# Alphinity Concentrated Australian Share Fund

QUARTERLY REPORT – June 2026

## Still Dancing

### Market comment

Unfortunately for Prince fans, but perhaps fortunately for markets, we're not partying like it's 1999. We are, however, still dancing. It's 2026, this is the AI party, and nobody seems quite sure when to leave, if at all. The echoes of 1999 are hard to ignore: back then the Nasdaq doubled before the painful Tech Wreck of 2000. This time, though, the dance floor looks different. Rather than indiscriminate buying across any tech stock regardless of earnings, we are seeing a more nuanced rotation within sectors, splitting the AI winners, such as semiconductors, memory and power companies, from those forced to spend heavily on AI, or risk being disrupted by it.

Investors are increasingly asking whether the Hyperscalers can justify the extraordinary AI spend, and how long markets will tolerate falling cashflows while mega-cap Tech and Communications companies keep spending. The "Magnificent 7" looked more like the "Modest 7" in June as AI costs rose and memory chip shortages bit, leaving the group broadly flat for 2026. Power has shifted from the biggest index weights into the plumbing of the AI boom: Samsung, SK Hynix and Micron in memory, plus the data-centre developers. Elon Musk also launched SpaceX in the largest IPO in history, valuing it at USD1.8 trillion, or around 95 times 2025 revenue. A price-to-earnings lens is less useful when the "E" is a USD5 billion loss, but this is as much about buying the hope and the Elon factor as anything else. Who are we to judge? It is just a little tricky for our process, which still relies on earnings, preferably positive ones.

It has been a busy quarter when we are this far in and haven't spoken of Trump, the Middle East or the Aussie market. We may all be a little tired of the first two, so let's focus on the third. The ASX 300, including dividends, rose 4.2% over the June quarter, lagging the US (+14%), Europe (+8%), Japan (+11%) and China (+7%) in AUD terms. Over the quarter the biggest drag came from energy, banks and telcos.

As we moved into June there was a rotation out of commodities that saw them give up some of their previous gains. Normally weakness in Resources sends investors to the other end of the Aussie market barbell: the Banks. This time, the Banks couldn't quite lift the weight, underperforming over the quarter given concerns regarding the outlook for the economy, and hence credit risk, followed by the fallout from the Federal Budget and changes to CGT which has contributed to the slowing housing market. Capital instead found its way into an unusual mix of Consumer Discretionary, Healthcare, Diversified Financials and select Industrials, with a clear "buy the underperformers" flavour. Whether that trade has legs, or merely enjoys a brief bounce before earnings season, remains to be seen and will ultimately be driven by the earnings.

On the macro front, the Reserve Bank of Australia delivered a "hawkish hold", keeping rates steady after three hikes while making clear that inflation remains too high and further increases remain possible. Higher rates together with impact of the Federal Budget are already showing up in housing, where Sydney price falls accelerated in June and dragged national averages lower by the most in three and a half years. So, while markets are still dancing, the music has changed: AI is calling the tune offshore, commodities have lost some rhythm locally, and investors are once again trying to work out whether this is a durable rotation or just another quarter-end remix.

### Portfolio comment

The Fund underperformed its benchmark over the June Quarter. not owning CSL and overweight positions in property trust Charter Hall and contractor Ventia added the most relative performance. Holdings in milk products maker A2Milk, industrial pallet distributor Brambles and gold miner Newmont 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) | -0.8 | 1.2 | 3.9 | 10.6 | 7.7 | 9.9 | 9.8 |
| S&P/ASX 200 Acc. Index | 0.7 | 4.0 | 6.1 | 10.6 | 7.8 | 9.4 | 8.8 |

* 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, 30 June 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

The past financial year delivered no shortage of drama: US tariff escalation and de-escalation; one of the largest resources rotations in decades; an AI surge that triggered a "Saaspocalypse"; conflict with Iran that sparked an energy shock; and at home an inflation spike, rate rises and a significant budget and tax reform that dented consumer confidence and house prices.

If FY26 is anything to go by, FY27 will certainly be different — but probably not calmer. We saw a re-emergence of positive earnings revisions across the Australian market, driven mainly by the FY26 Resources surge, but FY27 looks set to start on a more precarious footing. Absolute earnings growth is still expected, though revisions are already turning negative across most sectors, with Energy, Resources and the Banks all facing near-term downgrades. The market's PE remains reasonable, although still above long-term averages, which could limit the risk of a broader de-rating.

A fragile peace agreement with Iran brought the oil price back to pre-war levels within days, as if more than 100 days of conflict — which shut one of the world's most important shipping lanes and triggered the largest oil shock in modern history — had never happened. We expected such an unwind to ease inflation and global growth concerns, giving further support to Resources leadership. Instead, hawkish comments from the new Fed Chair drove a stronger US dollar, pushing commodity prices — and the sector — down. Is this the end of the Resources trade? It's the critical question for us, and we suspect not, for three reasons. First, while we are not currency experts, we expect the US dollar to weaken over the medium term as energy prices fall and productivity improves, reducing the case for further hikes. Second, global demand/supply balances for commodities remains tight, with demand growth underpinned by electrification and the energy transition, and supply growth hampered by permit approvals, grade declines and depletion. Finally, and most importantly, spot prices — if they hold — still imply further earnings-surprise upside for some commodities, albeit less than a few months ago, which argues for a more moderate overweight. We also note that while the focus has been on the top line, rising costs from the war and inflation will weigh on earnings too, with much of the cost pressures still to flow through P&Ls.

At home more recently, the market has tried to rotate away from Resources into beaten-up names — small caps, healthcare, financials ex-banks, REITs and consumer discretionary — but without earnings support that rotation is likely to be limited in our view. A PE multiple can re-rate, but earnings need to follow for the move to have staying power. The rotation was reinforced by a more dovish RBA tone, read by some as taking further rate hikes off the table.

That may prove right, but the domestic consumer slowdown is gaining pace as three prior rate hikes, the budget and falling house prices weigh on confidence and spending. We don't expect a collapse — employment remains elevated and the consumer has proven resilient so far — but further headwinds lie ahead for the sector. That's not a good sign for discretionary retail, housing construction or the banks. The latter have lifted provisions and now face softer lending volumes from lower confidence and potential increased competition in mortgage lending. To date business lending has remained very robust.

In the US, the standout source of economic activity remains the AI-driven data centre boom. Australia offers less direct listed exposure to this theme, though it benefits indirectly through Resources and global data centre builders, and we are now starting to see the emergence of local NeoCloud players.

## Portfolio Positioning

Positioning the portfolio is not straightforward in this environment. It's too early to call with conviction whether earnings leadership will persist or rotate, so we remain focused on our bottom-up earnings insights, seeking quality stocks that are reasonably valued and undergoing positive earnings revisions. We remain open to small, opportunistic positions in stocks that have de-rated; those we believe are unlikely to disappoint - though these make up only a small fraction of the portfolio.

Our main moves over recent weeks have been to further reduce the Resources overweight, reflecting less earnings upside in the sector. Within that, we have gone further underweight gold and trimmed base metals and iron ore, while lifting our steel exposure. We have also further reduced our exposure to banks, insurers and telcos. These reductions have funded increases in USD discretionary names, a domestic NeoCloud player, diversified financials and defensive domestic discretionary exposures.

| Top five active overweight positions as at 30 June 2026 | Index weight % | Active weight % |
|---|---|---|
| BHP Group Limited | 11.3 | 2.8 |
| Newmont Corp | 0.4 | 2.7 |
| Ventia Services Group Pty Ltd | 0.2 | 2.6 |
| Charter Hall Group | 0.4 | 2.3 |
| QBE Insurance Group Limited | 1.4 | 2.3 |

| Asset allocation as at 30 June 2026 | % | Range % |
|---|---|---|
| Securities | 99.4 | 90-100 |
| Cash | 0.6 | 0-10 |

## BTW

**Demographics: The Slow-Moving Force Shaping Future Earnings**

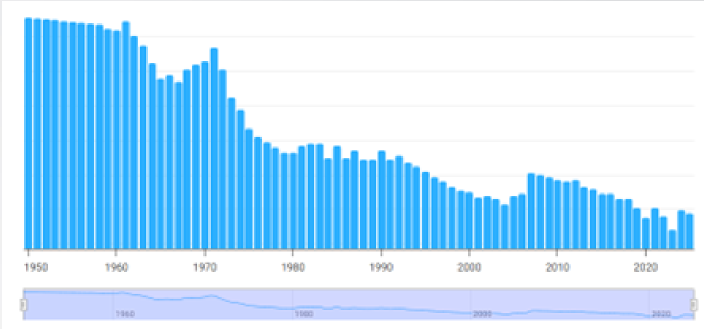
As investors, we spend enormous amounts of time debating interest rates, inflation prints and the latest AI breakthrough. Yet some of the most powerful forces shaping corporate earnings unfold over decades rather than quarters. Demographics rarely dominate financial headlines, but declining birth rates, ageing populations, urbanisation and changing standards of living can have profound implications for economic growth, labour markets and ultimately company profits.

While our investment philosophy centres on the belief that earnings drive share prices, the outlook for many companies is tied directly to these longer-term demographic trends. A current example is A2Milk, which derives a significant portion of its earnings from exporting infant formula into China. Aside from supply chain disruptions and product recalls that have impacted the broader industry over the years, a slowdown in both marriage registrations and birth rates in China creates a much more structural challenge for companies selling products aimed at young families.

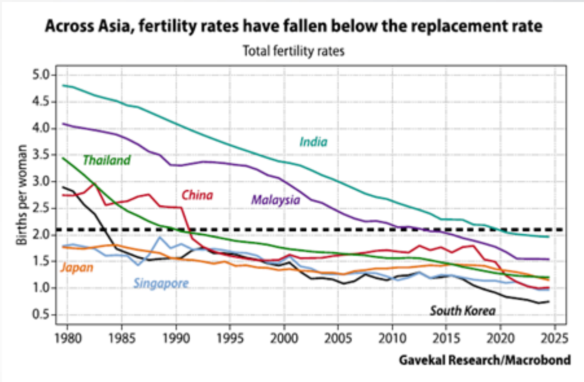
The chart below from Gavekal Research highlights a clear downward trend in both registered marriages and total births in China. The implications extend far beyond infant formula. Industries such as childcare, early childhood education, maternity services and even toy manufacturers face similar demographic headwinds.


The trend is not unique to China. The chart on top of the next column from Macrotrends shows Australia's birth rate declining from around 23 births per 1,000 people in the early 1950s to roughly 11 births per 1,000 people today.

**Australian Births per 1,000 People**




The next chart highlights how fertility rates have declined across much of Asia, with China showing one of the most dramatic falls.




There are many reasons behind these trends, but perhaps the most obvious is financial. Having children is expensive. We suspect there are very few parents reading this report who would disagree. Housing affordability, education costs and the general cost of living have risen significantly across much of the developed world. In China, these pressures have been compounded by a slowing economy, weaker property markets and a challenging labour market for younger workers.

China's demographic challenge is not simply that fewer babies are being born. It is that fewer babies are being born at precisely the same time as the working-age population is shrinking, property prices are falling and youth unemployment remains elevated. Unlike many Western nations, China cannot rely on large-scale immigration to offset demographic pressures. At the same time, it is rapidly becoming a global leader in automation and robotics. China now installs more industrial robots annually than many developed countries have in total operation. Smartphone giant Xiaomi recently unveiled a highly automated manufacturing facility capable of producing one smartphone every second with virtually no human intervention. [Xiaomi's Automated Smartphone Factory]

## BTW (Cont'd)

This raises an interesting question. Is automation solving China's demographic problem or creating a different one? As China's workforce shrinks, automation helps offset labour shortages and improves productivity. However, it may also reduce employment opportunities for younger workers entering the job market. Unfortunately for many Chinese graduates, they are caught between construction jobs that no longer exist, manufacturing jobs that are increasingly automated and service sector jobs that are yet to fully emerge.

One area still hiring aggressively appears to be food delivery services. It is not uncommon to see highly educated graduates taking jobs well below their qualifications simply to make ends meet. Last year, a record 12.7 million university graduates entered China's labour force, creating a significant mismatch between available white-collar positions and the number of applicants seeking them.

The result is a growing cohort of highly educated young adults struggling to establish financial independence. Some have embraced the concept of "Tang Ping", or "lying flat", which broadly refers to rejecting the relentless pursuit of career advancement, home ownership and consumerism. While the term has become a cultural phenomenon in China, many Australian parents might argue they have observed similar behaviour a little closer to home.

Japan offers another fascinating demographic case study. If China represents a demographic challenge in progress, Japan provides a glimpse into what many developed economies may look like in the future. And to be honest, Japan has proved many sceptics wrong: those who believed Japan was doomed due to its demographic shifts and immigration policies. The country was also stuck in a deflationary spiral.

Japan combines one of the world's lowest fertility rates with one of the highest life expectancies and relatively low levels of immigration. The country's population peaked in 2008 and has been gradually declining ever since.

Unlike many governments, Japan has not been shy about experimenting with policies aimed at encouraging romance, marriage and childbirth. Various local governments have launched matchmaking initiatives, and more recently the Japanese Government has even supported AI-assisted dating applications designed to help people find partners.

Nothing quite says romance like logging onto a government-sponsored dating app to find your future spouse.

Australia has had its own attempts at boosting birth rates. In the early 2000s, former Treasurer Peter Costello famously encouraged Australians to "have one for Mum, one for Dad and one for the country".

The Federal Government subsequently introduced a baby bonus scheme, providing lump-sum payments to new parents.

Despite the humour and occasional eccentricity surrounding these policy responses, the underlying issue is a serious one. Demographics matter because economies ultimately depend on people. How many people there are, how long they live, how much they earn and how they choose to spend all influence long-term economic growth.

For investors, demographic change creates both winners and losers.

Companies exposed to declining birth rates may face structural headwinds. Infant formula producers, childcare providers, early education businesses and manufacturers of children's products may all find themselves competing for a shrinking customer base.

At the same time, ageing populations create opportunities elsewhere. Healthcare providers, pharmaceutical companies, aged care operators, retirement village developers and wealth managers are all likely to benefit from growing numbers of retirees. Businesses

involved in robotics, industrial automation and productivity-enhancing technologies may also prosper as countries attempt to offset shrinking workforces.

Importantly, demographic decline does not automatically imply economic decline. Japan demonstrates that ageing societies can maintain high living standards through productivity improvements, automation and technological innovation. The challenge is not simply having fewer people; it is maintaining economic output with fewer workers.

Demographic trends are often overlooked because they move slowly. Unlike inflation or interest rates, they rarely trigger dramatic market reactions or dominate nightly news bulletins. Yet they may prove far more important for long-term investors than many of the issues that currently command market attention.

Central bankers can adjust interest rates. Governments can introduce stimulus packages. Markets can recover from recessions. Reversing demographic trends, however, has proven far more difficult.

For investors willing to look beyond the next quarter, understanding where populations are growing, ageing or shrinking may provide valuable clues as to where future earnings opportunities — and risks — are likely to emerge.

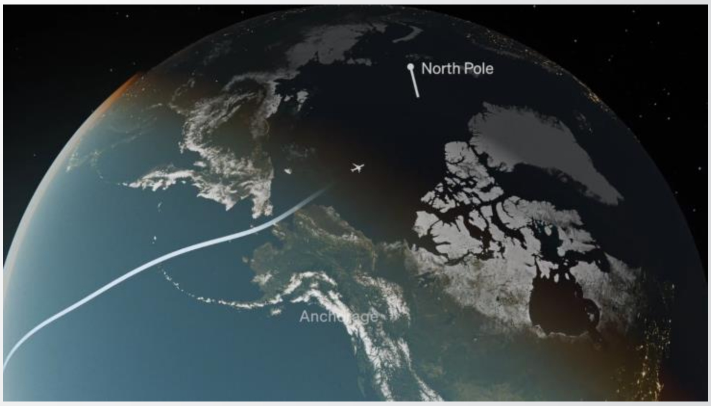
## Travellers Tale: Kangaroo Route, Uninterrupted

In 1943, Qantas's Catalina flying boats used to navigate the blacked-out wartime skies between Perth and Ceylon (now Sri Lanka) by the stars — a 30-hour crossing so long it produced two sunrises in a single flight. Eighty-odd years later, the aircraft Qantas took Stuart to see — at the Airbus factory in Toulouse, where fuselage sections, wings and tails arrive from factories across Europe aboard the distinctive Beluga transport aircraft and are pieced together like a giant Meccano set — is named Vega, after one of those same navigational stars. The tyranny of distance hasn't gone away but Qantas has found a much better aircraft to tackle it.


Project Sunrise — the ultra-long-haul A350-1000 program — goes on sale in February 2027, with the first flights in October. It will fly Sydney direct to London and New York, no stops, at up to 21 hours in the air. That's considerably shorter than the original Kangaroo Route, which took four days and seven refueling stops when it launched in 1947 aboard a Lockheed Constellation. Every generation of aircraft since has clipped a leg off that journey; Sunrise is simply the latest instalment, and reportedly the last one physics will allow for a while — Qantas Engineering told us there's no retrofitting bigger fuel tanks into other A350s, so this configuration is a one-off.


There's also a more prosaic case buried in the schedule itself. Another advantage of flying direct has less to do with the stopwatch than the body clock. A one-stop journey means a broken night wedged into a transit lounge somewhere; a direct flight means you can sleep straight through in something closer to the time zone you're landing into. Qantas has leaned into that with a "well-being zone" for stretching mid-flight and an app that tells you when to eat, sleep and dim the light for days either side of the trip, timed to nudge your body clock toward the destination. It's a small thing, but the research behind it — done with the University of Sydney's Charles Perkins Centre — suggests travellers should genuinely feel less wrecked landing in London than they would via the old Singapore or Dubai stopover.

The flight planning has its own quiet sophistication. Qantas's Constellation system — ten years in development with the University of Sydney and not licensed to anyone else — claims to beat rival flight-planning software by ten minutes on long-haul routes. One reason: a North Polar path over the top of the world, which Qantas can now use thanks to ETOPS — the rule that governs how far a twin-engine aircraft is allowed to fly from the nearest suitable airport, in case an engine fails mid-ocean. Modern engines have proven reliable enough that regulators have steadily relaxed the old diversion-time limits, from 60 minutes to 370, which effectively opens polar and other remote routes that were previously off-limits.




In Northern winter, when the jet stream sits low, roughly a fifth of flights will go straight over the pole and approach London from above Scotland; the rest take the traditional route. It's reassuring to know the aircraft still carries polar survival kits, just in case the 370-minute buffer isn't quite enough. Either way it beats the Catalina's approach of squinting at Vega through a cockpit window.

## Travellers Tale: Kangaroo Route, Uninterrupted

The commercial logic, when you step back from the sleep labs and star charts, still leans on geography rather than gadgetry. Thirteen of the world's twenty most-travelled city pairs requiring more than 17 hours of flying touch Australia or New Zealand — simply a function of being about as far from everywhere else as it's possible to be. Qantas's argument is that no competitor has the traffic rights, scale or home-market premium base to profitably replicate Sydney–London or Sydney–New York non-stop — even as Airbus reportedly shops the same aircraft around to other carriers. The thing that's made Qantas's life hardest for a century is now the thing Qantas hopes will distance it from competitors.

We spend a good part of the year on planes meeting the companies we invest in, so we're not shy about admitting a vested interest here. Four days and seven stops has become one leap — Sydney to London in a single bound, courtesy of the Flying Kangaroo. We're hopeful the jet lag will shrink along with the journey. Vega, and whatever comes after it, can't get here soon enough.

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