Alphinity Concentrated Australian Share Fund

MONTHLY REPORT – July 2026

When the Chips are Down…

Market comment

….sell more Chips. Momentum has undoubtedly been the strongest factor in markets, but it works in both ways, and we saw the meteoric rise in AI Chip related stocks unwind sharply in July. The sell-off saw the index of Semiconductor stocks in the US fall 21% last month, but was driven more by positioning rather than any deterioration in earnings or lack of chip demand. In fact, earnings in memory and AI infrastructure stocks continue to grow and beat expectations. Further exacerbating the momentum unwind within this specific cohort of Tech stocks, was the de-leveraging from speculative retail investors that have piled into double leveraged ETF products on memory stocks like SK Hynix in South Korea. To put these moves in perspective, SK Hynix is still up 630% in 1 year, and that's including the 35% decline last month. Similarly, with the broader US Semiconductor Index, this has fallen 30% in July but it is still up over 211% in 12 months. If this wasn't enough to digest, markets had one more surprise at the end of the month when a US Hedge Fund levered to AI stocks was forced to liquidate holdings to satisfy nervous banks' collateral requirements. Perhaps this was the clearing event that AI stocks needed, and well played Citadel for picking up that Hedge Fund's basket of stocks at a nice discount!

The AI-related weakness led to underperformance in US shares (-1.75%) which in turn drove down the MSCI World index (-1.2%) in AUD terms. Emerging Markets were notably weaker as the fortunes of Korea and Taiwan reversed given their high concentration to semi-conductor related stocks. Given that backdrop, Australia performed relatively well, with our benchmark S&P/ASX 300 index (including dividends) gaining 2.1% in July. Having a larger exposure to Energy and Financials in our index (and of course less AI) were the main reasons for the outperformance. Domestically, Energy (+12%), Financials (+6%) and Healthcare (+2%) were the best sectors, while Technology (-5%), Industrials (-1.4%) and Materials (-1%) were the weakest. At the stock level, energy stocks were the big winners with Financial Services stocks also performing well like HUB and AMP. Gold and lithium stocks dragged the market lower.

Commodities were mixed in July, with oil prices surging higher (Brent Crude futures +20%) while iron ore continued to weaken, dropping 3.5% last month, and is down around 15% from its recent USD106 highs in early May. Gold prices stabilised in July, rising 1% but has fallen over 20% since recent highs at end of February.

The macro picture was a touch more constructive in Australia, with June CPI (Consumer Price Index) coming in a bit less than expected (YoY CPI was 3.8% versus 4.0% expected) which took a little pressure off the RBA to hike rates. This had the effect of reducing bond yields slightly into month end, but the yield on the Aussie 10 year bond still rose 21 basis points to 4.97%. Australia also added more jobs than expected in June, which put more pressure on yields. In the US, bond yields are doing a similar thing, with their 10 year bond jumping 26 basis points to 4.74%. Rising bond yields, both in Australia and in the US, is also helping to dent valuations and put further pressure on expensive stocks. In contrast, the yield on Greek 10 year bonds is over 100 basis points lower at 3.84%. Its hard to imagine getting Greek debt being valued less risky by 100 bps compared to Australia or the US! In fact, bond yields on most European countries are now much lower than Australia. We've come a long way from the PIGS (Portugal, Italy, Greece, Spain) Sovereign Debt Crisis post the GFC where these countries were bailed out by the ECB (European Central Bank) in a "whatever it takes" moment. Perhaps Australia needs some austerity measures of its own…Albo?

Portfolio comment

The Fund outperformed its benchmark in July. The biggest contributions came from oil refiner Ampol, financial platform service provider HUB and avoiding rare earths company Lynas and lithium producer PLS Group. Holdings in contractor Ventia, aluminium producer Alcoa and an underweight position in CBA 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)	2.4	3.5	3.9	10.8	7.8	9.5	9.9
S&P/ASX 200 Acc. Index	2.3	4.1	6.0	10.4	8.0	9.0	8.9

* 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 Jul 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

It is surprising just how often the advice to "turn it off and on again" fixes things. Nothing like a good old reset to clear out any issues. Turning 'off' FY26 and 'on' FY27 however has failed to restore markets into any sort of stability just yet. Quite the contrary. All we got was a lot of 'off' and 'on' during the month of July, but very little actual solutions.

- The Iran war went from 'off' to suddenly 'on' again (then off again?), causing swings in Energy prices and overall sentiment, but the market is largely wanting to look through that for now.
- The AI trade was very 'on' and then very 'off' causing a lot of market volatility, especially in Korea! That said, the evidence suggests that AI infrastructure build continues globally at a hectic pace, and outlooks around capex are being increased, not cut.
- Commodities, which are Australia's main proxy AI exposure (through the commodities needed to build the infrastructure such as data centres, and electrification), and which had been 'on' for much of the last year, followed the AI trade and the renewed Middle East concerns and went to 'off' mode. Earnings leadership here is very much fragmenting, and a commodity-by-commodity and company-by-company approach is required.
- Our small Tech sector also followed the global AI trade down – regardless of any actual AI exposure. Eventually there will be differentiation, but it may take time. We prefer to be in the more defensive end of tech, with a dash of direct AI exposure where we see value and better than expected growth.
- Banks were 'on' after being 'off' since the war broke out, despite rate rises, and Federal budget headwinds impacting the housing market. The 'on' was triggered by regional flows that were redirected out of places like Korea, given the AI melt down, searching for a safe place to hide. That can easily reverse, so it's hard to bake that momentum in longer term. Underlying bank earnings are rolling over after a long period of consistent upgrades – no cliff, but a clear change in trend that likely puts them in the 'off' bucket.
- Energy was also 'on' as Middle East uncertainty reignited. Where that goes no one knows, but you'd have to think enough uncertainty will remain to keep some risk premium in the price going forward. We aren't inclined to place a bet materially either way here unless valuations really get out of kilter.
- While interest rate rises seem to be 'off' the table for now in Australia, the rate rise potential in the US seems more 'on' than people expected. The outcome is higher long bond yields and the flow through to growth company valuations being more vulnerable. The trend of the last year therefore continued with growth 'off' but value 'on.
- The domestic economy turning 'off' could disrupt that trend locally. While there is much debate about inflation and rates, the consumer is clearly under increasing pressure. The low unemployment rate vs historical standards, however, means a consumer cliff in activity is unlikely for now.

However, either a marked deterioration in housing (wealth effect) or an inflation lift leading to more rate rises (which we wouldn't dismiss later this year), would test local enthusiasm for a turnaround. If the US lifted rates, we think that would also test markets. Neither growth nor value would likely be a hiding place then.

What all of this means from an earnings point of view is also a bit mixed. Australian earnings revisions have turned very much 'off' right across the board, as the domestic economy slows and risks grow. On the other hand US upgrades are 'on, on, on'. There is a very stark divide between the two economies. The AI trade isn't just hope, it is based on earnings going up as well, and the spillover effect in the broader US economy for now (we'll think about actual returns later, apparently) as reflected in record PMIs (Purchasing Managers' Indices). We have some of that spill over in Australia, but nothing to the degree you see in the US. It seems to us that offshore earnings exposure is likely more desirable at the moment than domestic, if you can find it at reasonable valuations.

August reporting season will set the scene in Australia, earnings wise. We suspect the actual results, being backward looking, will only tell us a little, but the outlooks will reveal a lot. Expectations in Australia are for absolute earnings growth nearing 9-10%. That seems heroic and will require commodities to pull more than their fair share of weight, given banks are rolling over. As we've seen more lately, commodity upgrades are also running out in many cases. The Australian market therefore is largely being carried again by the US market outlook, which is more positive earnings wise, but there is fading fundamental support here should that falter.

Portfolio outlook

Reporting season will further inform the outlook for company earnings, and therefore portfolio positioning. We are in that uncomfortable part of the cycle where limited earnings revisions make broad stock differentiation based on earnings more difficult. That said if you can find the limited earnings upgrade stocks you are likely to be well rewarded. We expect a similar trend to the last few reporting seasons to remain, whereby it will pay handsomely to avoid the 'bombs'.

We continue to position the portfolio with an earnings focus. While we have continued to go a bit more underweight the banks on growing earnings risks, we maintain an overweight to other parts of Financials that are seeing upgrades or at least defensive earnings, such as Insurance. In Commodities, while we have taken some of the overweight down, we remain in areas we see earnings upgrades or resilience, such as copper and steel.

As we remain cautious on the domestic consumer, we remain underweight that sector, although we have looked to add offshore exposure where we see more resilience. Healthcare, by and large, remains a tough sector to find any earnings conviction. Valuations may be more appealing, but without something to back that up we struggle to get excited.

In Technology, while we see some strong earnings upside and decent valuations, they remain at the near-term whims of the global tech sector moves (not small!). Our positions have high earnings conviction and are at the more defensive end of tech. We have some AI exposure through the more infrastructure plays (e.g. data centre development, neo-cloud), but overall, we are positioned reasonably neutral for now.

Idiosyncratic stock stories with strong earnings outlooks, are the core of the portfolio and will be the main driver of performance going forward.

Top five active overweight positions as at 31 Jul 2026	Index weight %	Active weight %
Aristocrat Leisure Limited	1.4	3.0
Wesfarmers Limited	3.7	2.9
BHP Group Limited	11.3	2.9
Charter Hall Group	0.4	2.6
Macquarie Group Ltd	3.3	2.4
Asset allocation as at 31 Jul 2026	**%**	**Range %**
Securities	98.8	90-100
Cash	1.2	0-10

BTW

One of the most common questions being asked across the investment community is not whether AI is a bubble, but when it pops — and what the popping actually looks like. On the first point, we won't pretend there is no froth. There clearly is. But we do not think the most likely outcome is one spectacular AI market detonation that takes everything down with it. Instead, the evidence so far points to a series of smaller "pocket bubbles" bursting as markets slowly digest the scale, cost and the 'winners-and-losers' nature of AI disruption.

We have already seen the "SaaS-pocalypse", where software stocks were roughed up on fears that AI would eat their lunch and their margins. More recently, the hyperscalers have come under pressure as investors question the vast sums being poured into AI infrastructure and worry about declining free cash flow. And more recently still, the AI chipmakers themselves have sold off sharply, driven in large part by an unwind of speculative positioning rather than a sudden collapse in long-term AI demand.

The latest tremors have been particularly interesting because they have come from a place US investors are not used to taking direction from: South Korea. Normally, US investors wake up, give overseas markets a polite yawn, scroll through a few headlines, and then return to the main character — themselves. Yet recently, attention has shifted to two Korean AI-related giants: Samsung Electronics and SK Hynix.

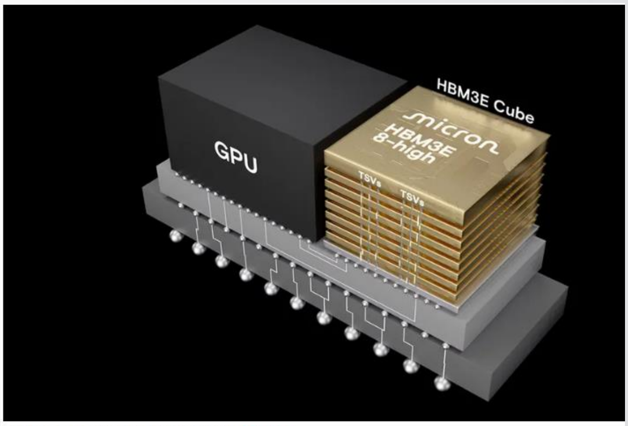
Moves in these two stocks during Asian trading hours have increasingly set the tone for how some of the world's biggest AI names trade in the US — a market that opens roughly seven hours after Asia has closed. It is a slightly odd role reversal.

What has made this even more intriguing — and perhaps another small step toward 24-hour trading — is that SK Hynix recently listed in the US. So now investors can ride the roller coaster for almost the entire day, with only a short window to eat, sleep and question their life choices. Last month, there were days when the local SK Hynix line closed down around 15%, while the US listing closed up more than 10% on the same day. Does Asia take the US lead, or is the US now following Asia? Is the tail wagging the dog, or has the dog simply started chasing itself around the lounge room?

The obvious question is why these stocks have become so volatile. SK Hynix has a market capitalisation of around USD790bn, while Samsung Electronics is valued at roughly USD1 trillion — at the time of writing and subject, apparently, to change by the minute. They are easily the two biggest companies in South Korea and together account for more than 60% of the MSCI Korea Index. To put that in an Australian context, SK Hynix is around four times the size of CBA or BHP. It is almost impossible to imagine either of those stocks moving more than 10% in a day on a regular basis. Then again, perhaps that is why nobody has yet launched a triple-levered BHP roller coaster for the family market.

The reason lies in what these companies actually make. They are not just "tech" stocks. They are not even just "AI" stocks. They are memory stocks. More specifically, they are exposed to the memory required to make AI computing work at scale.

Traditional DRAM — Dynamic Random Access Memory — is the classic "working memory" found in computers and has been around since the birth of the PC. But the rise of large language models and AI more broadly has changed memory demands. This has created enormous demand for HBM, or High Bandwidth Memory, which is similar in purpose to DRAM but packaged very differently.



HBM3E Technical Illustration; Source: Micron

The key advantage of HBM is speed. Its packaging allows data to move much faster between memory and the chip processor — such as an NVIDIA GPU — which is exactly what AI accelerators need. SK Hynix currently dominates HBM, with around 62% market share according to Astute Group. Only two other companies, Samsung in Korea and Micron in the US, can supply HBM at scale. That scarcity explains why all three stocks soared to dizzying heights — at least until last month's correction reminded everyone that gravity remains undefeated.

That explains the excitement. It does not fully explain the violence of the daily moves. For that, we need to enter the slightly unhinged world of double- and triple-levered single-stock ETFs. These products allow investors to achieve two or three times the exposure to an individual stock. By design, they tend to chase whatever is hottest. If an 80% rise in a share price is not exciting enough, why not add leverage and see if your blood pressure can outperform too? What could possibly go wrong?

BTW (Cont'd)

Quite a bit, as it turns out. The largest single-stock levered ETF in the world is linked to SK Hynix, while the largest in the US is linked to Micron, the American competitor to SK Hynix. In other words, there is far more leverage tied to the AI trade than the headline ownership numbers suggest.

The investor base matters too. In Korea, around 93% of ETFs are owned by retail investors. In the US, the proportion is lower but still around 75%. That is an extraordinary amount of retail leverage. Mums, dads and students have made out like bandits by gearing up and riding the AI wave. But when the wave turns, some of these same investors become forced sellers, needing to meet margin calls and collateral demands from increasingly nervous banks.

High Bandwidth Memory (HBM) Semiconductor

This is where a new "short gamma" dimension enters the chat. It sounds like something from a low-budget sci-fi film, and we will spare everyone the full derivatives lecture, but the practical effect is simple: some strategies are forced to buy more as prices rise and sell more as prices fall. That mechanically amplifies moves in both directions.

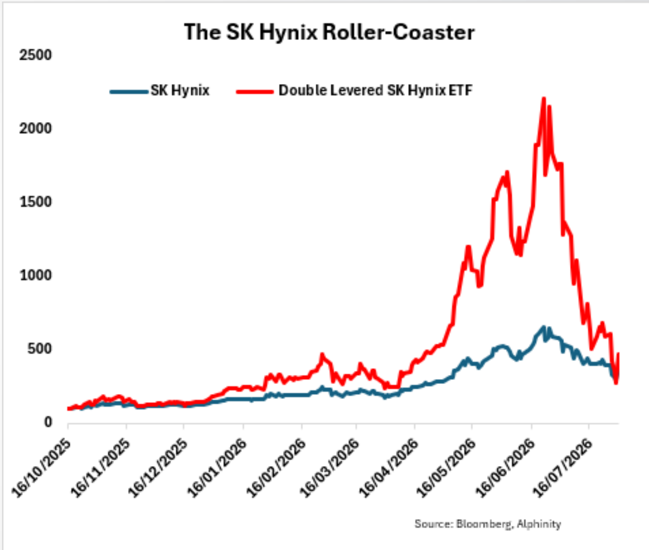
Of course, markets are not made up of only one type of investor. There are plenty of participants running the opposite style of strategy — often described as "long gamma" — where they sell into rising markets and buy into falling ones, which can help dampen volatility. The problem emerges when the balance tilts too far toward leveraged and short-gamma strategies. At that point, the market stops absorbing shocks and starts throwing them back with interest.

Advertising the double levered "CSOP" SK Hynix ETF on a finance bro vest. Perhaps this was a "ring the bell" moment?

Source: Citi

A simple example helps show how this works.

Say you buy USD1m of a triple-levered ETF on Nvidia. The ETF provider then obtains USD3m of exposure to the underlying stock. If Nvidia falls 10%, that exposure falls from USD3m to USD2.7m. But the loss comes out of your original USD1m investment, so your investment falls to USD0.7m — a 30% loss. To maintain triple leverage, the product now only needs USD2.1m of exposure, because USD0.7m multiplied by three equals USD2.1m. Yet currently you are sitting on USD2.7m of exposure, meaning the ETF is mechanically forced to sell USD0.6m of stock. In other words, a USD0.3m loss for the investor can create USD0.6m of forced selling in the underlying stock. The bigger the move, the bigger the mechanical selling or buying. That is the danger embedded in these products, and it goes a long way to explaining why parts of the AI trade have recently looked less like an orderly functioning market and more like a Luna Park ride with a margin loan attached.



Travellers Tales

London insights from the ESG team

Jas from the ESG team spent a few days in London recently, dashing between broker offices, jumping on and off the Tube so often she started to feel like a local! The trip coincided with the tail-end of London Climate Action Week, so climate resilience and adaptation were front of mind everywhere they went, alongside the growing overlap between the energy transition and energy security. Recent geopolitical tensions have underlined just how important energy sovereignty is, and renewables are increasingly seen as key to delivering it. Policy support across Europe continues to back this up, with investment flowing into grids, storage and low-carbon infrastructure at a scale that's still building.

Climate resilience was a big talking point too, helped along by a stretch of extreme heat in London during the conference itself. Nothing quite sharpens a room's focus on physical climate risk like sweating through it in real time. There's growing recognition that adapting to a changing climate, not just reducing emissions, needs serious attention and investment. Insurance came up often as an early warning sign, with premiums rising as rebuilding costs climb. It's a space we expect to hear a lot more about over the coming years.

Data centres were a recurring theme across almost every meeting, and water use is fast becoming one of the more interesting angles to watch. The big hyperscalers are taking quite different approaches here, reflecting the trade-offs between water and power use in how they cool their facilities. Some are leaning hard into closed-loop, low-water designs, while others are more willing to use water if it helps manage energy use and emissions. Where these data centres are being built matters too, since a lot of new capacity is going up in places already under water stress, and local communities are increasingly pushing back. We heard a few real examples of projects being delayed or reworked because of this kind of local opposition, so it's clearly moving from a theoretical risk to a practical one.

Defence was another highlight, and a theme they spent a good chunk of time on given the sector's complexity. Sustainable funds are becoming noticeably more comfortable holding defence exposure than they were a year ago, with more of these funds adding names in this space. The mechanics of how ESG-labelled funds treat defence haven't changed much in the past year, but there's a genuinely new conversation emerging around autonomous weapons, like drones, and the lack of any real international rules governing them. This sits less comfortably with sustainability-minded investors than traditional defence exposure does, and it's an area we expect to keep hearing more about.

Across all of these value chains, from defence through to renewable energy and battery production, human rights risk remains top of mind for investors. On the defence side, we're seeing better disclosure on human rights due diligence, including more formal processes for reviewing sensitive deals and dedicated committees to oversee it. It's a similar story in renewables and batteries, where the push for a faster energy transition is increasingly being weighed up against the human rights conditions in the supply chains that make it possible. It's an area we remain actively engaged with companies on. Cyber security also featured heavily in our discussions and is another priority engagement area with portfolio companies. It remains one of the top risks on investors' minds globally, with spending in this space expected to keep climbing this year. Interestingly, the way artificial intelligence is changing the cyber landscape isn't so much about new types of attacks, but more about making existing ones faster and easier to carry out at scale.

Finally, Jas picked up an interesting thread on consumer trends, with growing demand for resale, second-hand fashion and off-price retailing. We do see this as a genuine sustainability story, and it's prompted us to do more work looking at sustainability across the apparel sector more broadly, weighing up the genuine need and utility of affordable clothing against the waste and resource intensity that comes with the industry. It's a nuanced area, and one we've spent a fair bit of time digging into.

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