# Alphinity Concentrated Australian Share Fund

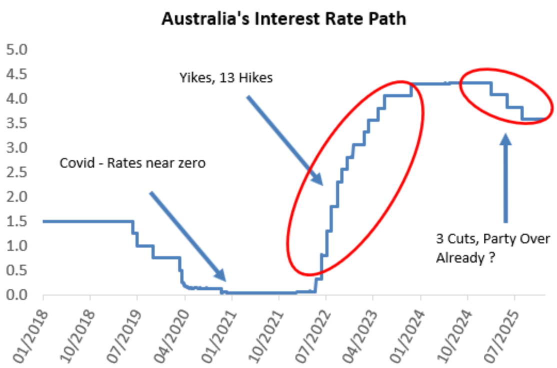
QUARTERLY REPORT – December 2025

# A Material Boost

## Market comment

A final push higher from our market in December wasn't enough to recover from a November slump which contributed to a quarterly loss of -0.9%, as measured by the ASX300 index (with dividends). Despite some softness later in the year and the Trump tariff wobble in April, Australian shares still produced a gain of 11% in 2025, remarkably similar to gains recorded in the previous 2 years of 11% and 12% respectively. Global stocks finished the quarter +2.4% (in AUD terms), with Europe (+5.5%) and Emerging Markets (+3.9%) stronger, while the US (+1.8%) marginally underperformed.

The reasonably quick RBA pivot from a rate-cutting to a rate-holding, and now the increasing likelihood of a rate-hiking environment, led to weakness among those stocks most sensitive to interest rates such as the consumer and technology sectors, and to a lesser extent Property Trusts which were reasonably resilient.




The changing domestic rate outlook also drove divergent yield movements at the long end of the curve relative to the US, given the RBA is possibly in hiking mode while cuts are still expected in the US in early 2026. The Australian 10-year bond yields rose 44 basis points last quarter to 4.74% while the equivalent US yield closed flat at 4.17%.

While the ASX doesn't have the depth and diversity of Technology companies listed in the US (no other country comes close) we do have a large exposure to the Materials sector. Of the industry groups making up the Australian market, Banks (24%) and Metals and Mining (22%) comprise nearly half the market, while Weebit Nano is our only stock classified as a Semiconductor, weighing in at an insignificant 4 basis points. In contrast, the biggest industry in the US is Semiconductors and Semi Equipment at 14.5% of the overall index.

Over the December quarter the Materials sector was the largest contributor to ASX gains and the most notable difference relative to other global markets given the continued strength in commodity prices. As questions started being asked of the AI boom and its sustainability, and fractures started appearing in US mega cap tech stocks, it was precious metals (Gold, Silver) and transition metals (Copper, Aluminium, rare earths, Lithium) that drove large gains. Thankfully, Australia has decent mining exposure to all of these.

The resources sector is also less sensitive to rate hikes than most others in our market and generally trades on cheaper valuations relative to the broader market. Hence the rotation into resources companies has been a key contributor to the outperformance of value stocks relative to growth stocks that has played out in the last 6 months (the Australian MSCI Value Index has outperformed the more expensive Growth Index by nearly 20% since July).

On a sector level last quarter, Materials (+13%) was the key stand-out, while Tech (-24%), Consumer Discretionary (-12%) and Healthcare (-10%) were the largest detractors. 2025 was a tough year for our Technology and Healthcare stocks, closing the year with declines of 20% and 25% respectively, with Materials again doing the heavy lifting with a 33% gain in 2025.

Despite generally stronger commodity prices (Copper +22%, Aluminium +11%, Iron Ore +4%), oil prices were again the notable laggard with a 7% decline last quarter to close out the year around USD60/bbl.

## Portfolio comment

The Fund lagged the market over the December quarter. The biggest contributors were mining companies Alcoa, BHP, RIO and Newmont. An underweight position in ANZ Bank and exposure to retailer JB Hi-Fi and software services company Technology One 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) | 2.3 | -1.3 | 9.5 | 11.6 | 10.2 | 9.7 | 10.1 |
| S&P/ASX 200 Acc. Index | 1.3 | -1.0 | 10.3 | 11.4 | 9.9 | 9.3 | 9.0 |

* 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 December 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

We step into 2026 optimistic, though acutely aware that conditions can deteriorate swiftly. There's an uncomfortable *déjà vu* of early 2025's optimism, which soured rapidly after "Liberation Day's" tariff conflagration, but for now we err on the positive side.

The first half of 2026 looks genuinely promising. In the US, further Federal Reserve cuts are expected, the One Big Beautiful Bill is set to deliver tax relief, private sector job growth is recovering, AI capital expenditure continues its vertiginous climb with efficiency gains hopefully beginning to materialise, and a tariff truce with China provides welcome respite. Add to this the looming October mid-terms—effectively installing a "Trump Put" as the administration contemplates further largesse for consumers and voters alike.

In China, the next Five-Year Plan unveils in March with well-telegraphed (a term for veterans) commitments to maintain growth around 5%, whilst exports look set to remain robust. At home, the Australian economy continues to demonstrate resilience: immigration is running above pre-COVID levels, capital expenditure is lifting (Olympic prep, data centres build, energy transition, defence beef up), and the RBA—having pivoted from dovish to hawkish on the back of stubborn inflation—is now in observing mode.

The setting is encouraging, though elevated market valuations (the S&P trading at 23x versus a historical range of 15-20x) and a broadly constructive consensus keep us alert. Familiar risks warrant monitoring: persistently elevated inflation, a weakening US consumer (whose confidence continues to erode), eye-watering AI expenditure with mounting pressure to demonstrate adequate returns and the ever-present geopolitical uncertainties.

Yet notwithstanding these risks, fundamentals are improving. Global earnings revisions are trending upward—and pleasingly, not just for the Magnificent Seven but more broadly across Financials, Health Care, and Utilities. The same dynamic is unfolding in Australia. After years of relentless downgrades, Materials and, to a lesser extent, Financials (Banks, Insurance, and Diversified Financials) are leading an inflection that has brought the market PE back below 20x.

We expect Australian earnings to continue surprising to the upside, underpinning our constructive stance. The earnings leadership rotation toward Metals & Mining over the past quarter looks likely to extend well into the New Year as a potent combination—better-than-feared global demand, supply constraints, a weakening USD, and conservative sell-side commodity price expectations—sets the scene for further upgrades. Banks and diversified financials should also continue to surprise positively, albeit more modestly. A robust economy and higher-than-expected inflation bode well for their margins and investment returns.

The question we've been debating: which sectors or stocks fund this Metals & Mining rotation if not the banks and financials, as initially expected? The answer, we believe, lies in a combination of disappointments and expensive long-duration growth stocks—particularly Technology and Health Care. Whilst higher rates could create a consumer headwind, spending has held up with no clear signs of abating since the RBA's tone shift. Still, selectivity within Consumer Discretionary is essential.

We favour domestic retailers offering consumers good value and/or exposure to the undersupplied housing market, whilst continuing to avoid US discretionary names given ongoing pressure on lower- and middle-income consumers.

## Portfolio outlook

Consistent with the earnings leadership shift toward Metals & Mining—and our positive view on its sustainability—we've built a substantial overweight position. We favour base metals (aluminium and copper) and lithium, given tight demand-supply fundamentals and earnings upside. We express this through a mix of single-commodity producers and diversified miners. Whilst the latter have somewhat lagged the pure plays, we expect them to catch up. We also hold a modest iron ore overweight, as we believe the market is tighter than generally appreciated. We remain neutral on gold (except in the Sustainable Fund, where the commodity is excluded).

We've lifted bank exposure to a relatively neutral position. We've initiated a new position in Energy refining and distribution, capitalising on improving convenience & retail fuel margins and elevated refinery spreads, though remain underweight the oil and gas producers.

We've continued to fund the rotation by trimming Technology and Health Care positions, as well as Insurers facing lower premium growth and elevated catastrophe claims. We've taken some profit in REITs and further reduced Consumer Staples and Discretionary exposure.

As we enter 2026, earnings revisions suggest we can lean into the market constructively with moderately higher cyclical exposure. Whilst sentiment has grown more volatile in recent years, we remain focused on the facts: earnings revisions. Any material deterioration in earnings revisions would prompt a reassessment. It is this laser focus on earnings changes that has helped us navigate varied market conditions successfully. Here's hoping 2026 is no different.

On behalf of the entire Alphinity team, we thank you for your ongoing support, and wish you and your loved ones a very happy and prosperous 2026.

| Top five active overweight positions as at 31 December 2025 | Index weight % | Active weight % |
|---|---|---|
| BHP Group Limited | 8.7 | 5.0 |
| National Australia Bank Limited | 4.9 | 4.1 |
| Rio Tinto Limited | 2.1 | 3.5 |
| Westpac Banking Corporation | 5.0 | 3.2 |
| a2 Milk Co Ltd | 0.3 | 3.1 |
| **Asset allocation as at 31 December 2025** | **%** | **Range %** |
| Securities | 99.1 | 90-100 |
| Cash | 0.9 | 0-10 |

## BTW

There is no denying the importance of a pet in the family household, or with any human for that matter: the cuteness, the companionship and the committed greetings each day full of love as you return home from work. It is enough to make you feel warm and fuzzy inside, so it is no wonder many bow to child or partner pressures to acquire a small fur baby (many at Alphinity are guilty). But this story isn't about feeling warm and fuzzy. It's more about the cut-throat multi-billion-dollar business of dog breeding.

Dog breeding has been around for a long time, going back more than 15,000 years with the domestication of Wolves; a symbiotic relationship where humans felt protected and in return the Wolves were given food. A few thousand years later came sled dogs in Siberia, although the Victorian era (19th Century) was the time when breeding became more formalised with a rise in Kennel Clubs and a greater focus on appearance over function.

Fast forwarding to current times, the recent Covid Pandemic drove a further explosion in demand for pets which in turn led to a surge in dog breeding, and a huge mark-up on the acquisition cost for your beloved four-legged friend. A $2,000 Labrador quickly turned into a $5,000 purchase. Stripping away the cute exterior and the good intentions, dog breeding has become a cut-throat industry. What if somebody could actually create the perfect dog? And what if this perfect mix breed dog threatened to disrupt organisations like Kennel Clubs who make serious money on pure breed dog registrations?

Milo, Labradoodle Owner: Trent, Global PM

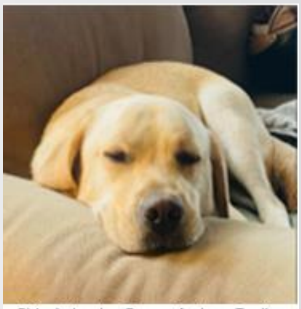
Meet Wally Conron: the creator of the modern Doodle as we know them today. Stanley Coren wrote an article for "Psychology Today" where he interviewed Wally about his creation. Conron was the puppy breeding manager for the Royal Guide Dog Association of Australia in the 1980s when his boss set him a difficult task. A blind woman from Hawaii had written to ask if they could provide a guide dog that would not shed hair because her husband was allergic to it. Conron said, "Oh yes, this will be a piece of cake. The standard poodle is a working dog, it doesn't shed hair so it'll be great." He tried 33 dogs over three years and they all failed. They just didn't make the grade as guide dogs. Meanwhile, the woman in Hawaii was getting older and Wally's boss was getting on his back.

Out of pure desperation and under enormous pressure, Conron opted for an alternative solution. He took his best female Labrador retriever and mated it with a standard poodle and voilà! The Labradoodle was conceived. He created a hypoallergenic guide dog; one with the temperament of a Labrador, but which doesn't shed. A miracle! The only problem was that he had 3 others in the litter, and nobody wanted them because at the time everyone wanted purebreds only.

He couldn't give them away. Wally needed to think quickly so he put his marketing hat on and told the press his name for this newly created crossbreed: the Labradoodle. After a few weeks, the term took hold and the rest is history.

But is Wally proud of creating the ultimate dog? The answer is a resounding "NO!". In fact, in Wally's own words during an interview with ABC Australia in 2019, he said, "I opened a Pandora's box, that's what I did. I released a Frankenstein. So many people are just breeding for the money. So many of these dogs have physical problems, and a lot of them are just crazy!". Wally's issue isn't with the actual breeding per se, it lies more with the lack of ethics around the breeders, especially those wanting to make a quick buck.

Wally went on to say, "Today I am internationally credited as the first person to breed the Labradoodle. People ask me, 'Aren't you proud of yourself?' I tell them, 'No! Not in the slightest.' I've done so much harm to pure breeding and made many charlatans quite rich. I wonder, in my retirement, whether we bred a designer dog—or a disaster! I'm on a pension and live in a little shoebox flat. If I'd gone into breeding Labradoodles for a living, I'd be on easy street. But there was no way I'd do it. My conscience wouldn't let me."



Chip, Labrador. Owner: Andrew, Trading

In contrast to Wally's lamenting of his creation, on the other side of the world at a Radisson Hotel in Texas, the 2024 Goldendoodle conference was in full swing. Allie Conti wrote a rather amusing story last August for Bloomberg titled "Goldendoodles, Labradoodles and Bernedoodles are everywhere. They're now also a high-stakes, billion-dollar industry." In her story, she goes behind the scenes and takes a peek at the members of GANA (the Goldendoodle Association of North America) who were there for an intense two-day conference. The champagne was flowing and there was much to celebrate as sales were booming. According to them (and many others, to be fair) they bred the perfect dog, and the numbers don't lie. (I am not sure about you, but the number of Cavoodles around the lower North Shore of Sydney seem to outnumber humans). Back to the conference, and despite the free-flowing champagne, there was anger brewing amongst the group. Anger directed at the AKC (American Kennel Club) because the organisation hasn't yet recognised their Doodles as pure breeds. Why would this group be so desperate for this recognition? Because if they attain this pure breed status, then they can jack up the purchase prices even more. (Told you it wasn't a fluffy story). And it's not just the GANA group not liking the AKC. The feeling is mutual, and for good reason.


Billy, Cavoodle. Owner: Hitcho. Quant

## BTW (Cont'd)

Harvey, Lab. Owner: Stuart, Aussie PM

Within a couple of decades, the AKC, which has always made most of its money through registering dogs as purebreds, saw its registrations start to decline, in part, because of the doodle's uprising, which led to a decline in purebred poodle registrations. We may have reached peak poodle! In 1990 there were 71,747 registered poodles; that number had dropped to a mere 21,545 by 2008—the last year the organization released this data. It would be even more skewed to doodles now if we could get current data.

The AKC, which has the final say on what is and is not considered an official breed, recognizes around 200 purebreds, and the goldendoodle, a golden retriever-poodle hybrid, is not one of them. So, by 8 p.m., with a few glasses of bubbly under their belts, the conferencegoers resorted to something many are guilty of in these overheated times: They likened the people they disagreed with to Nazis. "It's just like Hitler and some of his concepts," said Shari Hall, president of GANA. "People no longer care about the concept of blood purity. And it's not like you can just make the ultimate dog." This is an ironic statement because isn't that kind of what GANA is trying to do?! By the way, the AKC spokesperson Brandi Hunter Munden expressed offense at the organization being compared to Nazis and noted it has a separate program for mixed breeds.

Gretel, Labradoodle. Owner: Jacob, Aussie PM

So, tension abounds in this ever-growing industry of dog breeding. One thing is for certain, the Doodles are here to stay, with or without purebred recognition. Breeders are now even crossing labradoodles with goldendoodles—creating something called a double doodle, presumably combining the best of all three breeds. The gloves are off, and the paws are out. May we suggest watching "Best in Show" for some associated holiday viewing.

## Travellers' Tales

There was no pre-Christmas wind down in our research efforts with both Ty and Jeff heading to New York for back-to-back conferences, as our team continue to search for attractive investment opportunities that meet our investment philosophy and process.

**Ty's Consumer Safari**

Ty headed to New York for the Morgan Stanley Consumer & Retail Conference, which brings together some of the biggest names in consumer goods and retail to discuss the state of the American shopper. In general the American consumer is feeling the pinch, but they're not quite ready to admit it yet. As Coca-Cola's CEO put it rather poetically: "It is drizzling rain and it's slowly getting heavier." Not exactly a thunderstorm, but you probably should have brought an umbrella. High earners are still splashing out, the middle class is holding steady, and those at the lower end are doing it tough.

The meetings with Walmart and Booking Holdings were particularly constructive. Walmart continues to look well-positioned to win in a tougher consumer environment – if people are going to cut back, they're less likely to do it at Walmart. The company's e-commerce business is hitting an inflection point into profitability, which should support margins going forward.

On the flip side, YETI provided a cautionary tale about the fickleness of consumer trends. The company got caught out when the Stanley cup craze took hold over the last couple of years, leaving YETI scrambling to maintain market share in the reusable drinkware market. Stanley's explosive popularity, driven by social media and influencer marketing, created a massive buzz and a cult-like following that overshadowed other brands, including YETI. YETI are now having to expand aggressively into new categories to drive growth. It's a reminder that in consumer products, you can go from hero to zero as quickly as the ebb and flow of social media trends.

**Jeff's Financial Marathon**

Jeff attended the Goldman Sachs Financial Conference and spent several more days meeting with various companies and analysts around town. If Ty's trip was about the American consumer, Jeff's was about following the money – specifically, what activity banks and financial institutions are seeing and where they are deploying their increasingly large piles of excess capital.

The most overused word at Jeff's conference? "Resilient." Followed closely by "consistent." American Express, Capital One, Bank of America, JPMorgan and others all provided updates showing healthy consumption trends with no notable deterioration in delinquency rates. However, scratch beneath the surface and there's a lot going on. The gap between high-end consumers and low-end consumers continues to widen, and there's mixed evidence that the middle cohort is starting to slide.

## Travellers' Tales (Con't)

One insight that caught Jeff's attention was the persistent impact of immigration crackdowns on household formation. Colgate explained that restrictions on immigration have lowered population growth and household formation by roughly 1%, which directly impacts their category growth in basic household products. It's not the kind of thing that makes headlines, but it matters when you're selling toothpaste and detergent. Interestingly, Jeff learned that 20% of toothpaste in China is purchased online between midnight and 6am, which raises all sorts of questions about Chinese consumer behaviour that we're not sure we want answered.

The big story in financial services is bank deregulation. Following recent changes to the Supplementary Leverage Ratio, there are three more pieces of the deregulation agenda likely to occur in the next six months. The net effect is that banks are sitting on enormous amounts of excess capital, and the burning question at the conference was how this will likely be deployed. To move the dial for larger banks, acquisitions would need to be large and strategic, which often implies dilutive. Management teams all repeated the mantra of having "a high bar" and being patient and disciplined, but how this excess capital gets deployed has potential to be a key differentiator of relative performance in 2026 and 2027.

During the conference JPMorgan shocked the market with guidance that expenses would hit $105 billion in 2026. This was 3% ahead of consensus expectations and is an almost 10% YoY increase, with over two-thirds focused on growth and investment initiatives. In the context of excess capital, regional bank consolidation and AI, this was JPM laying down a marker about their intentions to aggressively increase organic growth and technology investments. The clear message is the rest of the sector needs to materially lift investment or risk being left behind. If AI investment is a bubble, it doesn't appear to be popping imminently.

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