December 2021 Update

For Investors That Think

We are pleased to report that Insync outperformed the benchmark over the quarter and almost all relevant time periods. The fund has delivered a consistent return of 20%+ each year over the past 5 years. This was achieved by a disciplined approach to investing into circa 30 highly profitable companies across 16 megatrends. Importantly it wasn't achieved by taking large bets on stocks or on stocks with unsound or unstainable financials chasing trends.

Insync's focused, quality approach delivered these strong results with zero exposure to the two highest returning market sectors: cyclical / traditional value stocks, and unprofitable concept stocks. Core to the long-term success of the Insync process is investing in companies that deliver high and consistent earnings growth, along with a systematic approach to risk management and portfolio construction.

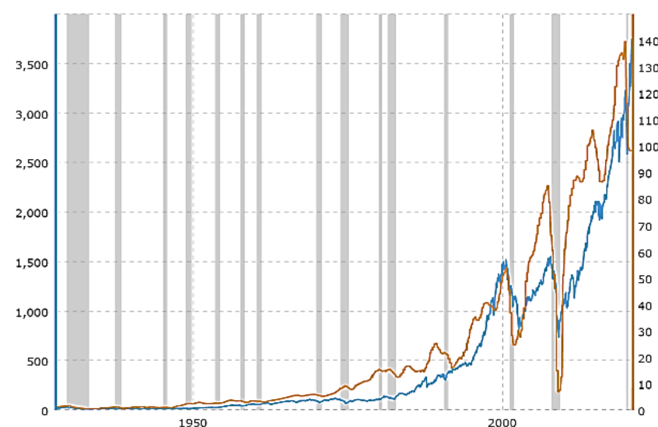
	1 month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	10 Years	Since Incep.
Insync Global Quality Equity Portfolio ^	0.35%	9.83%	10.81%	**27.02%**	**21.09%**	**26.24%**	**20.00%**	**17.49%**	**14.83%**
Insync Global Capital Aware Fund*	0.34%	9.28%	9.97%	**24.42%**	**22.05%**	**25.52%**	**19.24%**	**15.39%**	**12.93%**
MSCI ACWI (ex AUS) NTR (AUD)~	*1.41%*	*6.07%*	*9.12%*	*26.00%*	*15.59%*	*19.23%*	*14.42%*	*15.90%*	*12.33%*
Global Quality Active Out-Performance	-1.06%	3.76%	1.69%	**1.02%**	**5.50%**	**7.01%**	**5.59%**	**1.60%**	**2.51%**
Global Capital Aware Active Out-Performance	-1.07%	3.20%	0.85%	**-1.58%**	**6.45%**	**6.29%**	**4.83%**	**-0.51%**	**0.61%**

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

Why it's all about Earnings Growth

Companies that sustainably grow their earnings at high rates over the long term are called **Compounders**.

Investing in a portfolio of Compounders is an ideal way to generate wealth for longer-term oriented investors that tend to also beat market averages with less risk. This chart shows the tight correlation between returns of the S&P 500 (**orange line**) and earnings growth (**blue line**) since 1926. *NB: Grey bars are US recessions.*



Source: Macrotrends.net

Insync's focus is on investing in the most profitable businesses with long runways of growth resulting in a portfolio full of Compounders.

Inflation & interest rate impacts

By focusing on identifying businesses benefitting from megatrends with sustainable earnings growth, means we do not need to concern ourselves with market timing, economic growth forecasts, inflation, or the future of interest rates.

Throughout the last 100 years we've experienced periods of high economic growth, recessions, different inflation and interest rate settings, wars, pandemics, crisis and on it goes, but the one thing that has remained consistent… **Over the long term, share prices follow the growth in their earnings.**

Media and many market 'experts' continue to be concerned about the risk of a sustained period of higher inflation. They worry over a short-term 'rotation' from *quality growth* stocks of the type Insync seek to own to *value stocks*. The latter in many cases is simply taken as equating to lowly rated companies and reopening stocks, such as airlines, energy, and transport. There are 3 problems with this view that can trap investors:

1. **Timing –** no one has a crystal ball for consistently predicting changes to economic growth and inflation rates nor the pathway for the virus.
2. **Share prices have already built in the upside.** The value/re-opening stocks have already likely anticipated the potential for higher inflation and the opening up of the economy ahead.
3. **All boats rise on an incoming tide.** The major problem with low quality businesses that are prevalent in the latter category (so-called value/cyclical stocks) is that most remain low quality and continue with low returns on capital.

In sharp contrast good businesses remain strong at this stage of the cycle. They continue delivering the earnings growth that propel share prices over the long term. This is what makes their share price progress both *sustainable* and *well founded*.

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. Pricing power, sound debt management and margin control allow great companies to handle inflation and interest rates well.

LVMH and **Microsoft** (featured in October update) are portfolio examples that recently increased prices of their products with no impact on their sales growth.

Profitability + Revenue Growth

Short term, investors typically fret over interest rate rises and *all* growth stocks suffer initially, as they adopt an indiscriminate machine-gun approach to selling.

Over time however, the more profitable businesses with strong revenue growth start to reassert their upward trajectory in their share prices, as investors appreciate their long-term consistent earnings power.

Stocks with "**quality growth**" attributes, such as high returns on capital, strong balance sheets, and consistent earnings growth, have typically outperformed in past situations similar to what we face today *(Mid-2014 through early 2016 and from 2017 through mid-2019. Source- Goldman Sachs*).

> Ultimately, any short term hit to the share price of companies with these quality attributes will be temporary, as over the long-term, share prices always reflect the underlying growth in the earnings of these highly profitable businesses.

This is in sharp contrast to stocks with strong revenue growth projections that also have negative margins or low current profitability. They are highly sensitive to changes in interest rates (*These stocks propelled the short-term returns of many of the Growth funds in 2021*). Many of them lack profit and cash flow, which doesn't give you much downside protection if they don't deliver. Many rely on the constant supply of new capital to fund their operations.

These types of companies have very long durations because their present values are driven primarily by expectations of positive cash flows at a distant point in the future. We call this HOPE. As the saying goes; we don't rely on hope as a sound strategy. Stocks with valuations entirely dependent on future growth in the distant future are vulnerable to a dramatic drop in price if rates rise sharply or revenue growth expectations are reduced.

This chart (*performance of the Goldman Sachs Non-Profitable Tech Basket*) shows the downside risk to this sector of unprofitable high revenue growth companies. **The index has fallen by close to 40%** from its peak in February 2021. The index consists of non-profitable US listed companies in innovative industries.

Source: Bloomberg

Unsurprisingly, popular "new era" stocks held by high growth managers have also suffered a similar fate with examples noted below.

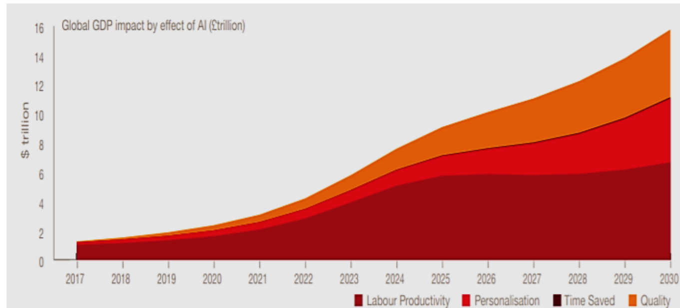
Company	% below all time high
Zoom	-70%
Spotify	-37%
Crispr Thearputics	-65%
Square	-47%
Zillow	-71%
Teladoc	-72%
S&P 500	-1.60%

Megatrends drive sustainable growth

Megatrends enable us to locate the sustainable outsized market growth opportunity stock hunting-grounds (as well as help us avoid those that will dwindle). They are the 'fuel' to quality company's sustainable growth earnings. We are presently in the midst of one of the most disruptive innovation cycles in technological history.

Thus, we resist the temptation of concerning ourselves with near term timing based 'market rotations' and changes in 'sentiment'. These distractions will otherwise prevent us from generating outsized returns in the years ahead.

PWC consulting estimates that global GDP will be up to 14% higher in 2030 as a result of the accelerating development and take-up of AI. The equivalent of an additional $15.7 trillion USD.



Source: PWC

Internet of people v Internet of Things

Our lives are already being impacted. In the past 5 years alone, almost all aspects of how we work and how we live – from retail to manufacturing to healthcare – have become increasingly digitised. The internet and mobile technologies drove the first wave of digital, known as the 'Internet of People'.

Analysis carried out by PwC's AI specialists anticipate that the data generated from the Internet of Things (IoT) will outstrip the data generated by the Internet of People many times over.

This is already resulting in standardisation, which naturally leads to task automation and the automatic personalisation of products and services - *setting off the next wave of digital progress*. AI exploits digitised data from *people* and *things* to automate and assist in what we do today, how we make decisions and how we find new ways of doing things that we've not imagined before.

"I skate to where the puck is going to be, not where it has been."
Wayne Gretzky Canadian World Champion

From one of the all-time ice hockey greats this very apt thought describes the way Insync frames its investment thinking. Despite the market's sentiment shift on the rotation trade, Insync's focus is on where the world is moving to. Data continues to show an acceleration in spending on pets, the rollout of 5G, health & wellness, and digital transformation.

Major corporates expect elevated growth in technology to both accelerate and persist for the foreseeable future (*according to a Morgan Stanley survey*), in areas such as cloud computing, digital transformation and artificial intelligence.

CIO intentions indicate that they expect to increase IT spend as a percentage of revenue over the next three years than they did pre-pandemic. The percentage of CIOs planning to increase spend versus those planning to decrease spend is known as the up-to-down ratio. It rose to 9.0, nearly 6x the pre-pandemic 2019 average.

The best way to invest in a megatrend isn't always the obvious way!

Semiconductors are driving the digital transformation of the world. Covid19 has had a profound impact on so many industries but one of the key areas everyone has started to care about are silicon chips. This became abundantly clear when new car purchases were dramatically delayed because of chip supply chain shortages.

Semiconductor chip usefulness has gone further than any other technology in connecting the world. The companies that produce them enables us to do pretty much everything, from the smartphones in our pockets to the vast datacentres powering the internet, from electric scooters and cars to hypersonic aircraft, and pacemakers to weather-predicting supercomputers.

Their manufacturing requires a high level of specialist technological know-how as it is a highly expensive, complex and a long process. It typically takes **3 months and 700 different steps to cover a silicon wafer** with intricate etchings forming billions of transistors (*microscopic switches that control electric currents and allow the chip to perform tasks*).

Semiconductor chips lay at the heart of the exponential transition that we're going to experience in computing over the next 5-15 years. More than we have ever witnessed before, and it will continue to grow exponentially. For example, AI applications process vast volumes of data—about **80 Exabytes pa** today. This is projected to increase to 845 Exabytes by 2025. One Exabyte = One quintillion bytes = one thousand quadrillion bytes. Truly eye-watering numbers.

Insync's investments in the most profitable semiconductor companies enable investors to participate in 3 of the 16 enduring megatrends: **video gaming, workplace automation and enterprise digitisation**. Their earnings growth will continue to compound at high rates with the resulting share price growth following. This is a consistent feature of the 29 companies in the portfolio. Patience will reward.

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

insync fund managers

December 2021 Statistical Monthly Update

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Risk Measures – Global Quality Equity Portfolio^

	1 Year	3 Years	5 Years
Standard Deviation	15.29%	14.23%	13.04%
Tracking Error	9.58%	7.94%	6.97%
Information Ratio	0.11	0.89	0.88
Sharpe Ratio	1.76	1.81	1.50
Batting Average	41.67%	63.89%	61.67%

Risk Measures – Global Capital Aware Fund*

	1 Year	3 Years	5 Years
Standard Deviation	15.21%	13.17%	12.04%
Tracking Error	9.67%	8.86%	7.63%
Information Ratio	-0.15	0.71	0.64
Sharpe Ratio	1.60	1.90	1.52
Batting Average	41.67%	61.11%	56.67%

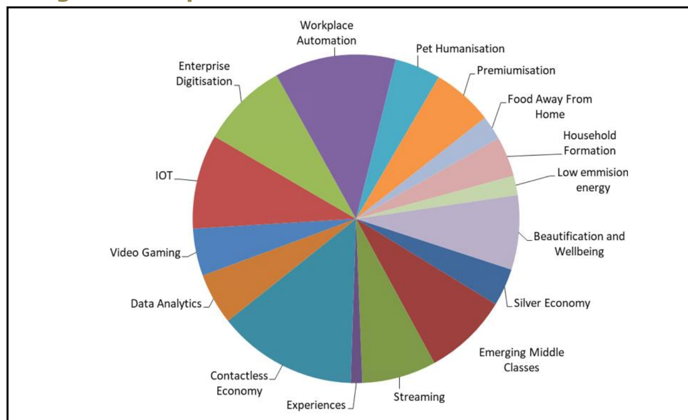
Capture Ratios – Global Quality Equity Portfolio^

	3 Years	Since Incep#
# Index Positive Months	26	95
# Index Negative Months	10	52
Up Market Capture	1.22	0.98
Down Market Capture	0.97	0.68
Capture Ratio	1.26	1.45

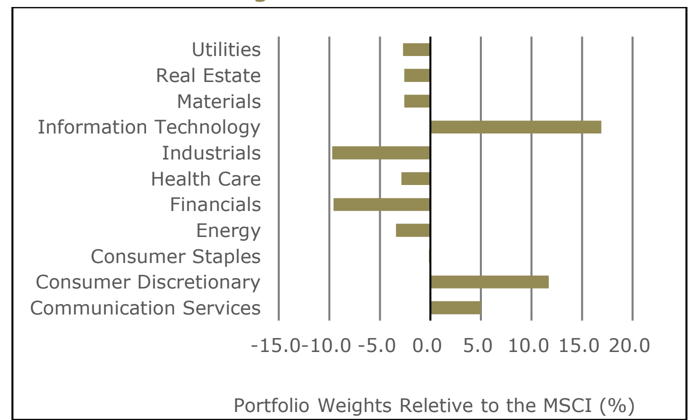
Capture Ratios– Global Capital Aware Fund*

	3 Years	Since Incep#
# Index Positive Months	26	95
# Index Negative Months	10	52
Up Market Capture	1.12	0.85
Down Market Capture	0.71	0.59
Capture Ratio	1.57	1.43

Megatrend Exposures



Portfolio Sector Weights vs MSCI



Top 10 Active Holdings

Stock	%
Qualcomm	5.3%
Apple	4.0%
Domino's Pizza	3.9%
Metaplatforms Inc	3.7%
S&P Global	3.7%
Qorvo Inc	3.3%
Home Depot	3.3%
Nintendo	3.0%
Rightmove	3.0%
NVIDIA	2.8%

Key Portfolio Analytics

	Portfolio	Index
Forward PE	27.58	38.91
ROIC	72.27	14.84
Market Cap (USD Bln avg)	566.92	47.89
Market Cap (USD Bln median)	170.89	18.70
Std deviation (ex ante)	17.73	14.54
Net Debt to Equity	156.50	57.49
Total Debt to Ebitda	1.69	3.42

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

Disclaimer

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