

Alphinity Australian Share Fund



MONTHLY REPORT – May 2026

A Miner Point

Market comment

The War in the Middle East began to fade away from the front of investors' minds in May. Whether it be from fatigue or boredom at the endless diatribe from both sides or the constant flip-flopping between potential ceasefires and truces, there was a feeling of optimism that the worst of the crisis has played out. Oil prices retreated while bond yields initially spiked and then lowered into the last half of the month, setting up most markets for healthy gains (Australia being an exception with more modest gains). A strong quarterly US earning season where companies continued to grow earnings above expectations further propelled equity markets.

In Australia, it was strength in our large cap mining stocks that supported the market. BHP and Rio Tinto gained 16% and 11% respectively, buoyed by strength in copper and aluminium prices, the latter of which also propelled Alcoa up 21%. Not to be outdone was a surge in lithium pricing that helped miners exposed to Lithium (IGO +29% and Pilbara Minerals which has doubled in value in the last 7 months).

Our market (ASX 300 index including dividends) gained 1.3% last month, under-performing global markets (MSCI World +4.3%) and the US (S&P 500 +5.1%). While Australia has the Miners to drive gains at home, the US has AI stocks which again have underpinned so much of the strength. And if you think AI is hot in the US, take a look at South Korea and Taiwan. Even with such a huge part of both markets tied up in a handful of huge semiconductor and memory stocks, the gains have been astonishing. Korea's KOSPI gained 26% last month, and 29% the month prior. Taiwan rose 16%, backing up a 19% gain in April. Taiwan has now overtaken both the UK and India in terms of size to become the world's fifth largest market. Without large commodities (excluding oil) or tech exposure, markets like the UK (FTSE -0.6%) was one of the worst performers. They also have a bit going on when it comes to political instability! Emerging Markets (+9%) had a fire lit under them courtesy of Korea and Taiwan which did the heavy lifting while China and Hong underperformed.

Back to Australia, and while our miners outperformed, the same couldn't be said for our Healthcare stocks with index heavyweight CSL falling 22% last month. In fact, the stock fell 22% on 1 day for its largest ever 1 day decline after cutting its revenue guidance. Just two days later on 13 May, CBA also posted its biggest 1 day decline in history, falling over 10% after it reported a miss on earnings. The magnitude of the miss was small relative to its price reaction, but triggered a wave of broker downgrades, with concerns about the outlook for the economy heightened by the Federal Budget's expected impact on the housing market and credit growth. All the major banks closed slower in May, as each of them increased provisioning to build buffers in anticipation of slowing economic growth, with CBA also specifically flagging rising bad debts.

On a sector level, Materials (+10.3%), Consumer Discretionary (+4.4%), and Industrials (+2.7%) were the top performers, while Healthcare (-9%), Utilities (-7.6%) and Energy (-6%) were the biggest laggards. Oil prices fell, with Brent oil futures falling 12% last month on hope the worst of the Middle East conflict is behind us, and supply is being sourced from elsewhere. Copper, Aluminium and Lithium prices all continued to rise, which provided further tailwinds for the miners.

Portfolio comment

The Fund outperformed its benchmark in May. The biggest contributions came from not owning CSL and overweight exposures in contractor Ventia Services, and miners Rio Tinto and Independence Group. Owning palette maker Brambles, milk products maker A2 Milk and not owning miners Fortescue and South 32 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)	1.9	-4.6	7.9	12.1	8.6	9.7	10.2
S&P/ASX 300 Acc. Index	1.2	-4.0	7.0	11.0	7.9	9.1	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 May 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 1300721637 during Sydney business hours.

Market outlook

In an outcome that has shocked no one, the Middle East situation remains highly volatile and uncertain (various “cease-fires”, ‘deals’ and Trump late night tweets notwithstanding), not that you can tell by market levels. Despite the very real ongoing risks faced by the global economy from rising inflation and slower growth, global equity markets, particularly the US, have decided again it will all be fine, given that is what we have been conditioned to expect. Or perhaps it is simply that markets are assuming the old school economy no longer really matters. It’s all about AI, and its growing ‘friends and neighbours’ as well. While we may not have the biggest tech sector or direct AI exposure in Australia, never mind, our lucky country has the Mining and Commodities needed to fuel the AI boom. If we are looking for earnings leadership in Australia, that is where it sits (alongside a diminishing set of defensives).

While Australian earnings’ revisions of late have in aggregate been around flat, the mix has changed materially - no pun intended - in the last few months. As mentioned Commodities remain positive (as long as global growth doesn’t fall in a heap), however the recent big positive driver is Energy. How sustainable that is, remains to be seen – you can make a great story either way over the short or medium term, but it is hard to make an investment out of a coin toss. So underlying earnings in Australia are precarious at best or sharply turning down at worst.

Earnings were of course already under some pressure following the change in rhetoric and subsequent action by the RBA around inflation and the trajectory of rates. Then came a Middle East war that has seen energy prices spike and our government decided now was a good time for an attack on ‘wealth’ (real or perceived) through major proposed changes to Capital Gains Tax regulation and negative gearing rules. Not sure there is a strong history of helping economic growth by attacking the wealth of the majority of those that vote for you. Anyway we digress. The net outcome is a much higher risk in a slowing Australian economy. At best a pause in activity, and a slowing in the housing related market overall. Look to the major banks as a mirror of the broader economy. We have already seen a top up in provisions for bad debts (conservative yes, but an indication of their thinking), on top of some reasonably downbeat commentary from the CEO’s about the future outlook.

So the earnings cycle has turned negative for the domestic facing companies– this is always a headwind for the market, notwithstanding the US driven AI induced equity rally that our market seems to want to follow – but what could be the driver for our market this time without the banks? In the US, positive earnings revisions are the main contributor of market growth, supported by some further PE expansion. Our tech sector remains relatively small and it is arguable which part is AI enabled vs AI disrupted. If you have a credible AI enabled story, you are likely to be well supported, given the low number of options to get exposure in Australia. But to drive the market overall we need a better story. Commodities hold that mantle currently. Copper, Aluminium, steel, lithium, rare earths have all got a story to tell. The overhanging shadow however is the question over global growth. What we do know is that the longer the middle east situation remains uncertain and volatile, the more likely global growth slows, and the more likely inflation stays higher for longer putting pressure on interest rates. None of these things are typically good for demand and markets overall.

However there are pockets of strength where you can make alpha. Hope remains of a better outlook if sanity prevails in geopolitics. We remain cautious without being outright bearish. We are hyper aware the script could change before we even go to print. Follow earnings, it has a habit of telling you where to go even in volatile times.

Portfolio outlook

The portfolio continues to be positively tilted towards earnings upgrades. As they become harder to find, they tend to be even better rewarded. In the current environment, missing the ‘bombs’ has proven to be a powerful alpha generating trend.

Earnings are telling us to hold the course on commodities for now. The US and China are both undergoing commodity intensive cycles supporting higher prices. Our Overweight exposure has reduced as the magnitude of the upgrades has slowed. Copper, aluminium, steel and lithium remain our main exposures with spot prices suggesting further upgrades. We are however carefully monitoring the developments in the Middle East and how these may affect demand. While Energy also remains in upgrade mode, the daily movement in oil and the potential for large moves on Trump announcements either way, leaves us on the fence, trying to idiosyncratic stock stories as well as the macro drivers.

We continue to inch down our Banks exposure to be a little more underweight post the budget announcements. While a slowdown in the Australian economy appears more likely now, (banks have moved from releasing provisions to topping them up), it is hard to see any material credit cycle near term. Banks remain well provisioned. Businesses and household balance sheets remain strong on average. They are however facing an earnings slowdown from what was expected. Hard to see banks outperforming as a whole in that environment.

The other more positive or at least relatively less negative sectors are tending to be those that are more defensive. That includes other parts of financials such as insurance, on top of traditional defensives like Telco’s and Staples where we remain overweight. Some industrial names are also benefiting from idiosyncratic earnings drivers. Healthcare remains the traditional defensive sector with no friends. We are also in the camp of remaining sceptical until we see better earnings outcomes.

Technology is of course running its own race. We are a little overweight the sector, in those companies that are either AI beneficiaries or executing well in that space, while avoiding the AI at risk companies. This is of course an evolving space.

Top five active overweight positions as at 31 May 2026	Index weight %	Active weight %
Newmont Corp	0.5	3.1
BHP Group Limited	11.6	2.3
Ventia Services Group Pty Ltd	0.2	2.2
Charter Hall Group	0.4	1.9
Medibank Pvt Ltd	0.5	1.7
Asset allocation as at 31 May 2026	%	Range %
Securities	97.8	90-100
Cash	2.2	0-10

BTW

The AI Boom: Would you like Chips with that?

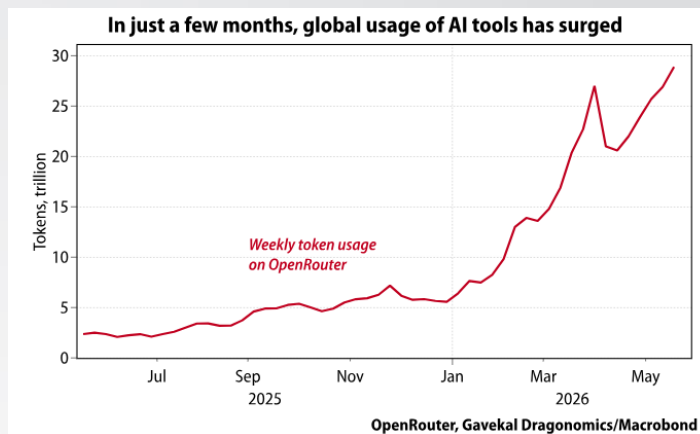
When Trump flew to Beijing last month for his state visit with Xi Jinping, we couldn't help but notice the remarkable durability of his reconciliation with Elon Musk. By way of background: Musk earned the "First Buddy" moniker through his highly influential relationship with President Trump, including his entertainingly redundant appointment as co-head of the Department of Government Efficiency. Relations soured sharply last year when Musk called the One Big Beautiful Bill an "outrageous, pork-filled disaster" and "political suicide." The two then traded harsh insults online — including insinuations about the Epstein Files — before Musk went as far as labelling the GOP the "Porky Pig Party" and launching his own "America Party."

The reconciliation, however, was probably inevitable. Musk's strategic importance to the US government has only grown. His Starlink network simultaneously guides American drones and military operations in the Iran campaign while also delivering free internet access to Iranian citizens trying to circumvent the regime's communications blackout. Hard to stay estranged from a supplier like that.

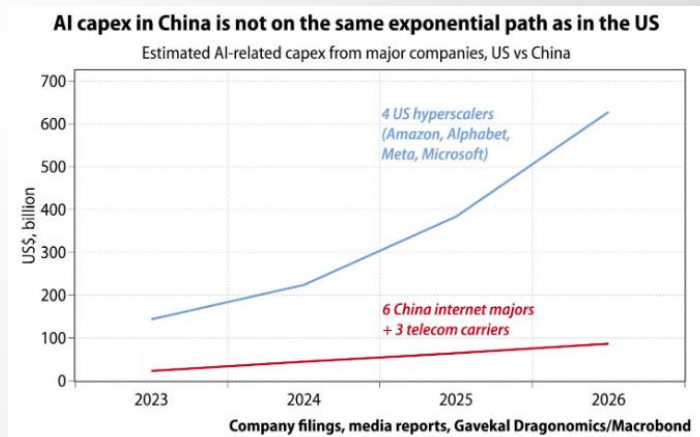
Musk is also nothing if not pragmatic about his own interests. His peak political involvement cost Tesla dearly — European and US deliveries fell ~13% in early 2025 amid boycotts, and the share price was down ~40% at the nadir. It has rebounded nicely since the two men consciously decoupled, before quietly resuming relations in more low-key fashion.

Musk would have been pleased to see Nvidia CEO Jensen Huang aboard Air Force One bound for Beijing. Nvidia sits at the epicentre of the US-China AI competition, producing the advanced chips that power generative AI globally and that China's technology sector is desperate to access. The H200 — Nvidia's most commercially relevant chip for AI workloads — remains export-restricted to China on national security grounds. Huang has lobbied hard to change this; Nvidia's China market share in advanced AI chips has collapsed from ~95% prior to export controls towards 0% today, with Huawei racing to fill the gap. Musk, meanwhile, would presumably hope Trump can leverage Chinese appetite for chips into better market access for Teslas — though the efficiency-obsessed entrepreneur may have winced at the establishment of two new bureaucratic boards (a Board of Trade and a Board of Investment) to smooth international relations.

The constraints on China's AI build-out are highly visible. The rapid acceleration in AI sophistication and adoption has materially increased workloads for AI providers globally, forcing a sharp step-up in infrastructure investment. Token usage on OpenRouter — a platform aggregating connections across AI models — has roughly quintupled since end-2024. Agentic AI uses materially more tokens than a standard chatbot conversation. Many providers are now imposing usage limits or throttling services to avoid being overwhelmed — and these pressures are most acute in China, where leading AI companies Alibaba and ByteDance are making clients wait extended periods to complete AI tasks.



US firms are responding by ramping capital expenditure aggressively. The four hyperscalers — Amazon, Alphabet, Meta, and Microsoft — are collectively growing capex by around 65% this year toward a combined ~US\$600bn, before counting unlisted names like OpenAI, Anthropic, and xAI. This surge is colliding with semiconductor supply chain bottlenecks, fueling shortages of the most sought-after chips, rampant price escalation, and further cost inflation across the build-out.



China is not keeping pace. Total Chinese AI infrastructure spending in 2026 will likely reach around US\$85bn — less than what either Alphabet or Amazon is spending individually. Chinese firms have managed so far through a mix of pre-sanction chip stockpiles, grey-market purchases, and domestically produced alternatives, but as agentic AI demand accelerates, those workarounds are running out of road. Huawei's Ascend chips are improving, and DeepSeek has tailored its latest model to run on them — but domestic chips remain less powerful, less efficient, and poorly interoperable across vendors. China is managing within constraints, for now.

All of this AI capex is ultimately premised on a productivity payoff — the idea that LLMs will augment or replace workers at sufficient scale to justify the investment. Which brings us to the latest chapter in our evolving AI anxiety cycle: the SaaSocalypse has given way to fears of the Jobsocalypse.

BTW (Cont'd)

The AI layoffs are real — Cisco, Standard Chartered, Intuit, and a growing list of software names have all announced cuts explicitly tied to AI-driven efficiency. Roughly 124,000 technology job cuts have been announced so far in 2026, up around 65% on the same period last year.

But the broader numbers aren't fitting the Jobsocalypse narrative quite yet. Total private-sector job cut announcements were actually *down* 7% over the past five months versus the prior year, with relatively limited direct labour substitution use cases to date. Historically, widespread job losses have been precipitated by declining profitability — this time could obviously be different if organisations adopt AI more rapidly than prior technology transitions, or if the productivity benefits prove more material than history would suggest. We'll be watching closely to see whether the market's worst fears — AI-related job losses precipitating a downward spiral in consumption and a recession — begin to materialise. For now, the data doesn't support it. Though the recent pick-up in AI-attributed job cuts is worth watching.

Travellers Tales

Our specialist for all things Mining, Stephane Andre, spent a week travelling to Singapore to visit a bunch of mining and metals trading companies including Trafigura, BHP, Woodside, Value, Vitol, Rio and Aramco. Trafigura could well be the biggest company you may have never heard of. Its generally regarded as the world's largest private metals trader and one of the biggest oil traders globally so it was useful to get some of their insights into markets.

The sunny blue skies of Singapore. One can only hope the Strait of Hormuz will look as active as the Singapore Harbour in the coming months!



While opinions differed on individual commodities, one message came through consistently: physical markets appear considerably tighter than financial markets are pricing. The Strait closure remains the dominant macro issue. Most participants viewed it primarily as an Asian and European problem rather than a Chinese or US one, given China's inventory buffers and the United States' relative energy self-sufficiency. The key question is not whether the disruption matters, but how long it lasts.

For now, strategic petroleum reserve releases, elevated starting inventories and some demand destruction have prevented a sharper move in energy prices. However, inventories are being drawn down at an extraordinary pace and Stephane noted that several companies highlighted July and August as a potential inflection point. If the Strait remains closed into the northern hemisphere summer, physical shortages may become increasingly difficult for markets to ignore.

Beyond the immediate disruption, a second theme emerged repeatedly: commodity cost curves are moving higher. Rising diesel prices, freight costs, sulphuric acid shortages and broader inflationary pressures are increasing the cost of production across multiple commodities. This has important implications for long-term pricing, as many commodities may require structurally higher prices to incentivise new supply.

Among individual commodities, aluminium attracted the highest conviction. Supply disruptions have removed meaningful capacity from the market, inventories remain low and restart timelines are lengthy. Several participants argued that prices do not yet reflect the emerging deficit and that aluminium offers one of the clearest opportunities within the commodity complex.

Copper generated a more nuanced discussion. The long-term demand story linked to electrification, data centres and AI remains intact, but physical traders were generally less bullish than investors. Concentrate markets are exceptionally tight, yet refined metal markets remain broadly balanced. Many viewed current prices as being supported by inventory distortions and investor enthusiasm rather than outright physical scarcity.

Iron ore was another area where sentiment appeared more constructive than generally appreciated. While concerns around Chinese property remain, participants highlighted rising global steel production, increasing Indian demand and a steadily rising industry cost curve. Simandou was widely viewed as offsetting depletion elsewhere rather than creating a significant surplus.

The most surprising discussions were around LNG. Despite ongoing Middle East disruptions, many participants believe the market becomes increasingly oversupplied from 2027 onwards. Demand destruction through coal substitution, nuclear restarts and renewable deployment appears more durable than previously expected, while significant new LNG supply is scheduled to enter the market over the coming years.

Overall, the trip reinforced the view that commodity markets are entering a more selective phase. Broad commodity exposure may matter less than identifying where physical fundamentals are diverging from market expectations. On that basis, aluminium emerged as the strongest near-term opportunity, lithium and iron ore remain constructive medium-term stories, while copper and LNG may face more challenging paths than current consensus suggests.

The broader takeaway is that the commodity complex increasingly resembles a late-cycle inflationary environment: physical markets are tightening, costs are rising and supply remains constrained. The key risk is that these inflationary pressures eventually collide with a slowing global economy. Until then, the balance of evidence suggests that physical commodity markets remain stronger than financial markets currently recognise.

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