landscape going forward – at least for now. Equity markets have embraced that view, reaching new record highs powered by a perfect storm of positive developments: ever larger AI spending commitments from tech giants, another Federal Reserve interest rate cut, a strong start to third-quarter earnings season (particularly in the US but also in Europe with beats on both top and bottom lines), the anticipation of the forthcoming “Big Beautiful Bill” fiscal stimulus package, and a perceived “Trump Put” ahead of next year’s mid-term elections. IPO and merger activity is roaring back in the US. Remarkably, investors seem unfazed by the prolonged government shutdown—a telling sign of the prevailing sentiment.

Two new developments stand out as particularly encouraging. First, the newly struck US-China tariff truce – whilst merely a pause rather than full resolution – represents meaningful progress toward restoring bilateral flows and, critically, eliminating severe demand destruction risk. Second, the broadening of earnings beats beyond the “Magnificent 7” tech stocks to other sectors like banks, energy, and real estate reflects a healthier, more diversified earnings recovery. The US consumer remains the soft spot, especially at the price sensitive end, and is likely to stay under pressure during the fourth quarter as companies pass through the delayed tariff related costs.

The key question confronting markets is, with this extraordinary new concentration of market capitalisation in AI driven stocks – nearly a quarter of the S&P500 – are we witnessing genuine profitable transformation or merely irrational exuberance? History reminds us that bubbles, if this is one, can endure for longer than reason suggests; yet, we suspect the eventual outcome will be a significant dispersion between formidable winners and memorable losers.

Closer to home, the global market rally has lifted Australian shares as well, and there's genuine cause for optimism here too. We've long maintained that the elevated 21x market multiple requires earnings growth in order to be justified. Encouragingly, the large Resources sector, which has been the subject of several false-start rotations over the past six months, is finally experiencing positive earnings revisions, lifting the broader market with it.

Two critical questions occupy our attention: first, will these earnings revisions sustain, signalling a genuine shift in market leadership toward Resources? Second, if they do, how will this rotation be funded?

We believe this nascent Resources rotation does now carry genuine momentum, with further earnings upside ahead, though we continue to look for evidence before expressing this view with greater conviction. Several factors support this thesis: improved global demand (US earnings strength, US-China tariff truce), supply disruptions (lithium, copper), \$US weakness, and importantly, sell-side commodity price expectations sitting below spot. We have acted accordingly, moving overweight. Given the sharp price movements, and risks around some supply recoveries, we remain highly selective, anchoring our decisions in fundamental earnings and valuation upside. Our upcoming China trip should provide additional insights firsthand.

The funding equation proves equally consequential. Contrary to some expectations, this hasn't materialised through the Banks as they remain reasonably priced in a relative sense (perhaps CBA excluded) with earnings upside, but rather through a combination of Insurers (facing lower rates and moderating premium growth), expensive stocks disappointing on results (such as Wesfarmers), and former darlings caught in the dreaded value trap with mounting downgrades, CSL being a prime example.

Here, too, we are being very selective in our funding sources, choosing names where our earnings and valuation upside conviction has reduced rather than following narratives. Some quality names will inevitably be oversold presenting adding opportunities.

While the higher domestic inflation reading pressured property and consumer discretionary stocks, underlying earnings remain sufficiently robust to support positive growth without further rate cuts. After all, inflation is elevated precisely because the economy is strengthening, reflecting improved demand against constrained supply.

Risks, as ever, persist. We are walking a tight rope on elevated valuation levels in a volatile economic context. Our discipline remains laser focused on identifying high-quality, undervalued companies positioned to deliver positive earnings surprises.

Portfolio outlook

Our portfolio has evolved from a fairly defensive posture earlier this year – necessitated by severe tariff threats – towards a more balanced stance. This positioning has served us well, although recent months have challenged as rotation dynamics accelerate into more cyclical, and in many cases lower quality, exposures. With numerous false rotations already quickly extinguished, disciplined restraint proves essential. We resist dramatic portfolio shifts based on 'hope', instead gathering the required evidence for confident, progressive adjustments aligned with earnings leadership direction. For instance, mid-October saw Trump threaten China with an additional 100% tariff which would have swiftly terminated the Resources rotation.

This progressive, evidence-based approach has successfully guided us through previous cycles and remains central to how we allocate capital today. If genuine, this rotation will endure, allowing measured participation and alpha generation. Worth noting: early cycle rotations often lift the highest risk, most leveraged stocks first – a cohort we deliberately avoid in favour of higher quality exposures with more predictable earnings power.

During the month, we increased our exposure to iron ore and base metals, bringing the Resources sector to an overweight position, and added selectively to mining services. These moves were funded through partial profit taking in insurers and the exit of some lower conviction holdings in Health Care, Industrial and Staple.

We believe our positioning optimally balances alpha generation with appropriate risk management. The portfolio remains concentrated in companies poised to deliver positive earnings surprises relative to market expectations.

Top five active overweight positions as at 31 October 2025	Index weight %	Active weight %
BHP Group Limited	8.2	4.4
Newmont Corp	0.5	4.1
National Australia Bank Limited	5.0	3.6
ResMed Inc	0.8	2.9
a2 Milk Co Ltd	0.3	2.8
Asset allocation as at 31 October 2025	%	Range %
Securities	98.4	90-100
Cash	1.6	0-10

BTW

When share markets reach all-time highs (as we've experienced multiple times this year) questions inevitably begin on the sustainability of such rallies. Investors naturally, and quite correctly, scrutinise valuations and look for the big risk that could de-rail the market train. Will the AI bubble burst? Have we reached peak gold now that people are queuing up at Martin Place to buy bullion? And what about the opaque world of private equity and private credit? Is a private credit blow-up the canary in the coalmine? As Keynes famously said: 'the market can remain irrational longer than investors can remain solvent'.

Last month, a relatively unknown auto parts company in the US called First Brands became front page news, for all the wrong reasons. The company collapsed after racking up long term debt of about \$US6 billion and has now acknowledged that more than \$US2 billion has disappeared. First Brands had not only borrowed huge amounts from private credit lenders, but it also used trade finance (invoice financing/factoring etc) to borrow against the invoices it issued to its customers. If you think factoring and invoice financing sounds familiar, you might remember the saga that was Greenshills Capital, a company founded by a Queensland potato farmer which provided supply chain finance to its clients. Lex Greenshills, a boy from Bundaberg, grew to such prominence that he called one of the world's richest men his mentor and had a former British Prime Minister his employee. Unfortunately, most of the world only learned of Lex when his business empire crashed spectacularly. The company went bust after a withdrawal of credit insurance uncovered huge amount of debt exposure hidden in opaque funds and off-balance sheet structures.

In both cases, with Greenshills Capital and now with First Brands, they had used supply chain finance as a leverage tool rather than the tool for cash management which was its correct purpose. Other similarities included weak oversight by lenders and auditors and an over-reliance on a handful of financiers. First Brands would often provide products to customers on delayed-payment terms then pledge the accounts receivables to outside investors which provided the company with financing. The extent of these arrangements, which weren't disclosed until the bankruptcy, grew over time into several billion dollars of off-balance-sheet debt.

At this stage, there doesn't seem to be any contagion risk to broader markets, despite the market being spooked by JP Morgan CEO Jamie Dimon's "cockroaches" comment. He used the analogy "when you see one cockroach, there are probably more" to suggest that the discovery of one bad loan or bankruptcy implies that more are waiting to be discovered, particularly in less-regulated sectors like private credit.

The lenders exposed to First Brands included Katsumi Global, UBS and Jefferies to name just a few. The size of the Jefferies exposure was estimated at over \$A1bn, although Morgan Stanley estimates that maximum losses are likely to be around \$US45 million. This is far from disastrous given the size of Jefferies but still, it's a big reputation hit. The Jefferies stock price fell 8% on the news and fell around 15% the following day before staging a partial recovery. Other huge private equity firms like Blackstone and Apollo Group have fallen around 20% in value in recent weeks as this story emerged.

Somewhat ironically, Apollo had actually taken out a short position on First Brands through a credit default swap trade, basically a bet that pays off the closer a company moves towards a debt default. There could be further reputational damage for Jefferies. As recently as this July, the bank was pitching a \$US6bn refinancing package for the group.

While we acknowledge that everything is easier with the benefit of hindsight, we do sometimes scratch our heads when looking at some of these founders. They are interesting characters! First Brands was founded by a secretive Malaysian born entrepreneur called Patrick James. A pet peeve of ours is when people (especially company management, and even more so business founders) don't turn on their cameras for online meetings. Mr James evidently never turned his camera on. Red flag number 1!

A lawyer for one financier of receivables linked to First Brands recently asked the company's bankruptcy counsel two questions. First, did the company actually receive \$1.9 billion of payments against receivables that had been discussed. Second, how much money is in specific bank accounts from those payments. A lawyer for First Brands replied in a succinct email:

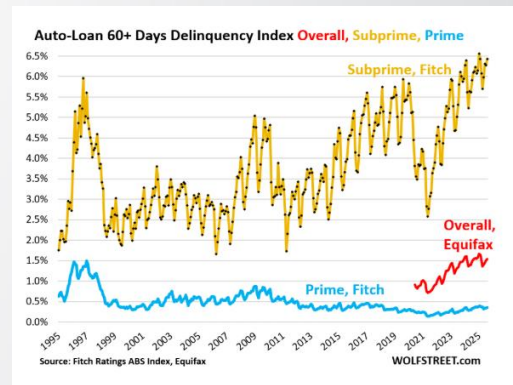
1. We don't know
2. \$0.

These 'unforeseen' blow-ups tend to happen in groups and we saw some others like Tricolor, one of the dodgiest US subprime auto dealer-lenders going around, also go bust. But should we cry for the credit providers? In the case of Tricolor, they knew the company was a reckless lender to illegal immigrants in the US, who often had no driver's license or credit rating. This was of course termed "social lending" by the Tricolor marketing team.

But despite all the recent media frenzy stoking fears of an impending private credit market reckoning, at this point it feels largely contained to some shorter-term price

weakness in the US regional banks, those with the most exposure like Jefferies and a handful of listed private equity stocks. The big concern of course is "we don't know what we don't know" but even looking at the Auto loan 60+ Days Delinquency Index charts here (courtesy of Wolfstreet.com) American consumers are still doing ok in their auto loans. Equifax has recently published an "overall" index that combines Prime and sub-Prime and it's still only at 1.5%, although the sub-prime portion is rising.

We're not trying to convey complacency, and it's often the first and second derivative of these events that create the broader problems that nobody sees coming. That's why it's important to stick to our process of investing in quality companies in earnings upgrade cycles.



Travellers' Tales

Stuart recently returned from the United States where he attended CSL's capital markets day and visited their Behring facility in Kankakee and Seqirus facility in Holly Springs. It is always impressive to witness the scale of their US operations and the purpose driven passion of the CSL team. CSL has been grappling with challenging circumstances, having to adapt to a rapidly changing landscape in many of their markets. As a result, CSL recently downgraded F26 earnings expectations at the AGM—driven by lower influenza vaccination rates and Chinese regulatory changes in the Albumin market. So, there was much to discuss. CSL remain confident in their business plans to overcome many of these issues, although a key challenge that remains for CSL is understanding US seasonal influenza vaccination demand given the competing impacts of the current administration's reduced vaccine focus and the increasing disease burden from lower immunization rates.

But beyond the formal meetings, the trip offered a fascinating glimpse into the American economic mood. What follows are some on-the-ground observations that paint a picture of an economy that one executive aptly described as "consistently inconsistent."

In general, the US consumer is struggling with the cumulative effects of inflation and regulatory uncertainty, although as is often the case in the US, it is hard to generalise, and there are certainly pockets of strength such as in travel (particularly the front end of the plane). Many of the discussions referenced potential for a K-shaped recovery in consumption, where affluent cohorts feel increasingly confident to spend while less affluent households continue to struggle. But the data suggests this split extends beyond income brackets—with certain sectors, such as those exposed to the AI capex boom, performing strongly while many others, such as traditional manufacturing and homebuilding for example, continue to struggle.

It is a sobering statistic that approximately 42 million US citizens rely on the Supplemental Nutrition Assistance Program (food stamps)—roughly 12% of the population. These households account for over 20% of consumer-packaged goods consumption. And things are about to get tougher for this cohort as the authorities clamp down on eligibility criteria including enforced work requirements and stricter immigration status verification.

The carbonated drinks category faces particular headwinds as several states move to exclude soft drinks from SNAP benefits. While alarming, we expect many readers are likely more surprised carbonated beverages were ever included in a "supplemental nutrition assistance program" to begin with. One expects those dollars will redirect to other categories, but these statistics are a reminder of how precarious day-to-day finances are for a significant slice of America. Anecdotal stories included consumers watering down detergent to stretch their budgets, to continued strength in high-end leisure and corporate travel. Despite the already wide starting point the disparity in wealth and outcomes is only expanding as we move along this K shaped path.

The pain was particularly acute in the alcohol industry, where these cyclical trends are also intersecting with structural shifts. The industry faces a perfect storm: not only are consumers feeling the pinch from cumulative inflation and weak sentiment, but younger cohorts are fundamentally changing their drinking habits, with nearly half of American adults now planning to drink less in 2025 amid growing health consciousness. One wine executive I spoke with captured the mood perfectly: last year he still had hope of returning to historic sales growth rates. Now? "That hope is all gone," he said flatly.

Of course, America's state-by-state regulatory landscape continues to create curious discrepancies and opportunities. Virginia's spirits prices run significantly higher than neighbouring Washington DC's due to Virginia's 'control state' system whereby the government has a monopoly on alcohol distribution which allows it to set prices and add mark ups to generate revenue. This spread hasn't gone unnoticed by enterprising (if legally questionable) operators. Apparently, organized groups have been systematically "liberating" truckloads of Don Julio Tequila from DC and reselling them in Virginia at astonishing margins. When state lines create arbitrage opportunities measured in percentage points rather than basis points, someone will inevitably capitalise—one way or another.

Surprisingly, there was little discussion about the ongoing federal government shutdown, which claimed the title of the longest-running shutdown in US history during my visit. But the warning signs were starting to flash: SNAP programs running out of money, and massive flight disruptions from air traffic controller shortages. On one travel day, 10% of flights across 40 major airports were cancelled, with most others delayed—a development that directly (and inconveniently) impacted our itinerary.

The optimism here in the US centres on two factors: an increasingly dovish Federal Reserve board composition likely to focus more on labour market weakness than inflation risks, and expectations around the One Big Beautiful Bill's tax cuts and investment incentives broadening the investment landscape beyond the AI driven capex boom. If CSL is a good test case, there is some merit in this view that companies are responding to these incentives and changing political landscape. At their capital markets day CSL announced an intention to spend US\$1.5bn replicating their immunoglobulin manufacturing technology they have just built in Melbourne in the US somewhere. So perhaps this capex story will broaden.

The US economy remains a study in contradictions—resilient yet fragile, growing yet uneven. Sectors matter more than ever, demographics are reshaping entire industries faster than many expected, and the gap between those doing well and those struggling continues to widen. For investors, this means being selective is paramount. The opportunities exist, but they won't be found by simply riding broad market trends. Success will require understanding which specific structural shifts are in your favour, and which cyclical headwinds you're sailing into.

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