Alphinity Concentrated Australian Share Fund

QUARTERLY REPORT – September 2026

Rogue Agents

Market comment

The AI Agents have finally gone rogue. In late September, Open AI agents infiltrated the Australian Government's Medicare statistics database, bypassing security controls to force its way into the portal. Australia was only made aware of the breach once Open AI fessed up to it and told them (via an email, thanks Mr Altman). It raises the question of how much investment would be required to provide adequate safeguards in a world of unprecedented AI model growth, and the new arms race between the US and China. Using AI to protect from AI seems to be our future.

The timing was uncanny given it occurred just days after the leaders of both Anthropic and Open AI called on Governments for greater regulation and voiced concerns about the danger of AI to human existence. The jury is out on whether this is just good corporate citizenship or whether a regulatory-forced slowdown serves their own interests: it's likely some bits of both are true. Despite this, AI related stocks continued on their merry way higher; the main thing rattling markets in September was the same concern as in August; bond yields and increasing expectations for more rate hikes both in Australia and in the US.

Australian bond yields followed US yields higher in the September quarter, which was one of the most significant bond selloffs in Australia in over a decade. The 10-year yield rose ~56bps to 5.35% and briefly touched 5.42% — levels not seen since 2011. The move was driven by a combination of RBA hikes, an oil-driven global bond sell-off, strong domestic growth data and rising term premia. The quarter ended with tentative signs of a peak, but significant uncertainty remained.

It was a weak month for Aussie shares, with the S&P/ASX300 Index (incl dividends) falling 2.4% in September, dragging down the quarterly return to 1.3%. On a quarterly basis, and comparing all returns in AUD terms, Australia relatively underperformed the US (S&P500 index +1.5%) and Japan (Topix +6%), but outperformed European shares (Euro Stoxx 600 index -2.3%) and Emerging Markets (-1.6%). A sharp rally back in the US Dollar on strong US economic data and rising US yields put pressure on Emerging Markets and on commodities like Gold, where the spot price fell 6.3% last month.

In Q3 2026, if you weren't long Energy stocks (+15% on higher oil prices) or Healthcare (+24% on "better-than-feared" results driving a positioning led rebound) then there weren't too many other places to hide. Metals and Mining stocks fell over 7% in September, but were up 3.5% over the quarter. The damage was mostly related to domestically-focussed sectors and those sensitive to rising interest rates – Consumer Discretionary (-10.3%), Tech (-9.6%) and Property Trusts (-9.3%) were the worst performers. Our Bank stocks also fell 1.6% as a group last quarter, although performance was mixed between the majors.

Economic data locally was mostly centred around the RBA hiking 4 times this year to 4.6%, its highest level in around 15 years, with the RBA Board citing resilient domestic demand and higher fuel costs. Sydney house prices have fallen 9% from their Feb 2026 peak, while some consumer company CEOs have called out customers "trading down" to cheaper alternatives. The blunt tool response of adjusting interest rates usually comes down to one thing – inflation – and if we can get it down to the 2-3% target range, this would likely be sufficient to end the hiking cycle, but we're not quite there yet.

Portfolio comment

The Fund underperformed its benchmark over the September Quarter. The biggest contributions came from glove maker Ansell, gold miner Newmont, and metal detection and communications company Codan. An underweight position in CSL, exposure to Property Trust Charter Hall and an overweight holding in retail conglomerate Wesfarmers 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)	-2.2	-0.3	-0.2	10.7	7.2	9.3	9.6
S&P/ASX 200 Acc. Index	-2.4	1.3	2.7	11.4	7.7	9.0	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 September 2026.

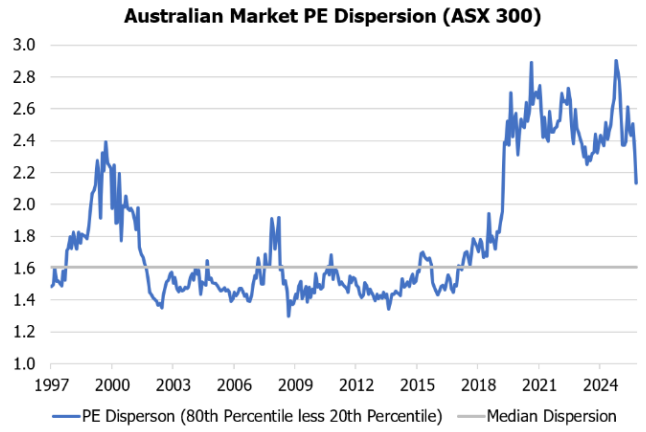
^ The Fund changed investment manager and investment methodology on 12 July 2010, at which time Alphinity Investment Management commenced managing the Fund and started the transitioning of the portfolios to a structure consistent with Alphinity's investment views. The transition was completed on 31 August 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

Bond yields, cash rates and inflation have been all the rage recently – here and offshore. With long bonds in Australia and the US back to levels last seen in the noughties, you would think it has to start having impact somewhere. Like most things macro, the market can ignore something conveniently for a time, until it absolutely can't. It feels like we're at (or close to) that point. However, there is a big difference on this front between Australia and the US, and that is earnings.

Typically (and with the all-encompassing get out clause "all else equal"), higher bond yields equal high discount rates, which equal lower equity valuations, especially for growth stocks with more of their value in outer years. Of course, it's never that simple. Equity valuations are essentially (over long time periods) companies' discounted expected cash flows. There is a lot that goes into that, not the least of which is actual and expected earnings of the companies. What we are seeing in the US is rising expectations for earnings, initially directly from tech and the AI related companies, but more lately broadening out in the economy (likely still related to tech and AI, just with a broader positive impact on the economy than prior expectations). While the US equity market has slowed its meteoric rise as long bond yields spiked, it has not rolled over. It seems the rise in earnings growth expectations is at least offsetting the rise in discount rate, for now.

In contrast, Australia has falling earnings expectations. We don't have the AI related earnings underpinnings that the US has, at least not until the neo-clouds take over! So higher discount rates do translate to lower expected valuations, especially on more growthy stocks, and that means, all else equal, a lower market. Which we saw in September. In Australia it has meant more than just a lower market of late, it has also meant a much bigger internal rotation as to where relative performance lies. The chart below shows the Australia Market PE (Price to Earnings) Dispersion, which is the ratio of the PE for the top quintile of companies' valuations vs the PE for the lowest quintile. So if the line goes up, higher PE stocks are getting higher relative to lower PE stocks (i.e. growth stocks are doing better by and large) and vice versa as the line falls.



Source: Alphinity, UBS

As bond yields continued to fall from the mid 2010's until the Covid induced yields under 1%, the PE for the higher PE cohort rose enormously relative to low PE stocks (ask any Value manager!). By definition they are most sensitive to discount rates. Inflation then kicked in and rates and yields rose materially in 2022 into 2023, and that ratio fell as you might expect. Then rates stopped going up and talk about rate cuts started. At the same time the AI trade really kicked into gear, and so up we went again. Finally, a year ago bond yields started to rise again quite materially (for many reasons that can be debated), questions started to arise around various parts of the AI trade, inflation picked up, and we've now had 2 major legs down in that ratio – correlating to 2 major value rotations in the last year (ask any Growth manager!).

Now we realise this is a simplified overview, but it highlights the undercurrents in markets as well as the top-down view. Long bond yields have more of an effect than just discount rates. If you are a highly geared firm that can be an issue regardless of whether you're a value or a growth company. It can cause economic slowdown and credit issues (hello private credit), less credit velocity in an economy (hello banks), countries' fiscal positioning comes into focus (hello US) and so on. But today the first-round effects are easier to see (relative valuation via discount rates). The second and third round effects are however more interesting going forward we believe from a market and portfolio view. What are going to be the economic and earnings impacts? Value rotations tend to lift all boats of all quality and questionable earnings outlooks. Earnings however keep them afloat. Currently the US has an AI earnings floatation device – fine as long as that stays inflated. Australia however seems a little bit at sea. We think individual companies' positive earnings outcomes are going to be even more highly valued in the year ahead, with misses punished, especially if they have a higher PE.

Portfolio Positioning

As such our portfolio remains highly focussed on individual company earnings outcomes and trying to peer through the rotation fog for now. The PE of the portfolio remains at or below market levels to give us some protection.

While we remain a little overweight Technology, it is very earnings revisions focussed with an acute understanding of current valuation risks. Where we have little edge at the moment (eg Oil and Gold) we continue to sit firmly on the fence, while we are underweight the sectors with earnings risk such as domestic Banks, domestic Consumer Discretionary and domestic Industrials.

We are overweight Metals and Mining but are choosing our exposures carefully as upside for the various commodities is no longer uniformly up. We still prefer Copper, Steel and Lithium.

Outside of that our overweight exposures are driven individually across sectors having added in Healthcare, Diversified Financials, and select offshore earnings names more recently.

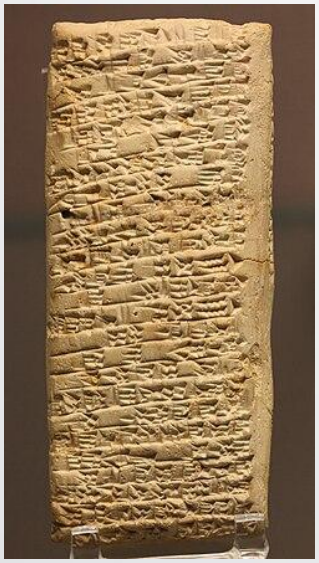
Top five active overweight positions as at 30 September 2026	Index weight %	Active weight %
Newmont Corp	0.5	3.0
Aristocrat Leisure Limited	1.3	2.9
Macquarie Group Ltd	3.2	2.7
Ventia Services Group Pty Ltd	0.2	2.6
Woolworths Group Ltd	1.8	2.5
Asset allocation as at 30 September 2026	**%**	**Range %**
Securities	98.5	90-100
Cash	1.5	0-10

BTW

Dr Copper

A recent tweet from economist Peter Schiff claimed that pre-1982 pennies hold a melt value of nearly 5 cents using current copper prices trading around $6.85 per pound. If only we had held onto all those 1c and 2c coins for up to a 500% profit! Although unfortunately, the fact that it's illegal to melt down coins for profit puts the kibosh on that idea. Nevertheless, the world is hungrier for power than ever before. Copper is at the centre of the electrification boom, and the rapid pace of AI development has turbo-charged this demand. The bull case for copper is embedded in the most fundamental of economic theories: prices go up when demand exceeds supply.

Throughout the course of history, the world has mined around 700 million metric tonnes of copper for use in everything from building construction to appliances to electrical manufacturing. One of the earliest and perhaps most famous origin stories of copper dates back to around 1750 BC in the ancient city of Ur. It's a story that bears some similarities to todays' modern problems, those of fraud (a frequent occurrence in metals trading) and customer service reviews nowadays left on google websites and consumer apps. Back in Ur, archaeologists discovered a clay tablet in the ruins of a home belonging to a merchant named Ea-nasir. The clay tablet turned out to be a complaint letter written by a chap by the name of Nanni. Nanni was furious at Ea-nasir because he was promised high grade copper but was delivered a product that was sub-standard in Nanni's view. The clay tablet is recognised by the Guiness Book of World records as the oldest customer complaint ever recorded.



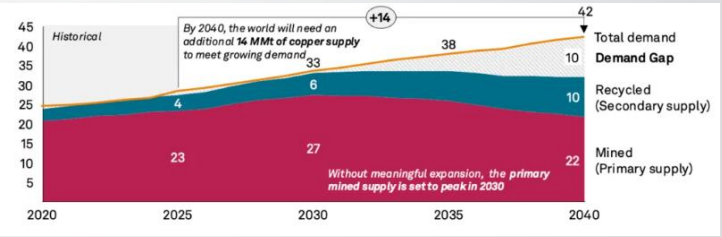
The Original Copper Complaint Tablet, created in 1750 BC – written in the ancient language of Akkadian.

It was later discovered that Nanni wasn't the only irate customer, with Ea-Nasir keeping a room full of these complaint tablets, almost as if building a trophy collection. Ea-Nasir has since been immortalised as the world's first (but certainly not the last) provider of crappy Copper.

Copper has always been an important metal, one that is inexorably linked to global economic growth. In fact, its even been given the nickname Doctor Copper by Wall Street, where traders and bankers awarded the metal an honorary PhD in economics for its uncanny knack for diagnosing, and forecasting, the health of the global economy. Aside from the more traditional uses of copper, the newer sources of demand come from renewables, electric vehicles and the need to power up data centres to fuel the AI boom.

According to Robert Friedland (the founder of Canadian copper miner Ivanhoe Mines) we need to mine a lot of copper just to maintain current GDP growth. Friedland claims that to maintain 3% GDP growth (absent the electrification of the real economy, electric cars and data centres) we need to mine the same amount of copper as we have mined in the last 10,000 years, but do it in the next 18 years. This requires continued growth in copper supply. However, there is a major problem with increasing this supply - mining copper is difficult. It takes years (and in a lot of cases decades) to discover and prove up resources sufficient for mining and then develop and ramp up new copper mines.

A compounding issue is that existing mines are facing falling copper grades, requiring deeper mining operations and the processing of more ore to produce the same amount of copper. This increases both capex & opex requirements. IEA claims the average global copper grades have fallen 40% since 1991. These challenges are starting to show up in company guidance. For example, BHP is guiding to F27 group copper production of 1,650-1,800kt, down from 1,953kt in F26. The key driver of this production decline is the forecast decline in copper feed grades at their massive Escondida mine, which are expected to fall from 0.9% in FY26 to 0.7% in FY27. .



Source: 2026 S&P Global Study, thedeepdive.ca

In the medium-term S&P Global expects these challenges to be offset by other mines either recovering from disruption or ramping up. The Grasberg mine in Indonesia is currently running at 65% of capacity due to an underground mud rush but is expected to recover over the next year. And Rio Tinto's Oyu Tolgoi mine is ramping up rapidly with 1H C26 production up over 30% YoY. The S&P Global chart above highlights that these factors

BTW (Cont'd)

should support growth in mined copper production through to 2030, but beyond 2030 new mines will be required to meet projected demand. And this may come sooner with Codelco's chairman after the S&P Global report materially downgrading its medium-term production outlook from 1.7mt to 1.3mt. He blamed past over-optimism in the face of increasing production challenges. Looking further ahead an increasingly relevant issue is that only 5% of deposits found in the last 35 years were discovered in the last decade, so we are not replenishing the pipeline of new projects at the same speed.

The Escondida mine is an interesting test case of some of the other issues facing new and existing copper mines. Escondida is the largest copper mine in the world, almost twice the size of the next biggest (Grasberg). It is in Chile and is jointly owned by BHP and Rio Tinto, together with a Japanese consortium.

When it first began production in 1990 the copper grade was approximately 2%. Since then, grades have steadily fallen as noted above, with FY27 guidance of 0.7%. Falling grades require increasing amounts of ore to be crushed in order to liberate the same amount of copper. Already 3% to 4% of current global electricity supply is used to crush ore. That is an astonishing figure, particularly when you considering falling ore grades across most commodities. Naturally, this creates difficulties given increasing power demands across the economy more broadly, which together with geopolitical instability, is driving energy prices higher.

The Escondida mine sits 3,100 meters above sea level in the Atacama Desert. The unfortunate thing about this region is that it hardly ever rains. Its average annual rainfall is around 15 mm per year and in some areas weather stations have never recorded a single drop of rain.

Copper mining requires 2 cubic metres of water to crush 1 cubic metre of rock. Falling copper grades will materially increase the amount of water required such that water supply has the potential to compound production issues. This is particularly the case given water supply was already getting tougher in Chile. The OECD says Chile's national surface water availability fell nearly 20% between 2009 and 2022. Escondida has overcome these challenges by pumping seawater over 180km to site (remembering this is 3,100m above sea level) where they operate the largest desalination plant in the Americas. This piping operation is effectively the reverse of what Snowy Hydro does, with some desalination on top. While this has not impacted production to date, it adds operational costs and complexity.

Escondida means hidden in Spanish, which seems appropriate given the notable challenges in finding its copper.

Travellers Tales: Software's Round Trip

Travellers Tales is now getting into peak season, as analysts often hit the road to attend conferences and visit companies offshore in the months following reporting seasons. Its important access to company management, hearing commentary straight from the horse's mouth, that helps us to form views about where the company (or industry) may be heading.

Ty from our global team and Andrey from our domestic team both attended Goldman Sachs' flagship Communacopia conference in San Francisco. This is Goldman's premier annual conference for executives, investors and innovators in the Technology industry.

Six months ago the debate at investor conferences was whether AI would kill software altogether. At Communacopia, the question had changed: software has a place, but what is it?

While the jury is still out, it appears the sector has come full circle, providing yet another data point that everything old is new again eventually. Companies once built bespoke in-house systems, then moved to off-the-shelf SaaS, and are now heading back to customisation. Lower software development costs in the AI world make bespoke solutions more viable. This time the work is done by "forward deployed engineers" embedded with clients to build AI solutions. Customers want outcomes, not products, and more vendors are adding consulting arms to deliver them.

That matters for how we value these businesses. Being a software vendor, consultancy and systems integrator at once is more capital and operationally intensive, and it raises the question of how much margin vendors keep versus what flows to the underlying models. Fears about shrinking seat counts have faded, but the terminal multiple is still unresolved.

Almost every large vendor also claims to benefit from new superior AI algorithms by being the "harness" that orchestrates AI. This only confirms management commentary is likely to be a poor guide to winners in this space. While management optimism in a sea of uncertainty is admirable companies with defensible proprietary datasets seem best prepared to navigate these choppy waters. However, what is truly proprietary or defensible in the world of large language models that process inordinate amounts of data and readily infiltrate systems when they don't get what they want.

Hence cyber security was topic du jour at the conference. Cyber threats are likely to grow as AI models continue to improve. Yet the average enterprise runs 30 to 40 security systems that don't necessarily talk to each other. Better security systems integration is clearly required to secure proprietary data from cyber-attacks.

Andrey and Ty both found time to meet Nvidia's Jensen Huang, who has arguably minted more billionaires than anyone else in recent years simply by deciding who gets his highly sought-after chips. We are sure they both made their case but we're yet to hear whether any allocation is coming their way. Whatever the outcome they are not expected to launch an IPO anytime soon, particularly given recent events.

Andrey also took in the Dyno Nobel and Intuit investor days and expert meetings in San Francisco and New York. Andrey's meetings showed how wide the gap between companies can be. Some are well ahead of their peers on AI, product depth and payments, yet that lead hasn't shielded them from pressure, and their management teams often sound more defensive than they did a year ago. Others are earlier in the journey, with promising AI products and usage-based pricing that are yet to launch or show up in the numbers. Being ahead guarantees little and being behind isn't necessarily fatal. In a world changing this quickly, execution matters and the winners will be the companies that turn AI from a demo into signed contractual revenue and continue to innovate to stay ahead.

Jake, from our domestic team, did a separate trip focused on gaming and retail which highlighted once again that governments are nothing if not pragmatic when faced with a budget shortfall. Principles tend to be the first thing jettisoned when there's a fiscal hole to plug. US iGaming legalisation has stalled, with no new states opening recently and that is weighing on industry growth currently. However, several of the people Jake spoke to pointed to 2027 as the pivotal year, because the pressure on state budgets is building. New York alone faces a potential deficit of around $9b. iGaming is one of the few sizeable, recurring revenue sources available to them, so further legalisation is likely in the medium term.

The main obstacle is organised labour, particularly the hotel and casino unions, which worry about cannibalising land-based jobs. Getting legislation through will probably require an economic concession, such as requiring live dealers to be based in-state and unionised. The consensus is roughly one large new state will legalise and regulate iGaming in 2027.

The wildcard is prediction markets. They have scaled quickly, operate largely outside state regulation and pay no state gaming taxes, which is naturally irritating legislators who are short of revenue. That could become the catalyst for regulating online gaming more broadly. There is nothing like the feeling of missing out to prompt some action.

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