Alphinity Sustainable Share Fund

QUARTERLY REPORT – March 2026

Dire Straits

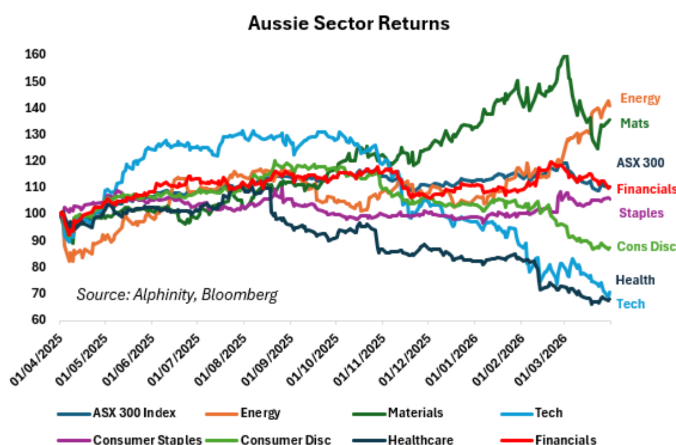
Market comment

Sultans of Sting. 80s influential band puns aside, March stung in many places, with nowhere to hide really, other than the comfort of cash or (less comfortably) in Energy stocks as the War between Iran and US/Israel extended further than initial expectations. Confusion was the main takeaway with mixed messages, flip-flopping and a dash of Trump TACO all serving up a spicy mix that did nothing but add to volatility and increasing concern over what an extended closure of the Strait of Hormuz means for the supply of fuel, inflation and potential economic catastrophe. The joint forces of the US and Israel took out Iran's supreme leader Khamenei and other key leaders which prompted retaliation from Iran whereby critical infrastructure was damaged including the Ras Laffan LNG facility in Qatar and Saudi oil refineries.

Markets responded accordingly, with Australian shares (with dividends) falling 2% over the March Quarter, led by a 7% decline last month. Large cap stocks (-6.3%) outperformed small caps (-11%) while Value stocks (+6%) outperformed Growth stocks (-7%) in Q1 26. Globally the MSCI World index fell 4% (7% in AUD terms).

The moves at a sector level were also commensurate with a geopolitically motivated risk-off environment. Energy stocks were the clear winner, rising over 30% in the March quarter, while the more defensive Utilities (+8%) and Consumer Staples (+7%) also outperformed. Technology stocks suffered the most, losing 27%, closely followed by Property (-17%), Healthcare (-16%) and Consumer Discretionary (-15%). Gold stocks, usually considered an area of the market that investors flock to in cautious times, sold off sharply in March. It was a severely crowded space in the months leading up to the conflict and although a stronger USD was partly to blame for Gold weakness, it was more likely an unwinding of positions from a number of participants including quantitative / systematic funds and others forced to sell their winners when looking to de-risk portfolios.

In other commodities, increased demand for EVs in the wake of the oil supply shock sent lithium higher, while Aluminium also rallied 16% over the quarter. Oil closed the quarter up 72% to USD104/bbl.



A large widening of refining margins also helped our refiners, while recession fears held back copper stocks and the gold price (as discussed above) despite falling sharply in March is still 50% higher over the last year.

In a widely expected move, Australia's Reserve Bank raised interest rates for the second consecutive month, with another 25-basis point hike to 4.1%. Inflation continued to be sticky, with annualised CPI at 3.7% and this was obviously before the impact of the Middle East conflict on energy, food and agricultural products. Aussie bond yields rose sharply, with the 10-year bond yield rising 32 bps to 4.97%.

Portfolio comment

The Fund outperformed its benchmark in the March quarter. The biggest contributions came from diversified miners BHP and RIO, and avoiding gaming stock Aristocrat and gold miner Northern Star. Having oil stocks excluded hindered performance, along with holdings in technology stock (tracking app) Life 360, Property Trust Charter Hall and retailer Harvey Norman which 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)	-8.1	-1.3	10.5	10.0	8.0	10.3	9.6
S&P/ASX 300 Acc. Index	-7.3	-2.0	11.6	9.4	8.5	9.4	8.6

* 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 March 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

This may as well be called the Trump Outlook, because where Trump goes, so do markets, and where Trump goes, nobody knows! At least we have been distracted from the SaaSpocolypse for a while….it will be back no doubt!

Of course, with the war in the Middle East and the broadening negative effects on a multitude of goods and commodities from oil to aluminium, to gas and fertilizer (to name only a few), the focus has shifted quickly from the micro of company earnings in reporting season to the macro of global and domestic economic growth. This is particularly important as the two best performing sectors heading into the month of March and the war, was Commodities and Banks in Australia, both highly sensitive to economic growth. Both had largely done well because the global and domestic economies respectively were going along better than expected. That backdrop is however changing rapidly. Globally there is now a much greater economic risk, especially the longer the war and its flow on effects (e.g. elevated oil price) persist, forcing central banks to adapt and respond. Arguably the damage, literally and figuratively, may already be done, but the extent has scope to get worse by the day.

The prospects of a stagflationary environment have again raised its ugly head. The risks are even starker in Australia. Here we entered this period with an uncomfortable and persistent lift in underlying inflation, which saw a sharp turnaround in the RBA rhetoric and actions. We are already 2 rate rises into a new rate cycle, and they have hardly turned their minds to what to do now with this large supply side price shock. Feedback is that the about-face last year and first-rate rise had already shaken the consumer. We can only imagine what a second-rate rise, plus a large rise in petrol price (plus other related goods) combined with worries of fuel shortages is doing to confidence now. You would think that discretionary spend is being reigned in materially as we speak. It feels to us that the RBA is in a tough position. On top of that, as we have learnt from recent crises, we're not allowed to have downturns anymore, so there seems little doubt the structural reform and austerity budget that may have been coming is now likely to be more of a damp squib on that front, probably making the job harder.

As such the economic risk for the lucky country has clearly risen. There is still momentum in parts of the economy and plenty of cash around, so we don't want to get too negative, but we are likely to see slower growth and potentially more issues arise than we have seen for a while. Of course, the extent either way probably rides on the length of the war and damaged caused to infrastructure (LNG tanks, oil refineries, smelters, etc), which in turn largely rides on Trump. Given he can't make up his mind in the space of a single sentence, the market can't claim to have a clue either. As such taking lower cyclical risk, taking out economic hedges, and tilting a little more defensive seems prudent. The longer the disruption goes the more one wants to tilt.
We will have a close watch on what earnings do – that will tell the tale. We had a good 6 months in Australia with earnings upgrades coming through up until the war started, supporting the market. As noted above some of that is clearly going to get disrupted now. At least the market valuation is in more reasonable territory compared to recent history which gives us some comfort.

That comfort will disappear if we resume material earnings downgrades, especially if it comes through the large cap miners and banks. It hasn't happened yet. We are watching this space, but the costs and supply chain headwinds are shaping up.

Portfolio outlook

With so much uncertainty in the outlook, it is difficult to make large portfolio changes with any conviction. Instead, we take the view of purposefully, but slowly, tilting the portfolio away from emerging risks and towards growing earnings leadership. As noted in the market/Trump outlook section, the longer the Middle East disruptions last, the higher risk of economic disruption lifting and extending out longer.

As such we have tilted the portfolio a little more defensive through late February and into March, by taking profits in global cyclicals (largely metals and mining) as well as domestic cyclicals (discretionary and banks), and investing more in defensive earnings streams (staples, telecommunications and insurance).

We remain underweight Energy given the exclusion of oil stocks in the strategy. We are unlikely to head back to more recent low oil prices (or spreads) even if the war winds up shortly, given the damage already seen, structural changes to access and ongoing uncertainty. We are a little overweight Metals and Mining, but well down on recent highs. We are selective in our exposures, favouring for instance Aluminium where the deficit has grown with the middle eastern smelter destruction. Discretionary remains underweight while staples overweight. Banks are largely neutral now, with a higher exposure to insurance in financials over financial services which tends to be higher beta. With a higher rate environment, we continue to be underweight REIT's. Our technology exposure, whilst small, remains in the defensive end of tech and in areas unlikely to see direct AI disruption.

Top five active overweight positions as at 31 March 2026	Index weight %	Active weight %
a2 Milk Co Ltd	0.3	3.0
Rio Tinto Limited	2.3	2.7
Charter Hall Group	0.3	2.3
Westpac Banking Corporation	5.1	2.3
ALS Limited	0.4	2.2

Asset allocation as at 31 March 2026	%	Range %
Securities	98.6	90-100
Cash	1.4	0-10

BTW

When the Crowd Becomes the House

Readers that tuned in for this year's Golden Globes broadcast were inadvertently introduced to Polymarket— a platform where users trade binary "yes" or "no" contracts on whether real-world events will occur. During the broadcast a Polymarket chyron flashed before each award was handed out, correctly predicting nearly all 28 winners. Think of it as the share market meets the TAB. Over the last year prediction markets have gone from a fringe economics experiment to a $20 billion monthly phenomenon.

Users can bet on almost anything including Fed decisions, Oscar winners or whether aliens exist. An example below is Polymarket Homepage. Almost an endless amount of events to choose from!

The mechanics are simple. Each share costs between 1¢ and 99¢, representing an implied probability. If you're right, you pocket $1 per share. Wrong, and your stake disappears. The Yes and No prices fluctuate like stock prices, so you can trade out before the event resolves. The idea (in its purest form) is to give an unbiased view of what people are thinking. You'll find mainstream financial commentators increasingly referring to "what Polymarket is saying," particularly around events like interest rate decisions.

The duopoly in this space consists of Kalshi and Polymarket, two US private companies with very different personalities. Kalshi is the regulated, buttoned-up sibling—CFTC-approved, USD-based, focused on economics and politics, and keen to present itself as safe and secure. Polymarket is the decentralized crypto younger brother, willing to flirt with the rules and offering a much larger universe of events, including the genuinely ridiculous: "Will Jesus Christ Return in 2025?" and "Will the US confirm Aliens exist?" To be fair, both were trading below 1%.

With trust in mainstream media at all-time lows, the "crowd wisdom" and sheer breadth of wagering options is appealing to many. However, regulation is also a key driver. Prediction markets operate under federal CFTC oversight as derivatives rather than state-regulated gambling, which means they can theoretically operate in all 50 states, including the 11 where sports betting remains illegal. Traditional sportsbook operators aren't amused. Flutter Entertainment, the world's largest online betting company, owns FanDuel and has watched its share price crater. The stock hit an all-time high of US$313.69 in August 2025 but has since collapsed to around US$103—a 67% fall in less than eight months.

States are fighting back hard. Eleven states have issued cease-and-desist orders, and the American Gaming Association estimates states have lost over $500 million in sports betting tax revenue since prediction markets began offering sports contracts. Hawaii's House has passed a bill to ban prediction markets outright, while Kentucky wants to slap a 14.25% tax on transaction fees. Arizona even filed criminal charges against Kalshi. The fundamental dispute—whether the CFTC has exclusive jurisdiction or whether states can regulate these as gambling—will likely end up before the Supreme Court.

And then there's the darker side. The platforms insist they offer "superior forecasting" and social value, including potential to become increasingly important signals for markets and quantitative funds, but the potential for manipulation and insider trading is staggering. Shortly before the US operation in Venezuela, a new Polymarket user placed large bets that Nicolás Maduro would fall from power, pocketing over $436,000. Similarly, 71 minutes before a February 28, 2026, US-Israel strike on Iran, a user with no prior Polymarket history bought "Yes" shares and turned roughly $87,000 into over $500,000 overnight. Last week, Trump's press secretary Karoline Leavitt abruptly ended a briefing seconds shy of the 65-minute mark after appearing to glance at the clock—there was rampant speculation she did so due to a Kalshi wager (although we note the very small sums bet on this). As a result Polymarket, whose investors include Donald Trump Jr's venture capital firm, has faced criticism and regulatory scrutiny over potentially facilitating war profiteering and insider trading.

Even more disturbing was what happened to Israeli journalist Emanuel Fabian. After reporting on a minor missile strike near Jerusalem, he became instrumental in resolving a $14 million Polymarket wager on whether Iran would strike Israel on March 10. One person emailed him over 100 times in a single night, desperately demanding he change his story to describe "missile fragments" rather than a "missile" hitting Israeli soil. One message read: "You have 90 minutes left to update the lie... If you decide not to correct it… you will discover enemies who will be willing to pay anything to make your life miserable."

Then there was the Coinbase earnings call last year. The CEO joked at the end of his presentation that prediction markets were betting on which words he'd say, then proceeded to fire off "Bitcoin," "Web 3," "Blockchain"—all the buzzwords he hadn't mentioned. Traders who'd bet he'd say those words made huge profits. Those who'd bet he wouldn't? Huge losses. We understand the CEO had no bets on himself!

BTW (Cont'd)

The Oscars tie for Best Action Short Film was equally farcical. This was only the seventh time in Oscar's history a tie has occurred. Polymarket's fine print resolved ties alphabetically, while Kalshi required you to have specifically selected "tie"—which nobody did. Punters on both platforms lost their minds. Last summer, Polymarket traders fought for weeks over whether Ukrainian President Zelenskiy had worn a suit to a NATO dinner, with some, including menswear expert Derek Guy, arguing a black jacket and shirt qualified. The argument was ultimately settled by United Market Access token holders who voted "No" because it was military style with tactical detailing and was worn without a tie, spurring more uproar, including claims of token holder side betting.

Despite the carnage, Wall Street is embracing this. Polymarket recently raised funds at an $8 billion valuation. Polymarket's investors include the Intercontinental Exchange, owner of the New York Stock Exchange, which is now marketing a sentiment analysis tool that may shape how larger markets trade. DraftKings spent up to $250 million to acquire prediction market Railbird, while Robinhood and Susquehanna acquired crypto exchange LedgerX to launch their own prediction markets platform.

Perhaps the most insidious risk isn't the obvious manipulation, it's the second-order effects. Mark Roulston, a researcher at Lancaster University, points out the real danger: many of these prediction markets have such low trading volumes that they're easy to manipulate. The problem is that institutional traders are now using predicted market prices as inputs for their models in far larger, more liquid financial markets. When prediction market bets on whether the US announces a ceasefire with Iran start to drive oil futures (as The Guardian recently reported), the linkage with larger liquid markets has become real.

For some of these reasons, enthusiasm for prediction markets doesn't extend to Australia where we have a vastly different regulatory backdrop. In August 2025, the Australian Communications and Media Authority concluded that Polymarket constitutes illegal gambling and ordered ISPs to block access. The regulator found Polymarket lacked the investment mechanisms and risk management structures of genuine financial derivatives—instead, users were simply staking money on binary outcomes. Australia joins France, Switzerland, Belgium and Singapore in banning the platform.

Travellers Tales

Post reporting season, it was time again for Alphinity to hit the pavement and travel to see companies, attend conferences and meet with industry bodies with the intention of deepening research into ideas that will shape our future portfolios. Jacob travelled to China, Monique travelled to the US, and Jeff and Jessica did Europe. Quite a lot of the globe was covered in a few weeks!

Jake's China Trip: The Great Delivery Wars

There's a particular sound you should apparently fear on Chinese sidewalks: the high-pitched whir of an electric scooter approaching at speed, followed by the sharp beep warning you to get out of the way. Jacob experienced this first-hand in Shanghai. The delivery riders are everywhere weaving through traffic, mounting footpaths, checking phones mid-ride, racing against algorithms that measure their performance in seconds, not minutes.

This reflects the rapid growth of Instant Retail/Quick Commerce that is taking place in China, enabled by a growing number of digitally native consumers who conduct many elements of their daily lives through super aps such as WeChat. While not a new phenomenon, growth continues to accelerate in these commerce channels, enabled by significant investments in infrastructure and subsidies by large e-commerce platforms such as Alibaba and JD.com. Such is the scale that consumers are able to economically purchase items as invaluable as a cup of coffee and have it delivered to them in single-digit minutes while still hot.

Welcome to China's Instant Retail wars, where e-commerce giants are currently burning cash at a rate that would make even the most optimistic venture capitalist wince. In 2025, Alibaba and Meituan spent over RMB 100 billion (roughly USD 14 billion) on consumer subsidies, trying to become the default "everything app" for Chinese consumers. The subsidy war got so intense that Chinese regulators intervened mid-year, condemning the "irrational competition" and forcing a truce. JD.com's billionaire founder Liu Qiangdong even personally delivered meal orders as a publicity stunt to launch JD's food delivery service—though one suspects his delivery times weren't quite as impressive as the professionals.

The scale is staggering. China now processes 56,000 online food orders every minute, and that's just food. Add in groceries, convenience items, and the impulse purchase of a forgotten phone charger, and you have an infrastructure that makes Australia's delivery networks look positively leisurely. Jacob watched delivery robots—actual autonomous boxes on wheels—navigate crowded Shanghai footpaths with more confidence than most tourists.

This has created some fascinating behavioural shifts. When coffee arrives faster than you can make it yourself, when a single chocolate bar can be economically delivered to your door in ten minutes, purchasing patterns change. Jacob's meetings with consumer goods companies revealed they're scrambling to redesign packaging for this new reality. Smaller pack sizes, more convenient formats, products designed for impulse purchases rather than weekly shopping trips. The classic family-size pack of Tim Tams? Less relevant when you can order a single packet and have it arrived before your Netflix episode finishes.

Travellers Tales (Cont'd)

For Australian investors, this matters because the same pattern is emerging here, just at an earlier stage. Coles and Woolworths have both flagged that their fastest-growing online segment is rapid delivery—orders fulfilled in under an hour from dark stores and micro-fulfilment centres.

The implications ripple across the portfolio if this trend carries to Australia: retailers need to rethink store networks, logistics companies need different infrastructure, and consumer goods manufacturers need to redesign some of their product architecture for a world where the weekly supermarket trip is increasingly supplemented with more immediate purchases.

The Chinese model may be unsustainable in its current form—some researchers predict the heavy-subsidy delivery model has only about a decade left, particularly as regulators force platforms to provide social insurance for riders—but the behaviour it's training into consumers isn't going away. Once you've experienced coffee delivery in eight minutes, waiting until Saturday's grocery shop starts to feel unreasonably inconvenient.

Jacob returned from China with a simple observation: the delivery riders aren't just ferrying meals and groceries. They're rewiring consumer expectations. And Australian companies are next in line to figure out what that means for their business models.

Monique's US Dispatch – Robots, LNG, and Existential Dread

Monique swapped spreadsheets for airport security lines (literally… TSA was a nightmare apparently), embarking on a whirlwind US trip that started in San Francisco. Monique dived into the world of AI, meeting with software companies, hyperscalers, LLM developers, and data centre operators. As you would expect building the future takes a lot of chips, a mountain of servers, and an even bigger appetite for electricity—plus a few headaches about how to keep it all running without blowing the grid.

At Tesla HQ, Monique encountered Optimus, Elon Musk's robot creation, reenacting the great challenge of our age: picking up an orange. Humans, attached to wires, performed the motion; Optimus dutifully copied them, presumably wondering if oranges taste better than batteries. Turns out, teaching a robot to rival the humble human hand is quite the challenge. If Musk's team cracks that code, laundry folding and stacking supermarket shelves might just be outsourced to our soon-to-be robot overlords. For now, though, it's mostly oranges and awkward dance moves. Still, it was a sobering taste of a future where more human jobs could be replaced by machines than most of us are comfortable admitting.

AI, meanwhile, is evolving at breakneck speed. Capability is leaping ahead, and it became clear to Monique that while robots might take a little longer to invade our kitchens, AI is set to shake up the workplace much sooner than most of us would like to think. The lesson? Start learning how to use AI now—before it starts finding your job more interesting than you do.

From there, Monique landed in Houston, just in time for the Woodside investor tour of Louisiana LNG. The new liquefaction site was a sprawling patchwork of steel, cement, pipes, and dirt—early days, but impressive in its scale and ambition. The Bechtel team looked up to the challenge, and the site's location is as strategic as they come and at a cost to build that new entrants can't compete on.

The energy market's outlook, however, wasn't quite so serene. Despite hopes for a crystal ball, no one could predict the next twist in geopolitics—or the energy sector. The consensus: energy supply chains remain tight, energy security is top priority, and the pre-war status quo isn't making a comeback anytime soon. By the time Monique landed back at the office, she was in need of a morale boost, having absorbed one too many conversations about robots taking jobs and the stubborn challenges facing the global energy sector.

Jess's Nordic Spring

In March, Jess and Jeff headed to Copenhagen and Stockholm for four days of company meetings across industrials, energy, financials, defence and consumer sectors. The Copenhagen leg covered Carlsberg, Vestas, Novonesis, DSV, Ørsted and Maersk, while the Stockholm meetings included Svenska Handelsbanken, EQT, Swedbank, Epiroc, Sandvik and Saab.

The structural shift in European defence and energy security policy was front of mind across several meetings — NATO spending commitments and the broader geopolitical landscape are fundamentally reshaping how investors and companies think about the sector. Saab, which has nearly doubled its workforce to 28,000 in four years and is opening new facilities in the US, India and Finland, impressed with its responsible sales framework, which integrates dedicated human rights expertise and democracy data into its assessment of export opportunities, with many sales routed through the Swedish Government as an additional governance layer.

Travellers Tales (Cont'd)

This shift is also playing out in Nordic banking, where Swedbank highlighted the need for more nuanced frameworks.

On mining electrification, Epiroc and Sandvik expressed strong conviction on the transition to battery electric vehicles for underground and open cut mining, however noted that outside of some standout examples, the industry has been slow to move. Notably, both miners highlighted Australian miners are leading the way on electrification, with Roy Hill and Fortescue singled out as standout examples of operators embracing automation and fleet decarbonisation. Both companies also highlighted the pricing pressures and availability of Tungsten.

Industry reports indicate the cost of tungsten carbide drill bits has gone up 400% since early 2025. Sandvik are the largest tungsten supplier outside of Asia and also have an integrated recycling solution and an ambition is to achieve 90 percent circularity by 2030.

AI adoption was a thread running through nearly every meeting, though at markedly different stages of maturity. DSV stood out with a detailed walkthrough of how the company is deploying agentic AI across its booking and logistics platform — using AI to clean and route customer data, flag exceptions for human intervention, and learn from corrections in real time, with the system going live the week after our visit. Swedbank is applying AI to transaction monitoring and AML compliance, while Epiroc is piloting an AI-powered app that allows field technicians servicing complex underground mining equipment to interact directly with technical manuals in real time, improving efficiency and reducing downtime at the coalface. Novonesis sees AI as a competitive differentiator in R&D, using proprietary fermentation data to accelerate enzyme discovery.

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