Alphinity Concentrated Australian Share Fund



MONTHLY REPORT – October 2026

Knock Your Soxx Off

Market comment

Let's be frank here, between the sell-off in AI stocks in the US, inflation issues here in Australia, and Chinese equity markets having their worst month in a decade, there wasn't a lot to cheer about in October. A 15% rise in oil prices, the looming US mid-term elections and Anthropic's potential IPO (the world's largest) during a time of peak AI anxiety only served to test risk appetites even further.

The iShares Semiconductor ETF (the "SOXX") – a bellwether for the AI trade - slumped 17% in the US, dragging down Tech stocks and the US market. The Tech-heavy Nasdaq index fell 6.7% (-7.7% in AUD) pulling the broader US S&P 500 index down 1% (-2% in AUD). The reasons for the sell-off largely centred around investors increasingly demanding evidence that AI spending would translate into monetisable returns. A report on OpenAI's revenues coming in below expectations was the initial catalyst, with AI infrastructure financing and credit stress (particularly in the neo-cloud players like Coreweave) also putting pressure on the sector.

Aussie shares, somewhat protected from direct AI / semis exposure given its higher composition in banks and resources, relatively outperformed, with the S&P/ASX 300 index (including dividends) rising 1.1%. The Aussie Dollar rose 1.2% last month, which meant any returns in offshore markets were weaker when translated back into AUD. The European Stoxx 600 Index rose 1.9% (-1% in AUD) while Emerging Markets tanked 9%. There was nowhere to hide in Emerging Markets. Brazil slumped 15% on the surprise election win, the AI sell-off hurt Korea and Taiwan memory and chipmakers, and China had its worst month in a decade as rising oil prices and sluggish domestic demand continues to weigh on the economy.

At a sector level, our Aussie miners led Materials down 8% for the worst performance, followed by Tech stocks (-3%) and Consumer Staples (+0.6%) also underperformed. There was a rotation into Financials (+7%) and Healthcare continued its rebound (+5.5%). Despite interest rate pain, the retailers held up well with Consumer Discretionary stocks closing up 3.5%. There is a belief (hope) amongst some investors that the RBA might be at the end of the hiking cycle, which led to some bottom fishing and short covering, although with inflation still not expected to come down until 2028, it remains to be seen whether this hope turns into reality.

Bond markets had a much-needed relief rally, with Aussie 10-year bond yields falling 23 basis points to 5.11%, while US yields also dropped 35 basis points to 4.92%. One month doesn't make a trend, and the moves lower weren't necessarily a reaction to falling inflation, rather a flight to safety on a rotation away from risk assets. France was one of the few regions to buck the trend, with political turmoil and riots in response to cost-of-living pressures causing its bond yields to spike higher. Remarkably, even with all the volatility in French politics and bond markets, Australian government bonds still offer higher yields. Just after month end, the RBA delivered its widely expected fifth rate hike of the year, lifting the cash rate to 4.85% and adding to the pressure on households, with the political blame game now well and truly underway. Commodity price strength was underpinned by a 15% surge in oil prices which lifted Energy stocks, while Copper prices were flat, Aluminium was down a little and Gold prices continued to decline, falling 7% last month. China weakness also led to a fall in Iron ore prices, with the futures falling 3.5% last month and declining 15% from the highs in mid-May this year.

Portfolio comment

The Fund underperformed its benchmark in October. The biggest contributions came from owning gaming stock Aristocrat Leisure, Property Trust Charter Hall and steel producer Bluescope Steel. Exposure to mining stocks Rio Tinto, IGO and Newmont detracted from returns, along with being underweight CBA.

Performance*	1 Month %	Quarter %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception^ % p.a.
Fund return (net)	1.2	-1.5	1.6	12.5	7.4	9.5	9.7
S&P/ASX 200 Acc. Index	1.4	0.5	3.7	13.4	8.0	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, 31 October 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

The bullish narrative at the start of the year was that tariffs were settled, rates were heading lower, Resources, Banks and AI would carry upward earnings revisions, and uncertainties would fade. As we now know, uncertainties did not fade. The macro debates shaping the economy are significant and tend to link back to inflation, the direction of rates and the pace of earnings growth.

Start with the Iran conflict and the resulting energy shock, which has driven a surge in oil and goods prices. Resolution uncertainty is front of mind now that strategic reserves have been depleted. At the time of writing, the outcome is anyone's guess, Trump's included. The economic consequences are however incredibly far-reaching, ranging from a major inflation and growth headwind to genuine relief depending on what happens.

The other source of inflation has been the surge in AI investment. It has heated the economy along the value chain, but concerns have spread from its profitability to its funding, with most hyperscalers running substantial negative free cash flow in what looks like a race against time. Higher funding costs have been the potential brake, which does not bode well for the non-AI economy and consumers, let alone US debt funding costs. October saw a significant shift, with the AI trade unwind and yields coming down. At home, the cancellation of the Firmus IPO and the sharp fall in NextDC are a reflection of these risks. Suddenly the market is trying to move defensive and find non-AI investments.

In this regard, the contrast between the US and Australian economies remains stark. The third-quarter earnings season in the US demonstrated broadening strength across sectors, with earnings continuing to grow at an enviable 30% a year, and companies outside the Magnificent 7 now growing faster than the Magnificent 7 themselves. The lift in interest rates and yields has however resulted in a meaningful de-rating of the price-to-earnings multiple to 19x. All is not rosy despite these strong numbers. The mood has become far more cautious, and a rotation away from AI towards anything else has taken place.

At home, the mood and the data are more sombre. A silver lining is that we don't have a large AI exposure to move away from, except arguably Resources, which faces the unfortunate combination of a slower China and now questionable AI capital expenditure. The other benefit is that our Aussie banks are usually the beneficiaries of the AI trade unwind in Korea. Elevated inflation, driven by oil prices and AI investment from a low base, together with tight employment, now risks setting inflation expectations above the RBA's target range for longer. With interest rates now at 18 years highs, the RBA is inflicting short-term pain for long-term gain. But the pain it is right now.

Retail sales trading updates have highlighted a clear slowdown since August, home prices are falling, and bank lending is softer. Market earnings are expected to grow at a mere 7% for FY27, a number that has been revised downward month after month since the Iran conflict began and not aided by the budget. Of concern is the absence of macro earnings leadership: no sector is benefiting from positive earnings revisions.

As the market moved away from Banks and Resources, two sectors that now have clearly negative revisions, it tried to flow into the perceived cheap, beaten-up sectors of Discretionary and Health Care. The view on the former is that the market is starting to look past the rate hike as the 'R' word is more freely mentioned, while Health Care provided appeal for its perceived earnings resilience. We would caution against lifting exposure to Discretionary names in the hope the worst is behind us. We have no evidence of that. That trade has been tried… and abandoned.

In a highly charged macro environment with no clear top-down earnings leadership, our bottom-up focus bodes well. In every sector we can indeed find stocks undergoing positive earnings revisions. It is worth noting that in this kind of market, cheap stocks that merely avoid missing expectations stand out too.

Portfolio outlook

Our investment team travelled across the US, China and the Middle East in October to stay on top of risks and opportunities. We also met a large number of companies at home and will continue to do so at a major broker conference in early November. On the back of those meetings we have made a few adjustments to the portfolio.

Of note, we have significantly trimmed our Resources exposure as we now see earnings downside risk for the sector across most commodities, except copper and US steel. The risk comes from lower revenue growth and higher cost pressure. We have continued to trim our Discretionary exposure, maintaining mainly overseas exposure where the consumer is under less pressure. We have closed our Health Care underweight by adding to existing holdings as our conviction in the earnings upside lifted. We remain overweight insurers, as they benefit from yields that remain elevated. We maintain a modest underweight to Banks as competition and softer economic conditions continue to be a headwind.

With no top-down earnings leadership to lean on, each of these changes follows the same investment discipline: we are moving towards stocks where earnings revisions are positive and our research suggests they will continue to be supported, and away from those where they are not.

Top five active overweight positions as at 31 October 2026	Index weight %	Active weight %
Woolworths Group Ltd	1.8	3.3
Aristocrat Leisure Limited	1.4	3.3
Newmont Corp	0.4	2.8
Bluescope Steel Limited	0.5	2.6
BHP Group Limited	10.8	2.4
Asset allocation as at 31 October 2026	**%**	**Range %**
Securities	98.7	90-100
Cash	1.3	0-10

BTW - Copper, coal and a trading desk: Glencore arrives on the ASX.

One of the more interesting additions to the Australian share market recently is Glencore (ASX: GLC), which began trading on 14 October. It is not often that a company worth around US$80 billion, with a primary listing in London and a secondary in Johannesburg, decides to join the local bourse. This was not an IPO or a capital raising. Glencore has listed CHESS Depositary Interests (CDIs), each representing one ordinary share. The logic is that Australia has one of the world's largest pools of superannuation capital and a sophisticated resources investment community. Glencore hopes to broaden its shareholder base, improve liquidity and, eventually, earn a place in the ASX 200.

So what are investors buying? Glencore makes money in two quite different ways. The first is the familiar business of owning mines, smelters and processing facilities, producing copper, coal, zinc, nickel and cobalt. The second is its global commodities trading arm, which buys from its own mines and thousands of third-party producers, then arranges the financing, storage, blending, shipping and sale to industrial customers.

Imagine a Chilean copper mine that has concentrate but no way of selling it to a smelter in China. Glencore can buy the concentrate, insure and ship it, finance the deal, blend it to the customer's specification and deliver it, earning a margin at each step. It can also profit from price differences between countries or over time. Think of a giant international wholesaler whose products include oil, coal, copper and the occasional few thousand tonnes of zinc.

That model pays best when markets are disrupted. In the first half of 2026, marketing adjusted EBIT rose 142% to US$3.3 billion as the Middle East conflict upended oil, gas and freight markets, and Glencore now expects more than US$5 billion for the full year. Most miners would prefer calm commodity markets. Glencore sometimes makes more money when they are anything but.

The company's origins are just as colourful. It was founded in 1974 as Marc Rich + Co AG by Marc Rich, who helped pioneer the spot oil market by trading directly between countries and companies rather than through the oil majors. His dealings attracted more attention than he would have liked. In 1983 he was indicted in the US on charges including tax evasion and illegal dealings with Iran. He fled to Zug, the low-tax Swiss canton where his company was based, and stayed there for the rest of his life. Switzerland refused to extradite him, and he was reportedly well protected locally, with one Zug politician said to have declared that "what is good for Marc Rich is good for Zug". His companies paid roughly US$200 million in penalties to settle the US case, and he remained on the FBI's Ten Most Wanted list until Bill Clinton's controversial pardon in 2001. Not the usual founder's story in a corporate history brochure.

Rich was forced out in 1993 after heavy trading losses, selling his stake to management, and the business was renamed Glencore the following year. One of the executives involved was Ivan Glasenberg, who joined in 1984 as a coal marketer in South Africa. Born in Johannesburg to Lithuanian immigrant parents, he was a national race-walking champion with Olympic ambitions, until apartheid-era sporting isolation ended them. He qualified as an accountant, completed an MBA at USC and went into commodities trading. Early on he spent two years in Australia running the Asian coal business, and during that time he became an Australian citizen, a fact that surprised many. It only emerged during the 2011 Glencore IPO process, and it put him straight onto the BRW Rich 200 list that year at #2, the highest debut ever, with an estimated fortune of A$8.8 billion.

He became CEO in 2002 and spent 19 years turning Glencore from a trading house into one of the world's largest diversified miners, with the 2013 Xstrata acquisition as the defining deal. He was famously competitive: senior traders reportedly joined his morning runs around Zug, and even much younger executives struggled to keep up. Glasenberg retired as CEO in 2021 but remains the largest individual shareholder, with about 10.4%.



Ivan Glasenberg around the time he retired from Glencore

How does it differ from BHP and Rio? Two things stand out: the commodity mix, and how much Glencore makes from marketing and trading. On marketing, no ASX-listed major has a trading arm like it, and it is expected to generate about 40% of Glencore's CY26 EBIT. On the mix, BHP and Rio are still anchored by iron ore, which makes up a large portion of each company's earnings, whereas Glencore has negligible iron ore exposure. There is also a difference in the copper growth profile. Glencore produced 850kt of copper last year and expects to reach 1.6mt by 2035, which some brokers think could lift copper to more than 50% of EBIT by 2030. The trade-off is complexity. Coal draws environmental criticism, marketing earnings can be lumpy, and that mix is a big part of why Glencore has traded at a discount to BHP, a gap management hopes the ASX listing will help close.

Travellers Tales: Trends in the European market

After another Australian reporting season, the team hit the road again. This month Moana from our responsible investment team headed to Amsterdam for PRI in Person, joining some 1,600 others to deliberate investor priorities in the region. She also squeezed in meetings with nearly 50 European companies, plus a few site visits, to hear about the ESG and sustainability programs at work.

PRI in Person: resilience is the buzzword

Responsible investment is still firmly on the agenda, but it has picked up a companion. Moana's key takeaway from Amsterdam is that "resilience" now sits alongside ESG and sustainability as a core stewardship theme. Climate, nature loss and supply chain security are resilience risks, not just ESG ones. Add geopolitics and a push for local economic productivity, and Europe's priorities boil down to three things: energy security, affordability and AI leadership.

Unsurprisingly, AI and datacentres dominated investor conversation. The quote of the day was hard to argue with: "milk is more regulated than AI". Regulators are struggling to keep pace with the fast-moving technology, and the race for AI leadership between nations is pushing innovation fast. For investors, sensible AI adoption, emissions and power implications, water use and community pushback are now part of the picture. It all looks familiar to anyone who has watched the mining sector earn (or lose) its social licence over the past two decades. Datacentres are already learning the same lesson, in Australia but also globally.

The grid feels like a bottleneck for both AI and decarbonisation, and batteries are a solution, with caveats. Connection queues and renewable curtailment are making storage the stronger investment story in the EU. But the open questions are permitting, safety, recyclability and responsible supply chains, and investors need to be across these ESG considerations as deployment ramps up. The EU's battery passport regulation is addressing this, in part, but investors need to be across responsible battery deployment too.

The rest of the conference covered no shortage of global challenges. From the systemic cost of poor health and obesity to responsible defence investing, to physical climate risk, human rights and cybersecurity. It made for plenty of reflection on the long flight home.

On the road: fish farms, datacentres, factories and a plastics problem

There is nothing like hearing from companies directly, and seeing them first-hand, to get a feel for what is going well on sustainability, what is proving tricky, what is being incentivised and what is being disclosed.

Meetings ranged from holdings in our Australian and Global funds to other companies across consumer, banks, industrials and energy. The ambition on sustainability was reassuring, and decarbonisation remains a strong focus, with scope 3 emissions targets increasingly the norm. Several companies were also trying to estimate the emissions from their own AI use, one of the faster-growing parts of their indirect footprint.

The US influence on the EU was a tale of two halves. US anti-ESG sentiment has yet to take hold meaningfully in Europe, at least so far. US investor expectations on AI, on the other hand, seem influential. BNP Paribas, for example, guided to €750m of AI efficiencies in 2026, partly because US investors worried it was falling behind US banking peers. AI productivity gains are a key question across our portfolios, so it was useful to hear a company put a number on them.

Brussels, meanwhile, is far from finished on regulation. The omnibus package trimmed some requirements, but companies still expect plenty more, from the carbon border adjustment mechanism to deforestation, sustainable fashion, recycled plastics and supply chain due diligence. Many see it as a driver of better practice and European resilience. Dry as it is, it matters to us. Several rules will reach Australian companies with EU operations and exporters into Europe, and these sustainability regulations no doubt influence other markets to follow.



Green Mountain's Rjukan datacentre, situated near a land-based trout farm trialling reuse of warm water in a circular system, to heat the fishery, where cool water is returned.

Not everything on the road was policy and pressure. The best site visit was to a datacentre working on a circular water system with the trout farm next door. Datacentres usually make headlines for water stress and community pushback on electricity use, so this partnership was a pretty cool concept on sustainable datacentre design.

Back in the UK, AstraZeneca gave Moana a tour around the Cambridge R&D hub, one of only six in the world and a specialist in respiratory care. AI seems to be used at every step of the process, from digesting scientific journals to improving the odds that a drug makes it through trials – an incredible technology use case for good.

Travellers Tales (cont'd)

Then to the factory floor, at the BMW plant in Munich and the Volkswagen plant in Wolfsburg, the impacts of robotic automation was clear with very little people on the vehicle production line. It was a good reminder of the just transition considerations outside of the energy sector, with BMW committed to reskilling employees in an in-depth just transition policy and program in a public commitment.

The focus on regenerative agriculture was a surprise standout for consumer companies, particularly in dairy. Danone says around 42% of its key ingredients already come from farms meeting at least Level 1 of its internal scorecard developed with the World Wildlife Foundation (WWF). The plan is to bring more farmers in first and then lift their practices over time. Definitions and measurement still vary, but it is a useful question for Australian companies in the agricultural space to explore how regenerative practices are measured, encouraged and adopted.

The area which was a little disappointing was the challenge on packaging and plastics. Danone, Unilever and LyondellBasell have all dialled back their targets, given the limits of recycling infrastructure, and Moana saw the challenge first-hand at LyondellBasell's chemicals plant near Rotterdam. If it is this hard in Europe, which is well ahead of most markets, it says something. Ambition is the easy part. The circular economy still needs the infrastructure and commercial solutions to manage plastic waste, and that question is live in Australia too.

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