Alphinity Australian Share Fund

MONTHLY REPORT – February 2026

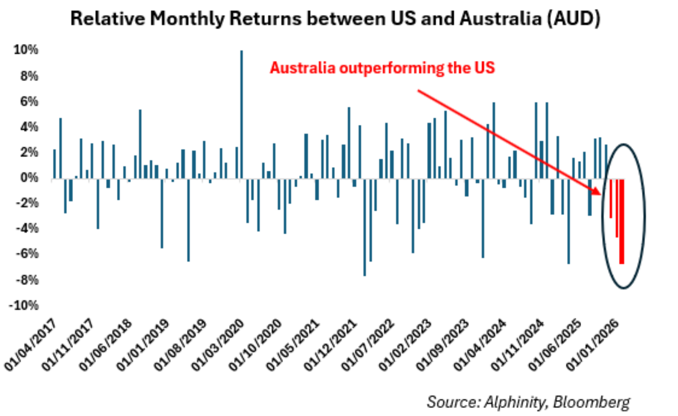
ExSaaSperation

Market comment

Exasperated is one of the more appropriate words we could use to describe the events taking place right now, and the rapidly changing dynamic means that news becomes old or superseded very quickly. We'll do our best, and hope this isn't too outdated by the time you read it! Before the US and Israel decided on bombing Iran and taking out its Supreme Leader creating volatility in commodity prices, poor old "software as a service" (SaaS) stocks had the most reason to feel exSaaSperated. With their business models under threat from a number of releases from Anthropic's Claude, the US index of software stocks plunged over 25% in the last 2 months. What started in the most obvious place (software), the carnage soon spread to a number of other industries including legal and data analytics, insurance, logistics and infrastructure. More private credit fears resurfaced which ended up impacting not only private asset managers but spread into a sell-off across financials more broadly.

February was a continuation of what we saw in January, with a weakening USD (stronger AUD), and Australia outperforming the US as commodities rallied and Technology shares continued to suffer losses. In AUD terms, global shares fell 1.4% with the US market declining nearly 3%. The tech-heavy Nasdaq fell over 5%, with the mega-cap US MAG-7 group losing 9%. In contrast, Aussie shares had the trifecta of one of its best earnings seasons in recent years, mining stocks surging on higher commodity prices and less relative exposure to expensive Technology stocks. The ASX 300 index (including dividends) gained 3.9%, doing better than Europe (+1.2%) but unable to match Japan's TOPIX that closed 7% higher following Prime Minister Sanae Takaichi's election victory, and the expected stimulus to follow.

In the US, despite generally stronger economic data, the bond market was telling us something different with US 10-year yields falling 30 basis points to 3.94%. Aussie 10-year yields also fell 15 basis points to 4.65% although the outlook for rates still remains vastly different between the two countries, with Australia bracing for potential multiple hikes as the US market is pricing in multiple cuts.



Source: Alphinity, Bloomberg

The Australian reporting season was one of its best in recent years, with the two biggest sectors in the ASX (Materials and Financials) both getting earnings upgrades which underpinned broader market strength, while AI disruption concerns hurt Technology stocks. In terms of monthly performance, Healthcare, Tech and Consumer discretionary fared the worst, while Materials, Financials and Consumer Staples all outperformed the market.

The rapidly evolving conflict in Iran and the broader Middle East caused a spike in Oil prices and European Natural Gas, with Iran effectively closing the Strait of Hormuz which carries more than 20% of global oil flows. Back home, the short-term inflationary impact only adds to the pressure of consumers facing future interest rate rises.

Portfolio comment

The Fund outperformed its benchmark in February. The biggest contributions came from diversified miner BHP, an underweight position in CSL and exposure to A2 Milk and National Australia Bank. An underweight position in CBA, exposure to electronics and white goods retailer Harvey Norman, and Property Trust Charter Hall were the largest detractors.

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)	6.6	10.4	18.6	13.2	11.5	11.3	9.9
S&P/ASX 300 Acc. Index	3.9	7.1	16.4	12.1	10.6	10.7	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, 28 February 2026.

^ 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

With investors transfixed by what some have dubbed the "SaaSpocalypse," one could be forgiven for overlooking earnings season. Despite growing concern about the amplified volatility in share price moves (a result of the shift from active management to passive ETFs and hedge funds), the Australian reporting season delivered a timely reminder that price volatility ultimately follows earnings (Fundamentals, it turns out, have not been made redundant just yet).

On AI, the savage repricing of software and technology stocks came down to one deceptively simple question*: will AI empower or threaten the business model?* Anthropic's release in early February of a Claude "Cowork" agent — effectively automating a range of legal functions — was a striking illustration of just how rapidly AI is evolving and disrupting. The sustainability of businesses whose core functions can be automated is being called into question. The initial sell-down was largely indiscriminate, but not all business models are equally exposed. Some will face higher barriers to automation, adapt more quickly, and emerge with stronger future earnings. That said, it remains difficult for any incumbent to credibly disprove a future threat — so a broad de-rating in exposed industries, for now, is understandable.

Beyond AI, the month's other dominant theme was earnings season and we were encouraged: the outlook for the Australian market was meaningfully revised upwards. February shaped up as one of the strongest reporting seasons in years, with beats comfortably outnumbering misses, and further backed by elevated buybacks and dividends. A similar picture emerged in the US. Share price volatility was heightened, but it remained well-anchored to earnings quality — disappointments were dealt with harshly, while positive earnings surprises were handsomely rewarded. We are pleased to report that Alphinity was well positioned through the period, avoiding the landmines and benefiting from overweights in the right places. So what did we learn when we looked under the bonnet?

Banks and Materials were the primary drivers of earnings upgrades — a significant pairing given these two sectors carry the largest index weights. Banks are enjoying near-goldilocks conditions: robust lending growth and pricing discipline are lifting revenues and margins, while strong credit quality and selective self-help initiatives provide an additional earnings kicker. The backdrop of rising interest rates — reflecting more persistent inflation in a low unemployment environment — remains broadly supportive. Miners, too, continue to look well-placed for further upgrades, with commodity prices still comfortably above expectations. Fundamentally, conditions remain constructive: healthy global demand coupled with supply disruptions keeping markets tight. The extent to which China supports its economy after the Chinese New Year will be an important variable to watch. We remain mindful, however, that some of the recent commodity price strength has been driven by speculation, and that market expectations are closing the gap.

On the domestic consumer front, while aggregate spending remains resilient, lower-income cohorts have begun to show a meaningful pullback following the early February rate rise and expectations of further tightening to come. While it was a bit mixed depending on the type of consumer, cracks are appearing: softer trading updates from a number of companies for the start of the year point to potential below-expectation revenue growth ahead. We are cautious on retailers and consumer discretionary names as a result.

A further emerging theme worth monitoring is the strengthening Australian dollar, as the RBA contemplates additional rate hikes in contrast to expectations of cuts from the Fed. This dynamic creates headwinds for offshore earners, but potential tailwinds for importers.

The rotation into Banks and Materials has been funded primarily by selling down elevated-PE names that disappointed (notably Healthcare), names exposed to AI displacement risk (Technology and software-based companies), late-cycle Insurers, selected consumer discretionary positions, and certain industrials facing idiosyncratic earnings pressure. History would tell us these trends can continue to go longer than we all think.

The current earnings leadership trends appear reasonably durable for the foreseeable future — a welcome development. Fiscal stimulus across the US, Europe, China and domestically provides further fuel for the trend to persist. Risks remain plentiful, however. The situation in the Middle East warrants close attention: approximately 20% of global oil and LNG shipments transit the Strait of Hormuz! Should the conflict extend in duration and/or affect infrastructure, it could fuel inflation and possibly affect global growth.

Portfolio outlook

Having successfully sidestepped most of the earnings landmines and maintained overweights in stocks delivering positive earnings surprises, our focus now shifts to risk-adjusting our positioning from here. We have trimmed some Materials exposure following significant share price appreciation and reduced earnings upside in certain names. We nonetheless retain a large overweight to the sector, believing further earnings upgrades remain ahead. Within Banks, we have selectively added to positions where the outlook now appears better than the market had anticipated.

Post reporting season our focus is twofold: firstly adding to reasonably priced quality businesses that we hold that continue to get upgrades, i.e confirmation of our thesis at results; and secondly opportunistically identifying companies that have suffered significant share price falls but where earnings are either already supportive or approaching an inflection point where the risk of disappointment is diminishing. This value-oriented positioning will be carefully risk-adjusted and controlled as it does come with some risk (price moves have material information as well) — but we believe that selectively adding exposure to quality, oversold names offers a meaningful hedge in the event of a broader market reversal, while keeping us well-placed to participate if the current earnings cycle continues to surprise on the upside.

Top five active overweight positions as at 28 February 2026	Index weight %	Active weight %
Newmont Corp	0.6	3.4
BHP Group Limited	10.3	3.4
National Australia Bank Limited	5.2	2.6
Westpac Banking Corporation	5.1	2.5
a2 Milk Co Ltd	0.2	2.4

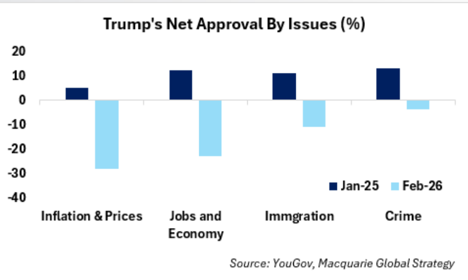
Asset allocation as at 28 February 2026	%	Range %
Securities	99.1	90-100
Cash	0.9	0-10

BTW

If you managed to sit through all 107 minutes of Donald Trump's recent State of the Union address – and congratulations if you did, that's genuine commitment – you'd be forgiven for thinking America has never been in better shape. According to the President, the economy is roaring, markets are soaring and everything is just tremendous. For context, that 107-minute marathon makes it the longest State of the Union speech on record. Trump, together with Bill Clinton, now hold the dubious distinction of delivering nine of the ten longest addresses in history. In 2026, Trump outdid even himself by breaking his own record. We'll spare you the full recap.

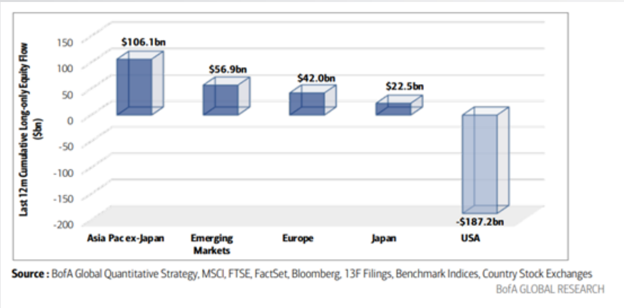
Step outside the White House bubble, however, and you'll find a rather more balanced picture. Much of the world watches proceedings in the Land of the Free with something between pensive concern and outright disbelief. Even within the US, there's growing unease. Where Trump's first term was all about tax cuts, his second has pivoted to sweeping tariffs designed to generate revenue and geopolitical leverage. This shift hasn't sat well with everyone, particularly as cost of living pressures mount.

Trump's approval ratings have slipped across many major issues, although this is fairly typical for sitting presidents a year into their term. What's less typical is entering a new war with Iran, which has already pushed energy prices higher and risks further alienating the very voters who put him in office – the mums and dads more concerned about grocery bills and mortgage payments than spending billions on military adventures abroad.



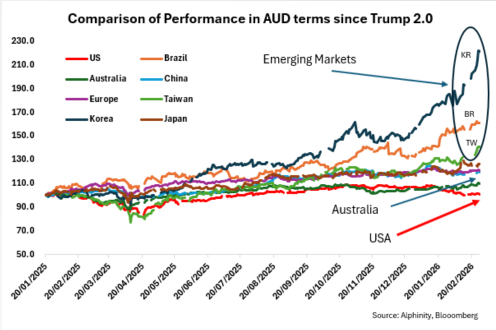
The great reallocation

Meanwhile, markets are telling their own story. Some commentators suggest that erratic trade policies and tariffs are eroding confidence in the US as *the* premier place to invest. Over the past 12 months, investors have been steadily reallocating capital away from America. The data shows cumulative long-only equity flows heading into Asia Pacific, Emerging Markets, Europe and Japan, while the US has been the clear funding source.



The US dollar has also declined 10% since Trump 2.0 began last January. While capital outflows have played a role, the main drivers have been diverging interest rate paths (Fed cuts while others hold) and the de-dollarisation trade, where countries are buying gold and other currencies to reduce their dependence on the greenback. The conflict in Iran has potential to reverse some of these trends, however, with higher energy prices likely to flow through to inflation with impacts on both interest rates and the US dollar.

The confluence of these factors means that when we look at equity market returns in AUD terms across global markets, the US has actually been the worst performer while Emerging Markets have been the clear beneficiaries.

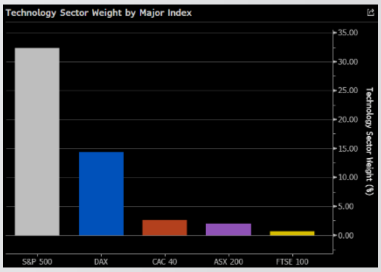


This underperformance has occurred despite relatively solid economic data – the labour market has largely stabilised (February was a wobble), and both manufacturing and services activity are back in expansionary territory. Further fiscal stimulus is expected as tax cuts enshrined in the One Big Beautiful Bill likely boost consumption and investment.

The Magnificent 7 and their magnificent problems

Part of the disconnect stems from what's being described as the end of US Exceptionalism. In its most recent form, US Exceptionalism has meant the "Magnificent 7" tech giants that have grown into absolute behemoths. Together, these seven stocks make up over 30% of the S&P 500's market capitalisation and have driven an even larger portion of the index's total returns over recent years. Nvidia alone boasts a market cap of USD 4.3 trillion – larger than the entire annual GDP of the United Kingdom. When individual companies start rivalling entire developed economies, questions about sustainability naturally arise.

The concerns aren't just about valuation multiples. The Magnificent 7 are transitioning from capital-light business models to massive capital expenditure programs, and there are plenty of questions about the expected returns on these investments. Rapid AI advancements are also creating both opportunities and existential threats. Many established software firms have faced serious valuation pressure over the past quarter amid fears that AI could lower barriers to entry, automate coding, and erode their competitive moats.



BTW (Cont'd)

If there was ever a region positioned to simultaneously benefit from and be disrupted by this technology shift, it's the US – the market with the largest technology weighting in the world.

HALO, old friend

In the short term at least, any perceived end to US Exceptionalism likely reflects a natural technological evolution and a broadening out of markets away from the concentrated leadership of a handful of mega-cap tech companies, rather than signaling any fundamental decline in America's importance.

It's worth remembering that US Exceptionalism has always been a shapeshifter. It's morphed from railroads to oil barons, from post-war manufacturing dominance to the dotcom boom, and more recently to the Magnificent 7 tech giants. Each era has its champions, each eventually gives way to the next. This latest episode – the rotation away from a handful of mega-cap tech stocks toward a broader market – may well prove to be just another chapter in that ongoing evolution rather than the final word on American markets. The US has a remarkable habit of reinventing what "exceptional" means.

Interestingly, these forces have brought somethings full circle. AI fears are driving renewed interest in what's now being called "HALO" stocks – Heavy Assets, Low Obsolescence. We're talking about the decidedly unglamorous world of energy infrastructure, railroads, and real estate: hard assets that can't be easily disrupted by a few lines of code. It's a nice acronym, if nothing else. We've seen some evidence of this domestically as well, though whether it gathers real momentum or proves to be just another fleeting market narrative remains to be seen.

Travellers Tales

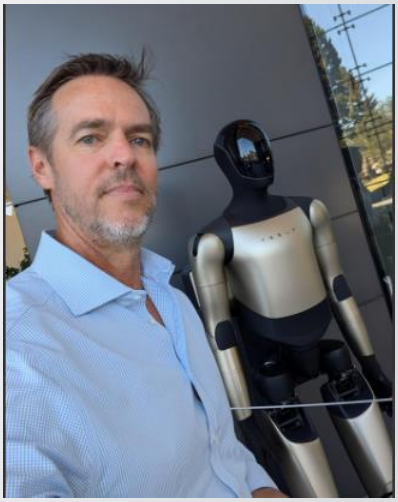
Following another busy quarterly earnings season, it was time for Alphinity to hit the road again and kick off the first round of research trips for 2026. Trent and Ty from the Global team travelled to the US to see a number of the world's biggest Tech firms and attend the Morgan Stanley TMT conference. What follows are Trent's observations, recorded while being chauffeured through the streets of San Francisco by his Waymo driverless taxi.

Trent's excellent autonomous adventure

There's something surreal about dictating your thoughts on the future of artificial intelligence while being driven around San Francisco by a car with no human at the wheel. But that's exactly how Trent chose to wrap up his two-week tech tour – from the back seat

of a Waymo, on the way to his final meeting with Meta. If you're going to contemplate whether AI will make us all redundant, you might as well do it while a robot handles the Bay Area traffic.

The trip itself included back-to-back meetings with tech giants, followed by the Morgan Stanley TMT conference where the CEOs of Microsoft and NVIDIA held court alongside the CFOs of Meta and Google. Throw in presentations from the leaders of the two key AI labs – Anthropic and OpenAI – plus an appearance from SpaceX, and you've got a who's who of everyone currently building the future (or possibly our robot overlords, depending on your level of optimism).



Travellers Tales (Cont'd)

The conference covered the full spectrum of tech, from software to payments to security, essentially every element of the compute stack that's become critical in the age of AI. But there was only one theme dominating every conversation, presentation, and coffee break: AI. And more specifically, the growing sense that AI has hit a real inflection point.

The recent coding tools have apparently changed everything.

According to the AI labs, we're all going to be significantly healthier in the future, with health now a key focus and some significant scientific breakthroughs supposedly just around the corner. Which is wonderful news, though Trent couldn't help but notice the flip side: these AI agents are now capable of replicating a significant chunk of knowledge worker tasks. The kind of tasks that, well, quite a lot of us currently get paid to do.

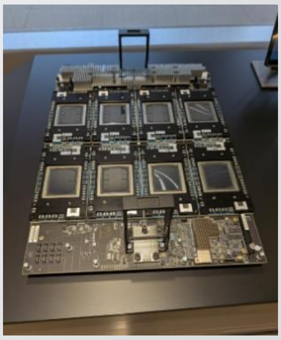
Trent's hope? That it all lands somewhere in the middle. We'll all be nice and healthy, but we'll still have somewhere to go for work in the morning. A modest ambition, really, but these are uncertain times.

When it comes to the stock implications, the AI inflection filters down to two critical areas: the compute required to back it all, and the potential for disruption. On the compute side, there's real pressure right down the supply chain, particularly in memory where tight supply is driving price breakouts. This is having knock-on effects for companies that rely on memory – think smartphones and PCs – but it's also flowing through beautifully to the earnings of companies like NVIDIA and Broadcom, both of which reported exceptional results during Trent's trip.

The key question now is durability. How long can this demand last? Every meeting with a hyperscaler inevitably turned to the scale of their spending and how they're going to generate returns from it. The pushback has been consistent: data centre spending has fundamentally changed. It's no longer just a cost – it's a revenue generator. Compute equals tokens, tokens equal revenue. Simple as that. We'll have to keep a close eye on whether that revenue actually materialises to justify the spend.

The other major theme was disruption, and nowhere is this playing out more fiercely than in software. Trent heard some fairly vigorous defences from companies like Intuit and ServiceNow, both making the case for why they're not about to be swept away by the AI tide. Their argument? Governance, security, and the uniqueness of their proprietary data are critical overlays that you can't just ignore by letting AI agents run wild, particularly in enterprise settings. Whether these defences hold up remains to be seen, but at least they're not going down without a fight.

As Trent and his Waymo driver headed off to that final Meta meeting, one observation was clear: when your robot taxi driver is competently handling San Francisco's hills, cyclists, and double-parked delivery vans without breaking a sweat (or having sweat glands), it's probably worth taking seriously what else these systems might be capable of. Whether that should fill us with excitement or existential dread remains an open question – though at least the ride was smooth.



For further information, please contact:

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

Fidante Partners Adviser Services
Phone: 1800 195 853 Email: bdm@fidante.com.au Web: www.fidante.com.au

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