Alphinity Global Equity Fund – Active ETF

QUARTERLY REPORT – DECEMBER 2025

Performance[1]	Quarter %	1 Year %	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	10 Years % p.a.	Since Inception[2] % p.a.
Fund return (net)	-0.5	-1.2	15.6	13.3	14.3	12.4	12.4
MSCI World Net Total Return Index (AUD)[3]	2.5	12.4	21.8	15.5	15.7	13.2	13.1

Fund facts

Portfolio managers	Jonas Palmqvist, Jeff Thomson, Trent Masters, Chris Willcocks.
APIR code	HOW0164AU
Inception date	21 December 2015
ASX Code	XALG
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	$509m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
Microsoft	Information Technology	5.7
JP Morgan	Financials	5.4
AstraZeneca	Health Care	5.3
Nvidia	Information Technology	4.5
CRH PLC	Materials	4.3
Coca-Cola Co/The	Consumer Staples	4.3
Morgan Stanley	Financials	4.1
CBRE	Real Estate	3.8
Parker Hannifin	Industrials	3.6
Caixa Bank	Financials	3.6
Total		**44.6**

Fund features

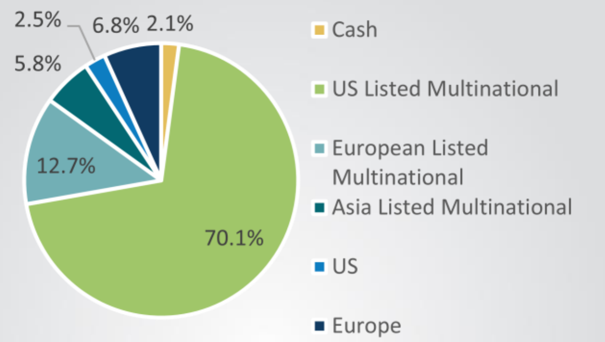
Consistent returns: Aims to provide consistent strong risk-adjusted returns across different market cycles

Style agnostic: Can invest in growth, value, cyclical or defensive companies, because we aim to own them at the right time in their earnings cycle.

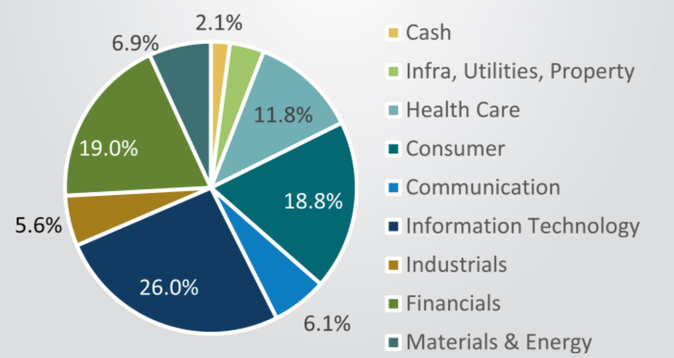
Concentrated: An actively managed, long only portfolio of 25-40 high conviction, quality companies, which is also diversified across sectors and regions

Robust process: A disciplined and repeatable investment process finding high-quality businesses with strong earnings that are under appreciated by the market.

Geographical exposure



Sector exposure



Data Source: Fidante Partners Limited, 31 December 2025

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.

2 The inception date for the Fund is 21 December 2015

3 From 21 December 2015 to 30 April 2019, the Benchmark was the MSCI World Equity ex Australia (Net) Index. The current index is effective from 1 May 2019

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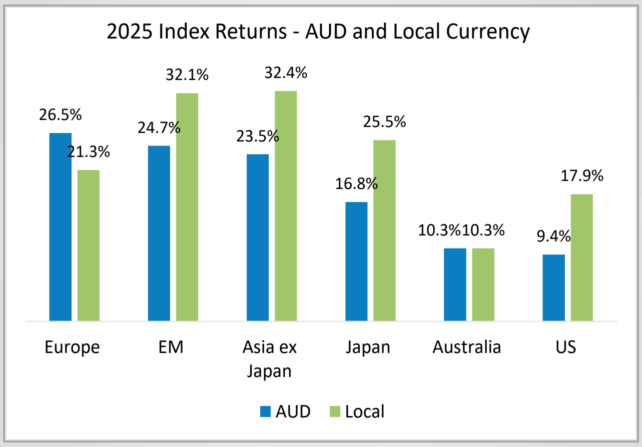
alphinity INVESTMENT MANAGEMENT

Market comment and outlook

Despite some weakness in December as questions were being asked of how much is left in the AI trade, global equity markets still managed a positive quarter with the MSCI World Index closing up 2% in AUD terms. The US and Japanese markets relatively underperformed (S&P 500 Index +1.5% and Topix +1.4%), while Europe (+5%) and Emerging Markets (+3.5%) outperformed, led by Korea (Samsung) and Taiwan (Taiwan Semiconductor). A 2% gain in the AUD versus USD in the final two months of the year also softened global returns when converting back to AUD currency, with a weaker USD also supportive for Emerging Markets and other proxy currency plays like Gold.

Asia & Emerging markets led 2025 returns



Source: Bloomberg, 31 December 2025

Divergence within the MAG-7 continued throughout the quarter as AI models leap-frogged each other (Google's Gemini over Open AI), increased CAPEX spending from META worried investors, and profit-taking in NVIDIA continued, despite the company delivering earnings growth and guidance above expectations. The December quarter saw a spread of 39% between the top performer in the group (Google at 28%) versus META at the bottom with a -11% return. On a global sector level last quarter, Healthcare stocks turned from the worst performing group to become the best performers (+9.5%), while strength across most commodity prices (excluding oil) led to Materials rising 4.2%. Property Trusts (-3.7%), Consumer Discretionary (-0.1%), Consumer Staples (0%) and Energy and Technology stocks (+0.5%) all underperformed broader market returns. US 10-year bond yields were fairly steady over the quarter and only rose 1 basis point to 4.17%, while large moves higher in transition metals (Copper, Aluminium) drove gains across the Commodities space.

Economic data was a little sparse given the length of the government shutdown, although still supported the narrative of the lower end consumer struggling without too much evidence of this weakness spreading to higher and medium end consumers. The US Fed cut rates 3 times in September, October and December to bring the policy rate to 3.50-3.75% with more cuts priced in for 2026.

US inflation continued its downward trend, with December annualised CPI at 2.7% while PMIs showed a stronger Services sector (54.4) contrasting with a weaker Manufacturing (47.9) that marked the 10th consecutive monthly contraction in factory activity.

Portfolio comment and outlook

Global equity markets performed strongly in 2025, driven by resilient growth, sustained momentum in AI-related capex, robust corporate earnings and rate cuts from the Federal Reserve. Looking forward to 2026, the most likely path is for more of the same. Growth is expected to modestly accelerate as US policy uncertainty continues to clear, combined with tailwinds from modest fiscal stimulus and easy financial conditions. AI infrastructure capex is also likely to continue to add to growth. Consumption trends are a risk and need monitoring with the US consumer still under inflationary pressure along with some weakening in the labor market, however current evidence suggests demand should remain resilient underpinned by strength at the high end and moderating inflation.

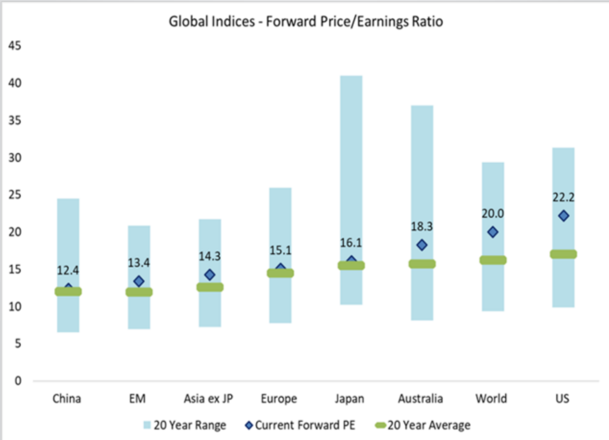
Big divergence amongst the Mag-7 performance in 2025

Source: Bloomberg, 31 December 2025

This is a constructive backdrop for corporate earnings. The earnings cycle has steadily strengthened over the course of 2025 and it's likely that upcoming fourth quarter earnings reports and guidance will confirm and possibly even strengthen the cycle. Our global earnings diffusion indicator (the number of earnings upgrades/downgrades) has recently hit a four-year high, while consensus earnings for 2025/2026 have moved higher by c.2%+ respectively over the last three months. By sector, Technology and Financials continue to be stand out leaders, recently joined by Materials as higher commodity prices flow through. Most other sectors look relatively weak, with Consumer Staples, Industrials and Health Care amongst the laggards. There is some early evidence of broadening strength into sectors such as Industrials and Health Care, but this requires confirmation through earnings season. By geography, the US and Japan are leading, while Europe and Asia ex Japan are both lagging. Valuations are generally at or close to historic highs and are likely to be a headwind to absolute performance, but the strength of the earnings cycle combined with easy financial conditions means we remain relatively constructive on the outlook for 2026.

Our portfolio positioning reflects this overall market leadership with significant investments in various Financial and Technology leaders, but also a diversified range of other high-quality growth and defensive stocks with established earnings momentum. Activity during the fourth quarter was relatively light. Divestments included Netflix after a weaker report and concerns for the outlook for margins. We also sold out of Ferrari following disappointing new medium-term revenue and margin guidance. This capital was redeployed into new investments in LVMH (earnings recovery from self-help and an improved luxury cycle), Caterpillar (a high-quality cyclical with a recent positive earnings inflection) and Boston Scientific (a Medtech leader with organic growth and earnings upside from sustained market growth). Elsewhere we trimmed Costco and Linde to reflect weaker earnings leadership; and decided to take some profits in stocks including Nvidia, Amphenol, TSMC, Parker-Hannifin and Morgan Stanley following strong performance.

Most global indices at trading at/above long-term averages

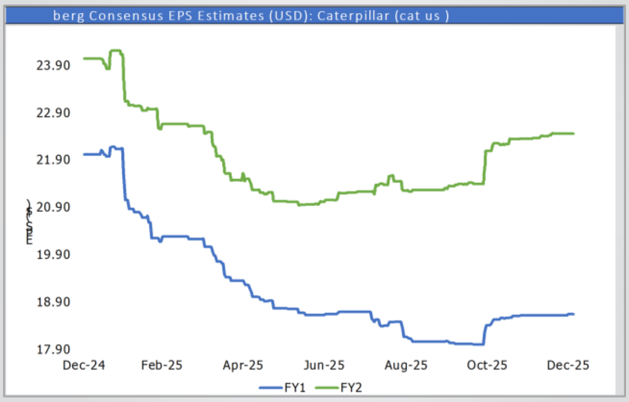


Source: Bloomberg, Alphinity, 31 December 2025

AI continues to present exciting opportunities across the market as the infrastructure buildout continues apace, and companies embrace the technology to drive productivity and new revenue opportunities. However, there are also risks given how fast this technology is evolving, still unclear ROI's and the disruption risks to incumbent businesses. Consequently, we remain thoughtful about stock selection and position sizes, as well as overall exposure to this theme to reflect these risks. Cyclical exposure is mainly focused on high-quality Financials with strong fundamentals and established earnings leadership, although we are also focused on identifying new opportunities if the earnings breadth continues to improve. Quality remains one of the cornerstones of our process and after an exceptional period of underperformance it's likely that this factor will return as a performance tailwind as fundamentals re-establish themselves and with more attractive valuations.

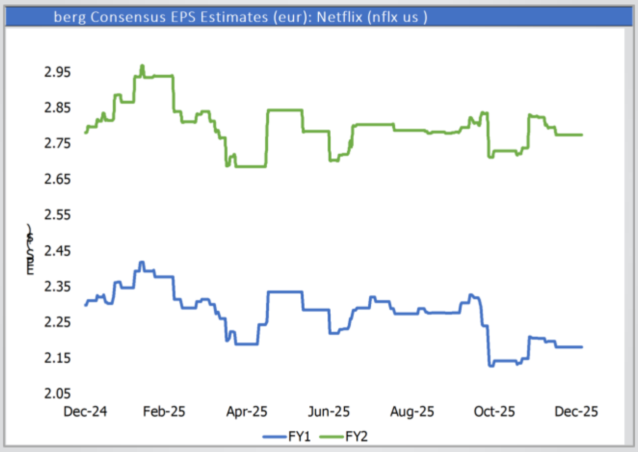
Overall, the Portfolio continues to be strongly exposed to fundamentally driven, positive earnings revisions in high-quality companies, which we expect to drive performance over time.

BOUGHT Caterpillar: A high-quality cyclical with a recent positive earnings inflection



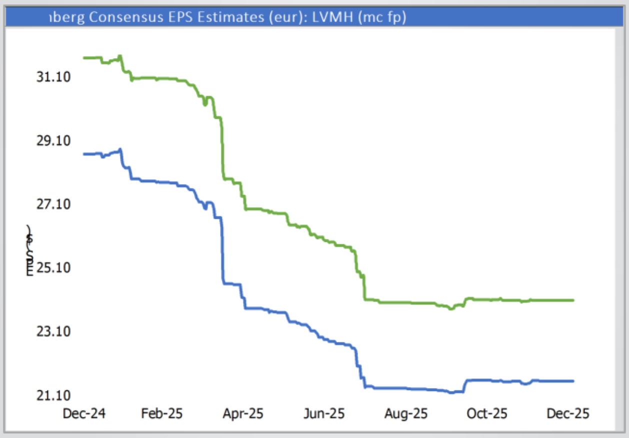
Source: Bloomberg, 31 December 2025

SOLD Netflix - : JP Morgan post strong 3Q25 results



Source: Bloomberg, 31 December 2025

BOUGHT LVMH: Earnings recovery from self-help and an improved luxury cycle



What's on our mind: AI's $3 Trillion Question: Who Pays and What's the Return?

In case you missed Trent's note last month, we are featuring it again

The emergence of Chat GPT in late 2022 triggered an explosion in AI related capital expenditure as tech giants raced to dominate this generational technology frontier. Consensus estimates now estimate that spending on the requisite AI infrastructure will soar to an aggregate of ~$3 trillion in the coming years. This escalating investment commitment crystallises two critical, interconnected questions for investors:

1. Who can fund it?
2. What are the returns generated from it?

In terms of funding, we divide the landscape into "Big Tech" and "The Rest." Microsoft, Alphabet, Meta, and Amazon come into this build-out with fortress balance sheets and strong free cash flow that can underpin their significant funding needs. However, outside of Big Tech the funding ability becomes more questionable without a clearer path to monetisation.

In terms of returns, while AI is an extraordinary technology which will create significant returns for investors, the sheer scale of capital deployment is set to fundamentally recalibrate the future return profile for participants. While we still expect returns for Big Tech to be strong, the era of sustaining >30% ROE's while running asset light business models appears to be in the past. On average, our calculations indicate that for big tech companies to maintain current company ROE's after accounting for their full AI investment commitment, Big Tech must generate additional incremental earnings equal to their current total earnings. This mandate, to double the existing profit base of the world's largest companies, represents an enormous, unprecedented challenge.

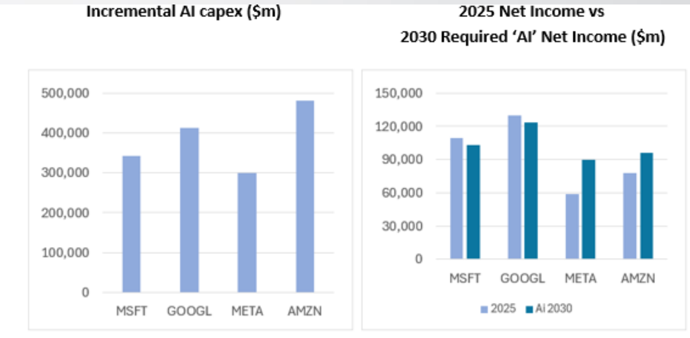
While AI is a generational technology, the questions around funding and returns combined with rapid share price gains in speculative areas of it has raised the prospect of a potential AI bubble. Along with the interconnected nature of recent transactions within the ecosystem, there are certainly echoes with other speculative boom bust cycles. The build-out is now transitioning into a critical second phase; one where the required capital exceeds even Big Tech's organic cash flow and reaches a quantum that will depress profitability metrics across the industry in the medium term.

Our Stance To be clear, Big Tech and AI-themed stocks remain firmly anchored as earnings leaders within our investment framework justifying their notable allocation of portfolio capital. However, in response to these rising financial and speculative risks, we are proactively managing our overall portfolio AI exposure and maintaining a strong bias toward the highest-quality, financially resilient names in our stock selection.

Returns from AI: For Big Tech, the core debate pivots away from funding capacity and towards the generation of returns. Traditionally, Big Tech companies sustained asset-light models characterised by capex to sales ratios in the low double digits and the delivery of exceptional Return on Invested Capital (ROIC) and Return on Equity (ROE) that were consistently at or above 30%. But this intensive capital expenditure cycle fundamentally alters that profitability equation.

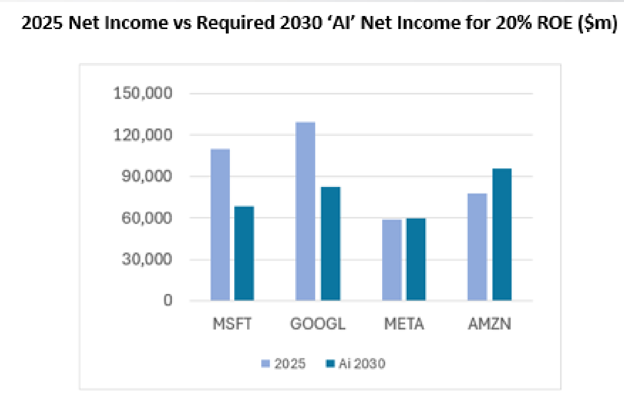
The scenario with maintaining current ROE's: Our analysis using CY22/23 capex to sales ratios as the baseline implies a total incremental AI capital commitment of between $300bn-$500bn for each Big Tech company until 2030. To simply maintain the premium ROE levels that are a hallmark of Big Tech requires an extraordinary feat; the creation of net new AI-driven earnings that are equal to or greater than the companies' current total profit generation. So, the question becomes can Microsoft and Alphabet 'create themselves' all over again in terms of new AI-earnings? And can Meta and Amazon create even bigger versions of their current selves (see chart below)?

The scenario of lower future ROE's: The most probable path involves a moderation of overall business return metrics, while they simultaneously retain a decisive competitive advantage globally. As of December 2024, Big Tech's average ROE of 28% dwarfed the 17% achieved by the remaining 496 constituents of the S&P 500.



Source: Alphinity, FactSet, 28 November 2025

Even under a more conservative assumption that Big Tech generates a still excellent 20% ROE on their significant AI investments, the scale of the required earnings generation remains formidable. Microsoft and Alphabet must successfully launch and scale new business units equivalent to two-thirds (2/3) of their current total operational size while Meta and Amazon must engineer entirely new divisions that mirror the scale of their existing current operations. While this 20% ROE scenario is more likely than maintaining 30% returns, it underscores that the market's current valuation premium still depends on the successful, large-scale monetisation of AI investments.



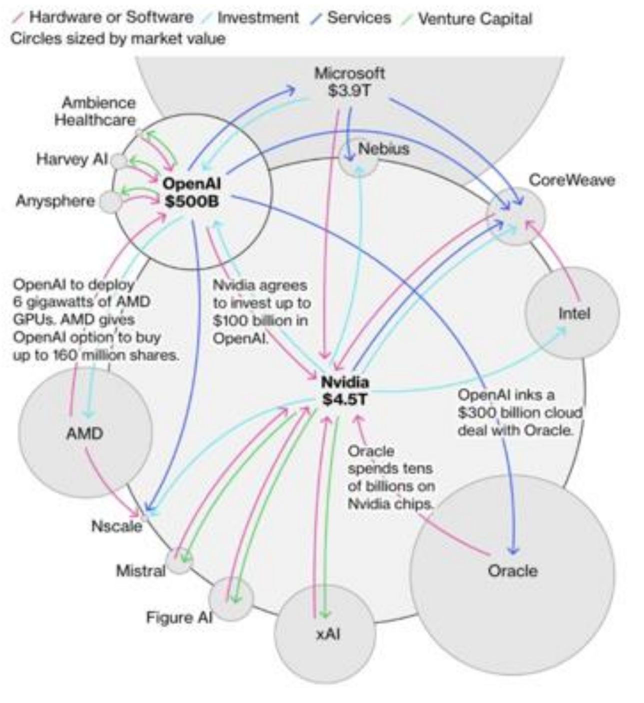
Source: Alphinity, FactSet, 28 November 2025

This 'push-pull' of Big Tech is a key thing to consider going forward: these companies will still generate very strong absolute returns when compared to the average global company, but this will be weighed against a compression of these returns; an occurrence which has tended to correlate with weaker stock performance historically in markets. We will be continuing to closely monitor incremental earnings to ensure that the thesis of ramping returns from AI investment justifying current investment levels is on track.

Cross Linkages between Companies

Another area of concern is the interconnected and circular nature of several AI related transactions given the echoes it has with the fibre buildout. While subtle differences exist, such as Nvidia generating such excessive levels of free cash that they can deploy some of this to invigorate the broader ecosystem, the rise of such transactions in a historical context does ring some alarm bells. Is there a risk that Nvidia ends up becoming 'the bank' of the AI trade? The most complete depiction of the inter-related nature of these transactions is shown below, with the main features that stand out being the centrality of both Nvidia and Open AI.

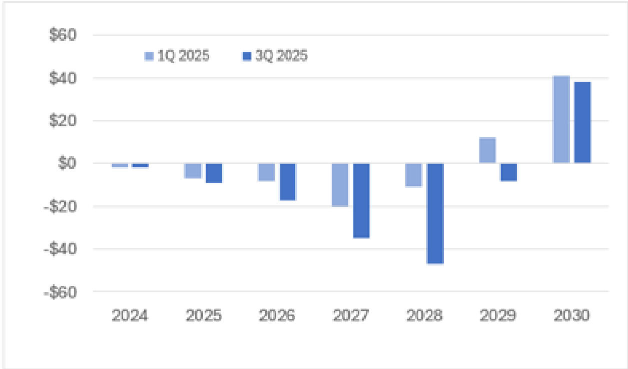
Ai Ecosystem Deal Summary



Source: Bloomberg News Reporting

While Nvidia is investing from a position of strength, questions have been raised about the ability of Open AI to fund what has been an extraordinary level of commitments in the past six months. This in the context of a business which in 3Q had a projected total cash burn of $116bn, before turning FCF positive in 2030 (up from a projected total cash burn of $46bn as at 1Q25). Furthermore, these projections were before the recent spate of announced deals:

Open AI FCF Projections ($bn)



Source: The Information, Alphinity

A summary of key Open AI commitments is below. Most notable are the contracts for capacity with Oracle (>$300bn) and Microsoft (>$250bn) along with commitments to deploy capacity using Nvidia chips (up to 10GW), AMD chips (up to 6GW) and Broadcom chips (up to 10GW). Note that each GW of capacity can cost up to $50bn implying up to $1.3tr of commitments across these 3 deals alone, and the total value back to the provider varies with content per GW which varies by chip type:

Open AI Key Recent Commitments

Deal	Value	Timeframe
Stargate Project	$500bn	4 years (2025-29)
Coreweave Commitment	$22bn	5 years
Oracle Commitment	+$300bn	5 years
Microsoft Comitment	$250bn	Ongoing
Amazon Commitment	$38bn	7 years
Nvidia Partnership (10GW)	Approx $350bn	Progressive
AMD Partnership (6GW)	Approx $120bn	Progressive
Broadcom Partnership (10GW)	Approx $250bn	Progressive

Source: Company Reports, Alphinity

While Open AI is an extraordinary company and has reached 800m Weekly Average Users in a short period of time, momentum needs to continue to give the market confidence that the recent spate of commitments will be fulfilled. This explains why the Oracle stock, which saw an initial large price reaction on its announcement of an Open AI-deal, quickly reversed.

Alphinity Global - December 2025

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 is 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.

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.

For further information, please contact:

Fidante Partners Investor Services
Phone: 1300 721 637 Email: info@fidante.com.au Web: www.fidante.com.au

Alphinity Investment Management Web:
www.alphinity.com.au

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