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

insync fund managers

October 2021 Update For Investors That Think

The Global Quality fund and Insync Global Capital Aware fund delivered **21.9%** and **18%** respectively for the past year. As usual the returns came from across the portfolio, and not just one or two star players. Longer term returns continue to produce very healthy net outcomes for our investors.

Typically, Insync funds perform during periods when markets are at their ebb, and perhaps a little under them when they are at their most exuberant. This is because we are not relying on markets, trends or forecasting macro-economic factors to boost results. Instead, we focus more on the underlying financial performance, both present and future, of companies we invest in. It's well established that a stock's total return follows the *earnings growth* of its business in the longer-term.

Companies that are able to sustainably do this, and at high rates, are called '*Compounders*'. Investing in a portfolio of Compounders is one of the best ways to generate wealth with less risk for longer-term oriented investors. Over time they usually beat market averages. The result is a portfolio which delivers strong earnings growth that is also relatively insensitive to economic and inflation cycles.

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Year	5 Years	10 Years	Since Incep#
Insync Global Quality Equity Portfolio ^	1.59%	-1.70%	11.27%	21.93%	18.90%	20.57%	19.11%	17.20%	14.32%
Insync Global Capital Aware Fund*	1.11%	-2.37%	10.31%	18.07%	19.66%	20.45%	18.14%	15.06%	12.40%
MSCI ACWI (ex AUS) NTR (AUD)~	1.10%	1.10%	10.13%	28.35%	15.09%	15.30%	15.12%	15.38%	12.06%
Global Quality Active Out-Performance	0.49%	-2.80%	1.14%	-6.43%	3.81%	5.27%	4.00%	1.81%	2.26%
Global Capital Aware Active Out-Performance	0.01%	-3.47%	0.18%	-10.29%	4.58%	5.15%	3.03%	-0.32%	0.34%

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

But what about inflation?

Insync has a risk advantage over most peers in this regard. Put simply, inflation up or down does not figure large in the companies' performances we invest in. It's partly due to the factors that Compounders tend to benefit from, that their investors then enjoy the fruits of.

High margins and **superior pricing power** from Insync's portfolio of 29 highly profitable companies across 18 global megatrends offers "the holy grail" of inflation-busting companies.

There is debate about whether the higher inflation we've seen thus far in the U.S. is *transitory* or *structural*; and how that impacts a company's ability to pass on higher costs.

Whilst nothing is certain, we believe on balance that most of the drivers of the recent inflation uptick are indeed transitory, and the big mega-drivers of *technology* and *demographics* work against systemic inflation longer term. 2021's inflationary backdrop was caused by a reopening of economies after lockdown and has been exacerbated by "drastically limited supply and logistical chokepoints" across many industries.

The point is for Insync investors, it doesn't matter that much which viewpoint is the outcome.

Insync does not look for investment ideas based on macro or directional plays including that of inflation. Instead, our focus is on identifying global megatrends and then conducting bottom-up fundamental analysis to select the most profitable and competitively advantaged businesses to profit from them.

What LVMH & Microsoft have in common.

By example, two companies we hold in very different industries have, for good reason, common traits that reward our investors. Let's take a closer look.

Pricing power and demand: They both possess real pricing power because they both enjoy strong demand for their highly sought-after products. This makes them more defensive in a sustainable inflationary global environment, should that prediction of inflation pan out**.** These companies are less affected by rising costs and can increase their prices to outpace inflation quite easily. Indeed, both have, and we have just witnessed this again with Microsoft.

It is a good to a fair chance that many of you will be using Microsoft products, and perhaps even reading this missive on your Windows operating system. Perhaps it came to you via Outlook and was downloaded from Microsoft Cloud storage. Should you be part of a larger work group, this lockdown may have pushed you into video conferencing on Microsoft Teams as well.

Here's a question to ponder; If the price of Microsoft's services goes up, will you remain with them and thus pay the new price?

Microsoft has recently made a calculated decision on the answer. It raised the price of its common bundle of user software (*Microsoft 365*) by +20%. This is well above inflation. It is not due to rising costs to produce or distribute (i.e. inflation). Sales are up as almost all customers continue to value the service, the product and to avoid the hassle of change. Profits are rising. This is pricing power in action.

Let us not forget LVMH…. Its brands include Dior, Lois Vuitton, Hennessy brandy, Moet & Chandon, Tiffany, Tag Heuer, Fendi, Givenchy, Kenzo, Dom Perigon, Belvedere vodka, Bulgari, Ardberg whisky, Cloudy Bay & Cape Mentelle wines and Marc Jacobs to name just a few.

It too is exercising its power over pricing. LVMH increased prices on its Louis Vuitton range of products by roughly +5% across the board in 2020, despite the COVID-19 pandemic. Sales rose. It also made upward price adjustments on best-selling Christian Dior items with similar results. Additionally, LVMH raised prices for the Hennessy liquor brand between 3% and 4% in 2020.

These price hikes did not negatively impact sales volume, again owing to the company's pricing power, and as consumers' affinity for luxury products endured.

But it's only part of the story…… Insync specifically are looking for companies with high gross margins. This means the rising external costs of running the business become low relative to revenue.

51% = Insync's weighted average gross margin across its investee companies. The index was just 32%.

This figure significantly increases the prospects of these companies maintaining their profitability should market conditions worsen. In other words, they possess sufficient strength well above those of their peers and are thus more likely to retain higher stock prices.

Premiumisation Megatrend

"I'm a man of simple tastes", Oscar Wilde used to joke. "I'm always satisfied with the best."

LVMH enjoys the tailwinds of a few Insync identified megatrends, the primary one being 'Premiumisation'.

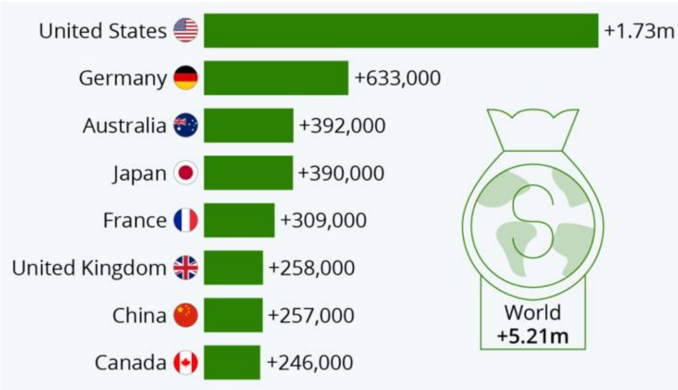
For those of us in nations with high or rising incomes, this megatrend is driven by people's constant desire for more quality, style, and status as wealth increases.

Luxury goods have been a major beneficiary of this megatrend as total global wealth continues to rise significantly ahead of global GDP, recording an increase of 7.4% over the past 12 months (reported by Credit Suisse).

What was notable about the pandemic was that despite its devastating impact on the global economy overall and in some specific industry sectors with crippling rises in unemployment, the number of millionaires climbed.

More than 5 million = the growth from 50.9 million to more than 56 million millionaires globally.

The global millionaire club has expanded during the pandemic. Those with real or financial assets experienced a ballooning in their value and mostly retained their jobs.

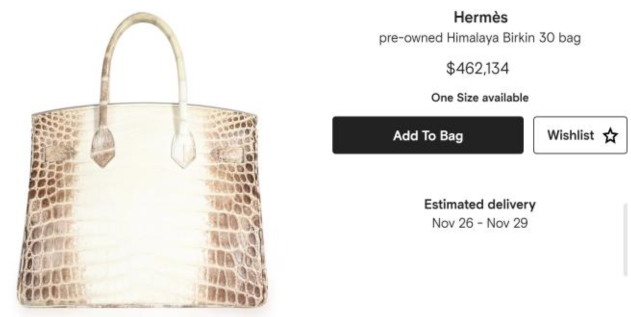


Source: Statista/Credit Suisse

It is the combination of a *strong brand name* and *perceived high quality* that gives luxury goods their cachet. Affluent consumers are indeed increasingly aspiring to fewer but better luxury goods (or so-called "investment" pieces—with longer use potential and higher resale value) and relevant experiences.

Recent data shows that, despite logistical challenges during the pandemic, investors continued to drive values higher for key luxury collectible assets over the past year and this was led by handbags (+17%), fine wine (+13%) and classic cars (+6%).

Would you pay $460,000 for a handbag?
Apparently, many do!



Source: Farfetch.com

Hermès Birkin bags are the most expensive bags in the world, ranging from $US40,000 to $US500,000 for a single bag. Named after actress and singer Jane Birkin, the iconic bag is handcrafted and strictly exclusive, which drives the value of the Birkin year after year. A 2017 study revealed that the value of Hermès Birkin bags has increased 500% in the last 35 years, an increase of 14% per year. This is pricing power!

Are luxury goods a big market and will it grow? Bain & Company estimates that the personal luxury goods market could reach **EUR 360-380 billion** by 2025 with a sustained growth of 6-8% annually, growing at rates higher than GDP (that's over half a trillion Australian dollars by the way).

We often get asked about the fund's exposure to emerging markets.

Usually, our quality parameters exclude many companies listed in these regions being included in Insync's holdings. Many globalised companies we do invest in however both trade and conduct their operations across these same regions. Our broad view is that they are likely to be better allocators of capital into these regions than financial professionals viewing these same opportunities from computer monitors.

By example, investing in high-quality luxury-goods groups which hold a diverse portfolio of brands, products and services, is an effective way of gaining broader exposure to China, Malaysia, Brazil, Vietnam and so on without taking on country specific, currency or corporate governance risks.

What may be surprising is that it is not just those older consumers driving sales. In China (by far one of the two largest consumers of luxury goods globally), a gauge of consumption trends in that country comes from following Alibaba's **Tmall**. It is one of the country's biggest business-to-consumer e-commerce websites.

It is estimated that **Millennials make up 70%** of the site's luxury-fashion segment – consumers born in the early 1980s and coming of age in the late 1990s. This is closely followed by the subsequent, fast-accelerating **Gen Z,** a massive cohort.

Demographic shifts are one of the key drivers behind our megatrends more broadly. These groups are very important because the amount they are spending on luxury goods is growing faster than in older generations. The average annual spending on the site by the latter is expanding by an impressive 22% a year. But the rate for Millennials is 24% and 33% for Gen Z. These two generations should consume more as they grow older and wealthier.

The Premiumisation megatrend is one of the 16 across the Insync portfolio. The 29 stocks we have invested in across these megatrends are not only highly profitable and have a long runway of growth but also generate high gross margins and have pricing power enabling them to offset inflationary pressures without losing business.

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October 2021 Statistical Monthly Update

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Risk Measures – Global Quality Equity Portfolio^

	1 Year	3 Years	5 Years
Standard Deviation	14.20%	14.33%	12.76%
Tracking Error	8.93%	7.65%	6.90%
Information Ratio	-0.72	0.69	0.66
Sharpe Ratio	1.54	1.39	1.46
Batting Average	41.67%	63.89%	60.00%

Risk Measures – Global Capital Aware Fund*

	1 Year	3 Years	5 Years
Standard Deviation	13.93%	13.18%	11.72%
Tracking Error	9.33%	8.79%	7.61%
Information Ratio	-1.10	0.59	0.40
Sharpe Ratio	1.29	1.50	1.46
Batting Average	41.67%	61.11%	55.00%

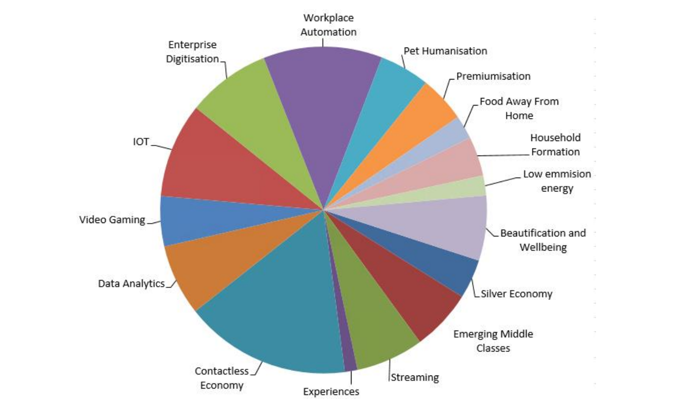
Capture Ratios – Global Quality Equity Portfolio^

	3 Years	Since Incep#
# Index Positive Months	24	93
# Index Negative Months	12	52
Up Market Capture	1.19	0.97
Down Market Capture	1.00	0.68
Capture Ratio	1.19	1.43

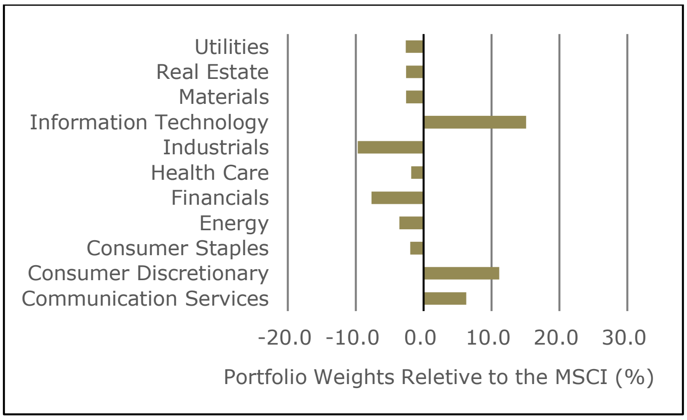
Capture Ratios– Global Capital Aware Fund*

	3 Years	Since Incep#
# Index Positive Months	24	93
# Index Negative Months	12	52
Up Market Capture	1.08	0.83
Down Market Capture	0.74	0.59
Capture Ratio	1.45	1.40

Megatrend Exposures



Portfolio Sector Weights vs MSCI



Top 10 Active Holdings

Stock	%
Domino's Pizza	3.8%
S&P Global	3.8%
Qualcomm	3.8%
Apple	3.6%
Qorvo Inc	3.4%
Home Depot	3.3%
NVIDIA	3.2%
Etsy	3.2%
Meta Platforms Inc	3.2%
Adobe	3.1%

Key Portfolio Analytics

	Portfolio	Index
Forward PE	27.83	32.98
ROIC	67.31	14.28
Market Cap (USD Bln avg)	521.19	45.66
Market Cap (USD Bln median)	136.42	17.67
Std deviation (ex ante)	17.55	14.35
Net Debt to Equity	163.65	58.49
Total Debt to Ebitda	1.80	3.45

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