Alphinity Concentrated Australian Share Fund

MONTHLY REPORT – August 2026

Yield Pressure

Market comment

August is all about earnings. US and European companies reporting their Q2 earnings intersect with Aussie companies reporting their FY26 numbers. It's usually a month where company fundamentals drive market moves more so than the macro, although we had plenty of macro to contend with also! Rising bond yields, sticky inflation, and generally strong economic data meant there was upward pressure on bond yields in Australia, the US, Europe and Japan. We saw the US intervene in both Japanese FX markets and the US bond market in an effort to defend a weaker Japanese Yen and to help contain rising US bond yields. Intervention has a long history of not working. Market forces usually win out. Indeed, it felt that way in these two recent examples, but time will tell.

Momentum returned to the US, with the S&P 500 index rising 2.6% (USD) which helped drive global markets higher (MSCI World +2.5% USD). Europe was relatively weaker (+0.3% EUR), while Emerging Markets rebounded with Taiwan and Korean Tech stocks recovering from the AI / semiconductor sell-off the month prior. Our market also held gains, with the S&P/ASX 200 index (including dividends) rising 1.6%. The performance leadership within the Aussie market was driven more by a sharp value rally and momentum unwind, in contrast to the US where momentum actually came roaring back (after experiencing its own momentum unwind the previous month).

In terms of company results, while the US had one of its strongest reporting quarters in history, Australia's FY26 results could best be described as ”not as bad as feared”, driving a relief rally. While our market beat aggregate earnings forecasts in FY26, there were net downgrades in estimates for FY27. Looking at sector performance in Australia, the beaten-up Healthcare sector was the best performer, rising 18% as a group and mostly driven by a 40% rally in CSL. The CSL move was largely due to positioning and the scramble to cover underweights: the company is still getting earnings downgrades! Outside of the Healthcare rebound, sectors reacted to rising yields with Consumer Discretionary (-7.5%) and Property Trusts (-6.9%) the weaker performers as the market braces for more rate hikes. Banks were sold (-7.3%) and capital flowed into Materials (+12%).

Commodities strength was driven by a spike in oil prices, with no resolution to the Middle East conflict. Oil futures climbed 7% last month to USD90.5/bbl. Iron ore prices rose, although last month Chinese steel production has continued to decline y/y, sitting near multi-year lows with mill margins under pressure from elevated coal costs. Lithium stocks rallied despite volatile spot prices last month, while Aluminium and Copper trading on the LME (London Metal Exchange) both rose 1-5%.

There was a lot going on in bond markets, with rising yields given a solid economic backdrop and inflation that's a bit stickier than wanted. The newish US Federal Reserve Chair Kevin Warsh was brought in with the expectation from Trump that he would lower rates. He has thus far proven to be a Fed Chair who stands for inflation-fighting first with less reliance on forward guidance. At his first Jackson Hole address, Warsh recommitted to the 2% PCE (Personal Consumption Expenditures) target, called July's 3.7% reading “concerning,” and argued inflation is unlikely to return to target on its own — hinting rates may need to rise. In a way, Fed Chair Warsh undid what US Treasury Secretary Scott Bessent tried to do in his bond market intervention where he doubled the purchase of US Treasuries in an attempt to lower longer-term bond yields. The US has a tight labour market with strong manufacturing and services PMIs (Purchasing Managers' Indices), conditions that usually warrant tightening. Market forces usually win over intervention sugar hits.

In Australia, we also had to contend with rising bond yields with the market expecting a rate hike at the RBA's November meeting, despite the softening housing market. This year's rate hikes have impacted home buyer sentiment and together with the fallout from the May Federal Budget have led to materially lower auction clearance rates. However, inflationary pressures remain as the higher costs of packaging and freight flow through the economy.

Portfolio comment

The Fund underperformed its benchmark in August. The biggest contributions came from gold miner Newmont, lithium producer Independence Group and an underweight position in CBA. Detracting from returns was no exposure to CSL, and holdings in Property Trust Charter Hall and retail conglomerate Wesfarmers.

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)	-0.5	1.1	0.2	10.5	7.3	9.6	9.9
S&P/ASX 200 Acc. Index	1.5	4.5	4.4	11.2	7.8	9.4	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 August 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

As Australian investors, we face a stark contrast in economic backdrop: a booming US market versus a pedestrian Australian economy. The US reporting season was one of the strongest on record and the AI story remains the main earnings driver, propelled by huge capital investment, but the tide has lifted and pleasingly broadened out to other sectors. Earnings growth is running at an impressive ~25% for the calendar year, with upbeat guidance. Contrast this with mid to high single-digit earnings growth in Australia, where most of the upside up until March was driven by Resources and Banks. Since then, revisions in both sectors have contracted, with no other sector picking up the earnings leadership baton. The August reporting season saw three outlook downgrades for every two upgrades – a stark contrast indeed.

The lucky country simply doesn't have the same leverage to the AI thematic as the US. Here, the benefit flows mainly through the Resources needed to build data centres and support the energy transition, with a much smaller contribution from a handful of Data Center developers and emerging neocloud players.

Since the start of the war with Iran, no sector in Australia has been carrying the market on positive earnings revisions the way Resources and Banks did up until March. Since then, higher inflation and energy prices, a higher rate outlook, an unhelpful budget and falling house prices have all combined to pressure the domestic consumer.

With no clear sectoral earnings leadership and a challenged domestic backdrop, the market has responded in two ways: backing sectors and companies leveraged to global economic strength (Resources), and rotating out of previous winners (Financials, REITs) into beaten-up stocks (Consumer Discretionary, Healthcare). We flagged recently that this second bet only pays off if earnings have genuinely troughed. The reporting season suggests they probably haven't for discretionary consumer stocks, as shown by weak trading updates for the start of the new financial year. However, they may have for some parts of healthcare (which tend to be a more idiosyncratic story in Australia), where revisions didn't turn positive but were at least less bad than feared. The former sector sold off sharply; the latter surged.

With another rate hike expected here and consumers pushing retailers toward more discounting, we don't think this is the right time to lean into discretionary consumer exposure, nor to be heavily exposed to REITs. We do, however, see reduced downside risk in healthcare and have positioned accordingly.

Banks are under increasing earnings pressure, as lower lending volumes intensify competition and squeeze net interest margins. We are not concerned about bad debt levels while unemployment stays low; the New Zealand experience shows that a significant lift in underwriting standards provides a meaningful downside cushion.

Elevated expectations from the last commodity price boom have set a higher bar to beat for Resources, though opportunities remain, and the setup has become more favourable of late — a softer US dollar, a reset in expectations, and firmer spot prices are all working in the sector's favour. We do still see upside in base metals and steel. Gold, given the US fiscal deficit and debt level, justifies exposure in the portfolio.

Energy remains tied to the resolution, or lack thereof, of the Strait of Hormuz. Has the market grown too complacent, getting used to the boiling water? It's hard to see the temperature coming down, but it has to, given how low strategic reserves have fallen. If it doesn't, this is a considerable global economic risk.

The dynamics of higher-for-longer inflation, along with long-term US yields, bear close watching — will they slow the economy down? Another risk to keep on the radar.

Whilst we observe and comment on the macro backdrop, our portfolio construction is built from the bottom up, stock by stock — the sector views above provide context, not a top-down decision-making framework. That said, the absence of clear sector leadership and the market's zigzagging in search of the next big thing make for a noisier backdrop than we'd like. We see this as temporary, while the dust settles and new trends emerge. Fortunately, our bottom-up research continues to uncover attractive companies with idiosyncratic earnings upside across almost every sector, and a few names from our watchlist were confirmed during the reporting season.

Portfolio outlook

The August reporting season was intense and information rich. We analysed the numbers, tracked trends and changes, and — importantly — met with management across most of the ASX150. This gives us strong confidence in our current positions, each of which we see offering quality earnings and valuation upside.

While our alpha capture fell short of expectations in August, our earnings beat rate was among our highest ever. Sticking to this anchor, we know, pays off over time. We have taken some new positions in companies from our watchlist that delivered a better result for the first time in a while — confirmation they've passed the six o'clock mark. These span Materials, Healthcare and Financials.

Overall, we added to Staples positions that benefit from an inflationary environment and consumers' propensity to eat at home and selectively topped up existing Resources positions where we believe the story continues to improve. We reduced our Healthcare underweight acknowledging the improving earnings path for some. We funded these additions by further trimming our late-cycle Insurance exposure — even though it benefits from rising yields — and moving more underweight Banks, which despite reasonable valuations are now in earnings downgrade mode. We also trimmed some REIT exposure, as we believe the macro-outlook remains a headwind. We remain neutral oil & gas producers, but hold a long exposure to refiners, which benefit from the product shortages linked to the destruction of refining capacity in Russia and the Middle East.

A few of us are travelling this month (China, US) to meet with portfolio companies and competitors — a valuable way to gather the additional insights that make the difference.

Top five active overweight positions as at 31 August 2026	Index weight %	Active weight %
BHP Group Limited	12.2	3.2
Newmont Corp	0.5	2.9
Aristocrat Leisure Limited	1.3	2.8
Macquarie Group Ltd	3.2	2.6
Charter Hall Group	0.3	2.1

Asset allocation as at 31 August 2026	%	Range %
Securities	98.8	90-100
Cash	1.2	0-10

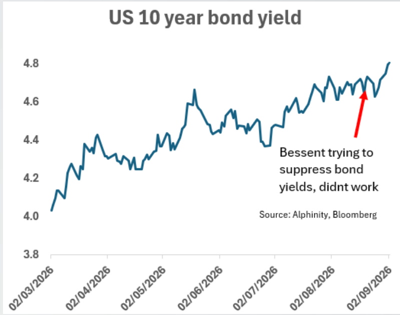
BTW

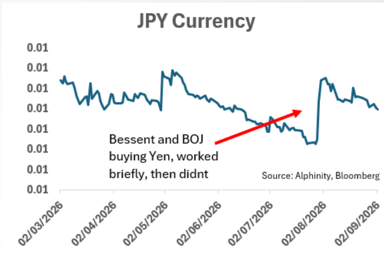
Bessent's Bond Buying Bazooka

US Treasury Secretary Scott Bessent has been on a bit of a buying spree recently. At the end of July, Bessent was in a cabinet meeting with Trump at Camp David and this photo was taken over Bessent's shoulder. The viral photo shows Bessent's "To Do" list on his official Camp David notepad. It then clearly shows (despite the scribble) "Buy Japanese Yen - $5-10bn". That's quite the shopping list. And its been quite the month for the 79th Secretary of the US Treasury. Not only did Bessent engage in a joint currency intervention with Japan to try and stop the collapsing of the JPY (which recently hit a 40 year low against the USD), he also embarked on a bond buying program where the US will double its purchases of long dated Treasury bonds. The decision to increase the bond buyback from USD2bn to at least USD4bn was an attempt to try and contain rising interest rates and attracted some criticism (as did the JPY FX intervention) around the effectiveness of such strategies.

The issue with intervention of any kind (whether it be the bond, FX or equity market) is that they all follow the same general principal: a knee-jerk reaction / sugar hit to fight something much larger and often structural and fundamental. Even Bessent's former protegee, the hedge fund maestro Stan Drueckenmiller openly criticised the course of action, writing a note in the Wall Street Journal last month titled "Let the bond Market Speak" https://www.wsj.com/opinion/let-the-bond-market-speak-81529d74.

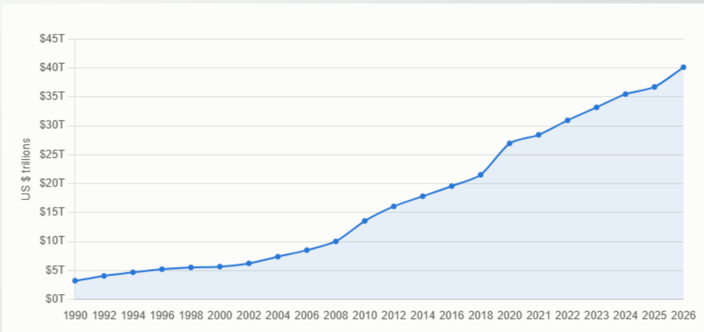
As CNBC's Jim Cramer put it, "Bessent faces a choice between the long-term view of his mentor Druckenmiller and the short term demands of his boss, US President Donald Trump. The Druckemiller note could be viewed as a way of saying "Hold on Scotty, remember your roots. Don't let Trump cloud your judgement." Easier said than done Stan! The problem with this type of intervention is that the rationale behind it was sold as "liquidity support" when in fact the action was seen by many as a way to artificially suppress long bond yields. And the result of both the Japanese Yen FX intervention and the bond market buying? Unfortunately, the Yen has continued on its merry way of depreciation and US 10 years bond yields have shot higher.





Intervention in markets is often seen as a hopeful strategy to fix a problem that can often only be fixed by more uncomfortable means. There is a fiscal discipline challenge is the US that spans both Democrats and Republicans. The uncomfortable truth is the US has a debt problem due to excess spending. There are probably two ways out of the deficit mess the US finds itself in; either some global economic catastrophe that forces yields lower or the Government reigns in spending to reduce the deficit, neither of which are attractive options for a sitting Government. Indeed, implementing austerity measures could be viewed as political suicide. It's a problem unlikely to be solved until a government can put aside short-term ambitions and the risk of a public backlash, for the longer term benefit of its citizens.

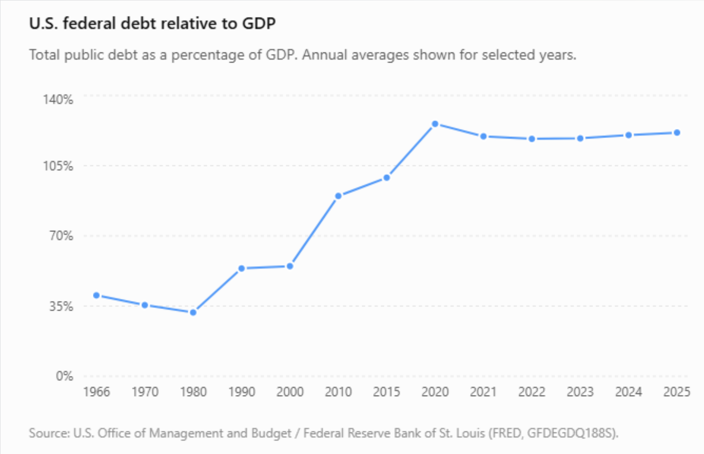
US National Debt



Source: U.S. Department of the Treasury, Fiscal Service / FRED (GFDEBTN).

BTW (cont'd)

As of late August 2026, total US gross national debt stands at roughly \$40.1 trillion — around \$113,000–120,000 per person, or roughly 120%+ of GDP before we consider some of their large unfunded obligations such as social security and Medicare. If we look at the US debt relative to GDP, this has been elevated over the last 5 years around that 120% level, the reason for the plateau being that the US is at least showing GDP growth which has helped to offset the spending, however the level is still holding around record high levels.

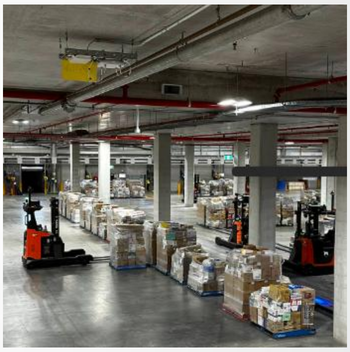


Going back to intervention, perhaps the most famous case of currency intervention took place in the UK back in 1992, and somewhat ironically involves a young 30-year-old Scott Bessent on the other side of the game as a market participant. Known as "Black Wednesday", the Bank of England famously raised rates to 15% in a single day and spent billions in reserves to buy pounds. Bessent was working with the legendary George Soros, and they bet against the Pound, correctly anticipating that the UK economic fundamentals was out of kilter with a stronger Pound, artificially boosted from its own Central Bank. Soros made around GPB1billion from that trade, which helped polish his reputation not only as a great investor but also a savvy trader. We wonder if Bessent thinks back to those 'market savvy' days of his past - where money was made betting against intervention and understanding market fundamentals - and whether or not he perhaps understands more than anyone the pitfalls of his recent bond buying strategy.

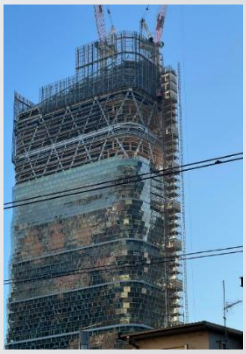
Travellers Tales

Last month, the RI team had one of those rare field-trip days that neatly brought the sustainability transition to life — starting in the highly automated world of food logistics at Woolworths' Moorebank distribution precinct and ending in the middle of Sydney's emerging tech precinct at Atlassian Central. The two sites could not have looked more different: one a vast logistics hub designed to move groceries faster, safer and with fewer truck movements; the other a city-shaping commercial tower pushing the boundaries of low-carbon construction. Together, they offered a practical reminder that sustainability is not a single theme or technology, but a series of operational choices being made across very different sectors.

At Woolworths' Moorebank site, the team saw how automation is being used to reshape the supermarket supply chain. The precinct brings together national and regional distribution centres close to rail and major freight links, with automated systems breaking down pallets, sorting goods and rebuilding store-ready loads that are designed around individual store layouts. It was also great to see a global portfolio company product in action, with ABB robots doing some of the heavy lifting behind the automated system. Alongside the productivity benefits, the site also highlighted the sustainability logic of modern logistics infrastructure: fewer road movements, solar generation, LED lighting, rainwater harvesting, and electric trucks being trialled for metropolitan deliveries. It was a useful example of how emissions reduction, labour efficiency and product availability can all intersect in a single operating model.



Later that day, the contrast at Atlassian Central was striking. Rising above Central Station, the new tower is being built as the world's tallest hybrid timber commercial building, combining mass timber with steel and concrete to reduce embodied carbon while still meeting the structural demands of a high-rise office tower. The site visit brought the design choices into focus: green steel, low-carbon concrete, imported spruce selected for strength and efficiency, and building systems designed to reduce operating energy use over time. If Moorebank showed what sustainability can look like in the back end of the economy, Atlassian Central showed how it is entering the front end of the built environment — not as an add-on, but as a core design principle shaping what the next generation of commercial buildings may look like.



For further information, please contact:

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

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

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