MONEY MANAGEMENT FUND MANAGER OF THE YEAR 2020
AUSTRALIA'S FIRST INDEPENDENT AND WHOLE OF MARKET AWARDS
WINNER
Emerging Manager

insync fund managers

June 2021 Update

For Investors That Think

We are pleased to report a strong finish for the year with the **funds up +9.5% in June**. This is because of Insync's intense focus on investing in the most profitable businesses that are benefitting from the tailwinds of global Megatrends delivering consistently strong earnings growth at multiples of GDP. Ultimately share price increases over time follow the consistent growth in earnings of quality companies; thus the performance of the fund over the past 12 months comes as no surprise.

We are expecting the portfolio to deliver +15% compound EPS growth over the next two years with sustained high growth rates in the subsequent years following. With markets trading at high valuation multiples (based on P/E ratios), strong future investment performance is more likely to be delivered from companies that can deliver high earnings growth (than further P/E multiple expansion). This is Insync's sweet spot.

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Year	5 Years	10 Years	Since Incep#
Insync Global Quality Equity Portfolio ^	9.61%	14.64%	14.63%	25.84%	20.01%	18.30%	17.92%	17.35%	14.86%
Insync Global Capital Aware Fund*	9.56%	14.29%	13.14%	21.84%	20.58%	18.81%	16.56%	14.94%	12.60%
MSCI ACWI (ex AUS) NTR (AUD)~	4.52%	8.96%	15.46%	27.71%	15.45%	14.06%	14.50%	14.00%	12.05%
Global Quality Active Out-Performance	5.09%	5.68%	-0.83%	-1.87%	4.56%	4.24%	3.43%	3.35%	2.81%
Global Capital Aware Active Out-Performance	5.05%	5.33%	-2.32%	-5.87%	5.13%	4.75%	2.07%	0.94%	0.56%

Source: Insync Funds Management - Past Performance is not a reliable indicator of future performance. *Represents net of fees and costs performance, assumes all distributions reinvested. ^Returns prior to July 2018 represent the underlying Insync Global portfolio (including cash) inclusive of a 0.98% p.a. MER. ~ MSCI All Country World ex-Australia Net Total Return Index in Australian Dollars. # Inception date 9/10/2009

Multiple sources of out-performance; a key Insync characteristic

A big differentiator from many of our peers is that our performance is not generated from just one or two stocks in each period. In June for example, 80% of our stocks contributed positively across a number of Megatrends including Pet Humanisation, Food Away from Home, the Internet Of Things/5G and the Contactless Economy. Examination of our Megatrend line-up shows we do not rely solely on technology.

A key reason for portfolio inclusion:

Insync has a measurable point of difference from peers in that we not only have one of the highest quality portfolios, based on profitability of businesses, but also a portfolio delivering high *sustainable earnings growth*. This is reflected in two ways:

1. Correlation of Excess Returns: A strong way to identifying differences between managers is the correlation of excess returns against a peer group (e.g. other international managers). **Insync's is 0.2, which is very low**. This means Insync's *alpha generation* (outperformance over the MSCI benchmark) is unique.

2. Active Share: This measures how Insync's stock positions differ from its peers. **Insync sits at 85%**. The higher the number the more differences there is from our peers (scores between 80 & 100 is deemed highly significant).

'Growth' returns + 'Core' risk profile is ideal

When analysing the historical holdings and performance-based data of the fund over the past 10 years, Insync can be seen to deliver a risk/return outcome differentiated from our peer group.

Independently verified analysis by a leading research firm shows that we have a return profile of a Growth-oriented manager, yet we possess the risk profile of a Core manager. Being able to quantify useful differences for the client's benefit is of course a crucial aspect in using multiple funds in any portfolio.

Differences between typical Growth managers and Insync's sustainable growth approach

Typical Growth managers are largely focused on high revenue growth and less on profitability. They tend to invest in businesses in the expectation that hopefully, one day, they will become highly profitable. This is in sharp contrast to Insync's approach. We focus on businesses that are highly profitable *today*. They must also be established leaders within a Megatrend; and are almost always benefiting from *multiple* Megatrends.

Businesses that pass our hurdle for inclusion are also profitably reinvesting a large proportion of their existing cash-flow into a runway of growth (i.e. R&D). This delivers strong and sustainable earnings growth over multiple years, and sometimes decades, driving share prices higher on a consistent basis.

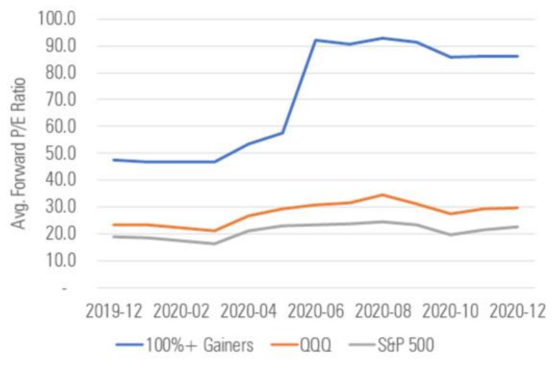
At Insync we studiously compile all the important data points (from a vast array of sources), and so we are better able over time to *measure* and *value* the cash-flows of each business held. This means we hold a far higher degree of certainty than a Growth manager usually would have on these key aspects. Based on our proprietary Discounted Cash-Flow (DCF) valuation approach the **Insync portfolio is 49.7% undervalued**.

Caveat Emptor!

Morningstar Research has produced insightful research on funds that produce 'extraordinary returns' over short periods. Many growth-oriented equity funds fit into this category and invest in businesses that are currently delivering no or low levels of profitability. Examples of themes that typify this characteristic include electric vehicles, renewable energy, genomics and robotics. Tesla for instance was a prominent stock holding in all of these funds at more than an 8% average holding.

The significant downside risk to these high-growth oriented equity funds needs to be considered. If one assumes valuations are important, examine the eye-popping valuations of the portfolios in the chart below of the 'extraordinary returning' growth funds. We have been here before; the technology bubble of 2000 had businesses with similarly high valuations which went onto lose over 80% of their value in the subsequent 1-2 year period.

Average Forward Price/Earnings Ratio of Stock Funds That Gained 100% or More in 2020 versus NASDAQ 100 and S&P 500 Indexes



- source: Morningstar Analysts

(Dec. 31, 2019 to Dec. 31, 2020; oldest share class only)

With these funds being valued as dearly as they are, roughly 3 to 4 times that of the NASDAQ 100 and S&P 500 indexes, the margin for error is minuscule.

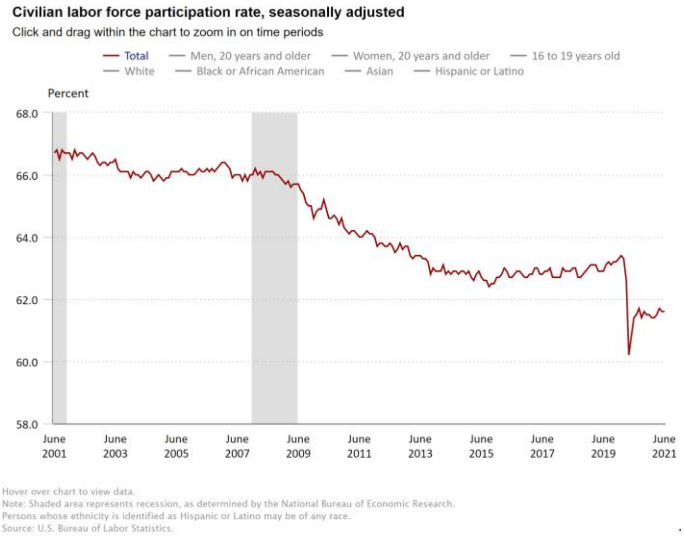
And these funds losses then mount…Morningstar found that the subsequent average annual return tended to be unkind to these funds: The average fund tumbled to a **-9.9%** loss in the year following its big gain, a **-17.5%** annual loss in year's 2 and 3, and a **-16.6%** per year loss in the next 3 years that followed.

What about future interest rates?

There is a debate in the industry today about inflation and if it is rising, will it be sustainable enough to change things dramatically for investors?

One area worth monitoring carefully is the relatively substantial drop in 2020 of the **labour force participation rate** (LFPR) in many countries, which points to potential longer-term scarring of the labour market making it harder for full employment to arise.

Research suggests that falls in LFPR in industrial economies after severe economic downturns can last for up to a decade. Crucially, an economy's long-term potential growth rate is deeply tied to its LFPR. Notably, structurally declining LFPR is often cited as a key reason why interest rates have declined. If the labour market shock of 2020 persists over the coming years, it is likely that interest rates may well will remain low similar to the pre-COVID-19 levels, even if most of the broader economy appears to have healed.



The labour force participation rate is a measure of the proportion of a country's working-age population that engages actively in the labour market, either by working or looking for work; it provides an indication of the size of the supply of labour available to engage in the production of goods and services, relative to the population at working age.

Beware of *Transitory* Inflation. Skyrocketing demand for lumber, thanks to a pandemic-induced home renovation boom combined with supply constraints caused by pandemic production delays and a pine beetle infestation in some Canadian forests, all helped contribute to an eye-watering surge in prices.

This exemplifies many of the specific short-lived spikes in prices of some supply chains. The chart below shows that lumber prices are now below the levels seen at the beginning of the year, dropping more than 40% since their peak in May. Many other commodities have followed suit. This suggests many of the price surges that alarmed investors these past few months may fade with time as the economy returns to normalcy.

Additionally, as production returns to normal, current bottlenecks in supply chains will also fade with a similar effect on any unusually high prices. Insync's approach is not easily impacted by rises in inflation unlike most other fund managers; and so we adopt a watching brief but we are not overly concerned one way or the other.

MEGATREND IN FOCUS: Beautification and Wellbeing

Athleisure was already a secular trend within the Beautification and Wellbeing Megatrend during the pre-COVID world. Recent data strongly points towards consumer preferences towards health, wellness and comfort has further accelerated.

The global athleisure market is expected to reach over $520 billion by 2025 and anticipated to grow at a CAGR of 8.1% from 2019 to 2026.

Source: https://alalastyle.com

This industry is today offering more options that will allow wearers to easily transition between work, leisure and exercise, a trend which the industry has dubbed the "Athleisure" Megatrend. Yoga and jogger pants, tank tops, hoodies are now witnessing a blurring of the distinction between traditional gym clothing and casual wear. The pandemic has accelerated this move.

In March 2020, as the pandemic unfolded, everyday office attire went from traditional workwear to workout clothes as the coronavirus shutdown forced people to work from home. Athleisure quickly became the day-to-night go-to getup: great for daytime Zoom meetings yet transitions nicely for the evening sourdough and olive oil for the Netflix/Disney binge!

The desirability of workout and 'workout-adjacent' clothing has come a long way since Spandex was unleashed in the 1950s. In the USA, athleisure-wear now represents **a quarter of all apparel sales** according to data collected by The NPD Group.

Pre-Covid world retailers and cultural commentators put this shift down to more than just the Generation Y's prioritisation of health, happiness and self-mastery; it reflected a broader evolution in the way we all dress and think. Amid the explosion of over-scheduling ushered in by digital technology, it makes perfect sense to seek out multipurpose wardrobe items which eliminate the time spent changing between Yoga and the cocktail bar. Victoria University's Professor Clare Hanlon, co-author of a 2018 report on women's active-wear trends and drivers, says the very act of putting on athletic apparel is 'like a mental stimulant' that helps the wearer switch on their '#best self'.

As of December 2020, women's athleisure orders have risen 84 per cent since the start of the pandemic (pre numerous national lockdowns). The insights come from True Fit's Fashion Genome for footwear and apparel, powered by data from 17,000 retail brands and 180 million True Fit Members.

The pandemic is likely an accelerant of this Megatrend with recognition of the linkage between good health and less risk of death from Covid-19. Multiple studies have identified that obesity is a risk factor for increased morbidity or mortality from COVID-19.

Consequently, interest in weight management and personal fitness from governments and consumers has increased markedly. In the UK, for example, a new 'obesity strategy' was unveiled in July 2020 to urge people to 'lose weight and beat coronavirus'. At the same time consumer interest in fitness and weight management has increased appreciably. Engagement with fitness equipment (e.g. weights, fitness mats) tripled in the UK during the pandemic; fitness apparel and running shoe sales increased by up to 40%.

The Beautification and Wellness Megatrend is one of 16 Megatrends that sit within our portfolio across 30 stocks. Insync always invests in sustainably highly profitable businesses, based upon their returns on invested capital (ROIC), and are strongly positioned to benefit from the tailwinds of the Megatrends in which they reside.

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Risk Measures – Global Quality Equity Portfolio^

	1 Year	3 Years	5 Years
Standard Deviation	13.70%	14.71%	12.57%
Tracking Error	9.97%	7.81%	6.93%
Information Ratio	-0.19	0.59	0.53
Sharpe Ratio	1.87	1.22	1.35
Batting Average	50.00%	61.11%	56.67%

Risk Measures – Global Capital Aware Fund*

	1 Year	3 Years	5 Years
Standard Deviation	13.46%	13.49%	11.56%
Tracking Error	10.14%	8.94%	7.67%
Information Ratio	-0.58	0.53	0.27
Sharpe Ratio	1.61	1.34	1.34
Batting Average	50.00%	58.33%	51.67%

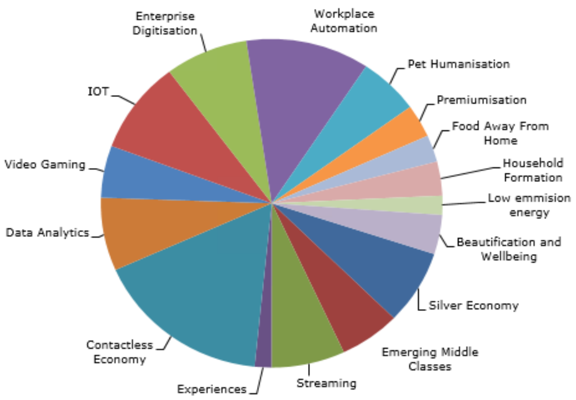
Capture Ratios – Global Quality Equity Portfolio^

	3 Years	Since Incep#
# Index Positive Months	24	90
# Index Negative Months	12	51
Up Market Capture	1.14	0.97
Down Market Capture	0.94	0.64
Capture Ratio	1.22	1.50

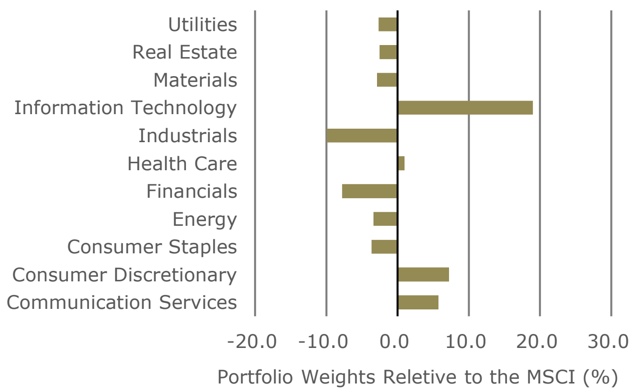
Capture Ratios– Global Capital Aware Fund*

	3 Years	Since Incep#
# Index Positive Months	24	90
# Index Negative Months	12	51
Up Market Capture	1.04	0.83
Down Market Capture	0.69	0.56
Capture Ratio	1.50	1.49

Megatrend Exposures



Portfolio Sector Weights vs MSCI



Top 10 Active Holdings

Stock	%
Domino's Pizza	4.3%
PayPal	4.2%
Facebook	4.1%
S&P Global	4.1%
Qorvo Inc	3.9%
Qualcomm	3.8%
NVIDIA	3.8%
Walt Disney	3.7%
Nintendo	3.7%
Dollar General	3.6%

Key Portfolio Analytics

	Portfolio	Index
Forward PE	29.16	34.00
ROIC	63.94	12.28
Market Cap (USD avg)	479.49	44.60
Market Cap (USD median)	124.95	18.02
Std deviation (ex ante)	16.82	14.35
Net Debt to Equity	74.37	60.97
Total Debt to Ebitda	1.62	3.67

Key Fund Information

	Insync Global Quality Fund^	Insync Global Capital Aware Fund*
Portfolio Managers	Monik Kotecha and John Lobb	
Inception Date	1 July 2018	7 October 2009
Management Fee	0.98%p.a. of the NAV	1.3%p.a. of the NAV
Performance Fee	Nil	Nil
Buy/Sell Spread	0.20% / 0.20%	0.20% / 0.20%
Distribution Frequency	Annually	Annually
APIR Code	ETL5510AU	SLT0041AU
Trustee	Equity Trustees Limited	Equity Trustees Limited