

Whilst the funds continued to meet their 5-year rolling return objectives, October added to the past 9-month phase of negativity as markets continued to grind lower posting a small loss for the quarter. The recent price performance of the fund, whilst disappointing, does not tally with the strong underlying performance of our portfolio of businesses. They continue to deliver consistently strong earnings growth. We know that beyond the short term, price follows sustainable earnings growth. This is what we focus on.

Take **LVMH** and **Accenture** for instance. Both recently reported double digit sales *and* earnings growth, as most of our holdings have, yet their share prices were flat to down (see more on both later on). In usual market conditions higher share prices would result - a basic tenet of capitalism. Once markets calm down a little and re-focus on fundamentals, share prices of these highly profitable and sustainable growth business recover quickly and ahead of most others. Positioning well for this eventuality is crucial for investors.

We are experiencing a rare collection of events with bond *and* equity markets delivering negative returns. This has only occurred twice in the past 91 years, in 1931 and 1969. Turmoil however is the hallmark of moving from one phase to another. Remaining steadfast is key to success.

Every year for 70 odd years now, Berkshire Hathaway attendees ask about interest rates, valuations, geopolitics, depression, and inflation. Every year, Buffett's response is the same... *"Something different happens all the time. And that is one reason economic predictions don't enter into our decisions. We have never made a decision based on an economic prediction. **We make business predictions about what individual businesses will do over time**, and we compare that to what we had to pay for them."* Insync couldn't agree more!

	1 Month	3 Months	1 Year	2 Year	3 Years	5 Years	Rolling [∞] 5-Year	10 Years	Since Incep#
Insync Global Quality Equity Fund ^	-4.44%	-1.83%	-21.52%	-4.48%	2.87%	9.10%	14.58%	12.33%	10.98%
Insync Global Capital Aware Fund*	-4.40%	-2.84%	-22.91%	-6.57%	2.66%	8.74%	12.49%	9.83%	9.16%
MSCI ACWI (ex AUS) NTR (AUD)~	-3.54%	-0.34%	-10.96%	6.08%	5.48%	8.73%	12.56%	12.68%	10.08%
Global Quality Equity Fund Out-Performance	-0.90%	-1.49%	-10.56%	-10.56%	-2.61%	0.37%	2.03%	-0.35%	0.90%
Global Capital Aware Fund Out-Performance	-0.86%	-2.49%	-11.95%	12.64%	-2.82%	0.01%	-0.07%	-2.85%	-0.92%

Source: Insync Funds Management - Past Performance is not a reliable indicator of future performance. **∞Stated objective of the Funds.** *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

What drives poor returns?

Most investors do not reap the benefits of compounding wealth that come from equities. Equities grow wealth very well. \$100 in the S&P 500 at the start of 1926, three years prior to the great crash, would have boosted your wealth to over \$1 Million today.

That's 10.05% p.a. Tumultuous macro world events have rained down upon us since then, and so it's not adverse macro events that derail wealth accumulation; it is investors' reactions to them. In short, investor behaviour derails compounding wealth.

We've experienced difficult months recently for our quality-based strategy including recessionary concerns. We've also delivered positive annual above market returns recently as well - 2017, 2018, 2019, 2020, & 2021 (December Ending).

First to fall: When a recession looms, a Quality company's stock price often falls more than the market initially.

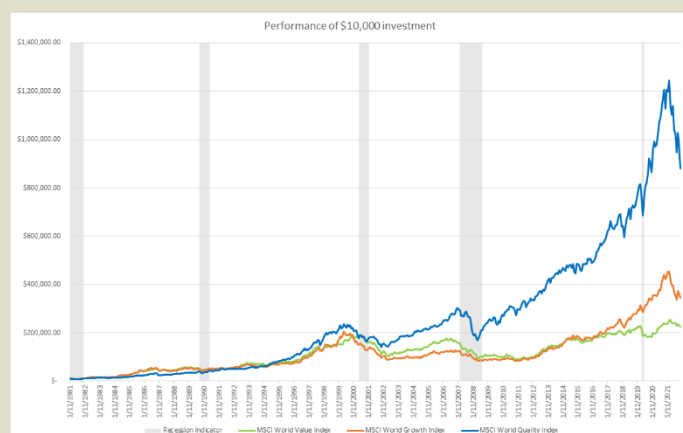
Quickest to rise: They are also the first to recover and outperform the other major investment styles during a market recovery.

Value, Growth or Quality?

Returns from Quality-based strategies have been strong over time. Much stronger than Value & Growth and over multiple market cycles too. Quality has been generating significantly more wealth for investors than Value & Growth strategies.

This chart depicts the 3 MSCI indices since 1981. The gray bars are periods of recession:

Blue = MSCI **Quality** index
Orange = MSCI **Growth** index
Green = MSCI **Value** index



40 years of observation:

1. Quality-based strategy goes well *over time*.
2. Not much difference between Value & Growth

Why? Quality companies are more focused on earnings and profits (not sales) and don't rely on external funding to keep going in hard times (balance sheet strength). They also experience long runways of supportive conditions, often irrespective of macroeconomics (we call these- megatrends). Yet, the vast amount of analysis by investment committees, researchers and consultants fail to fully assess and include Quality.

This growth was particularly in cloud, data, AI and security, all fundamental to a strong digital core business. Their cloud business is now \$26 billion and grew 48% this year.

A case study on how they do it- EDF

French multinational utility company EDF digitizes the construction of nuclear power stations that provide low-carbon energy for more than 6 million UK homes alone. Accenture transformed EDF's digital construction processes by creating a digital factory model on a secure cloud infrastructure. This drives cost efficiencies. Construction methods that relied on thousands of uncoordinated, disjointed paper plans and text are now digitized with contractors accessing and sharing the same view and information. AI then scans and assesses this for problems and opportunities.



Digital dashboards provide real-time data visibility across a myriad of systems. 'Digital twins' identify areas for automation across power plants, all of which drive safety, efficiency and quality. A 'digital twin' virtually duplicates physical objects, processes & systems, and are used to predict how those elements will respond to different variables.

Premiumisation powerhouse - LVMH

LVMH is the world's largest luxury conglomerate. Brands include Christian Dior, Givenchy, Louis Vuitton, Tag Heuer, Bulgari, Fendi, and Moët & Chandon - even Cape Mentell wines in WA and Cloudy Bay in NZ. LVMH's products are an expression of creativity and timelessness.

All roads lead to technology - Accenture

Some of our 16 global megatrends are technology based. Despite all the negative noise shouting for our attention today, the reality is that we are in the middle of an unstoppable wave of technological advances impacting every business. From old style utilities and industrials to online payments, construction and retail. Companies must digitise their business to remain competitive, grow their customer base, revenues and earnings. Accenture is a key player assisting in this digital transformation.

Accenture posted revenues of \$62 billion, a record 22% growth adding \$11 billion for the year, and importantly EPS growth of 18%. New bookings were \$18.4 billion for the quarter, their second highest ever.



LOEWE
Since 1845



MOYNAT
Since 1849



LOUIS VUITTON
Since 1854



BERLUTI
Since 1895



RIMOWA
Since 1898



PATOU
Since 1914

The previous LVMH picture highlights an important facet of their brand strength. They are 6 of **LVMH's oldest brands** (houses) in the leather goods division with the Loewe brand first established in 1846. History shows heritage brands with a strong leather goods offer, fare best during economic downturns.

In today's difficult macroeconomic climate LVMH delivered standout growth. **LVMH recorded revenue around €56.5 billion in the first nine months alone. Up 28%** compared to the same period last year. Luxury shoppers have not lost their appetite for high-end designer goods, even in tumultuous times. We have often cited the benefits of companies with pricing power and high gross margins in a rising inflationary environment. LVMH is a stand out example.

"The reality is that pricing power is actually a function of the desirability of the brand. Desirable brands can increase prices and non-desirable brands cannot. It's as simple as that. So what it is about is really developing strategies, marketing, products, distribution strategies that will increase desirability of the brand, so that in tough times or in other times, we can reflect into prices the cost of doing business."

Jean-Jacques Guiony, LVMH CFO, 3Q22 conference call

Whilst the luxury sector is not immune to recessionary shocks, the negative impacts do not last very long. The strongest brands tend come out bigger and better on the other side. LVMH offers a proven defensive track record.

The GFC period highlights this. Overall sales at LVMH declined by 4% yet Fashion & Leather Goods (F&LG) posted sales growth of +2% in the worst recessionary period we have had in decades. Back then F&LG made up 55% of their total. Today it represents 75% of group profits.

LVMH organic sales growth development (2007-10)



Conventional wisdom pointed to people trying to hide their wealth during an economic downturn. During the GFC, anecdotes spread of shoppers coming out of Bergdorf Goodman in NY with their purchases wrapped in brown paper bags. But a 2010 joint study by the Marshall School of Business and UCLA put paid to this.

The study focused on luxury leather goods and how they changed during the GFC. Leading brands substantially trimmed their offering, whilst simultaneously increasing price points. They also featured a higher proportion of items with logos or other brand identifiers.

Louis Vuitton and Gucci were charging consumers more to flaunt their brands during a recession.

The study explained this by segmenting luxury consumers into "Patricians" and "Parvenus", or "insiders" and "outsiders" to the world of luxury. Parvenus needed to confirm they were still wealthy during a recession by buying more items from the latest collections of lux brands. This created an opportunity for ostentatious luxury designs.

The GFC sent the world into a tailspin, mainly because it was the most significant contraction in the global economy since WWII and the last global recession was 18 long years ago. Luxury stocks saw a mass sell-off. From the peak of their performance in May 2007 to trough in March 2009, an index of the top 13 luxury goods companies lost 62 percent of its value.

Over the same period, the financial performance of the 13 companies making up the index was the reverse! Sales continued growing; +5.7% in 07', +6.5% in 08' and +2.2% in 2009. Their share prices recovered sharply immediately after the bad news ebbed. Investors rightly appreciated the resilience and strength of their business models. LVMH have delivered a compound annual earnings per stock growth rate of 14% p.a. since the start of the GFC. A compound annual rate of return of 17% p.a. over the same period.

Summing things up

The global economy is impossibly complex, with billions of moving parts driving demand, consumption and activity. Commentators, most fund managers, consultants and the media earn money trying to predict what all of these billions of consumers and companies are doing, or are planning to do over the next few weeks, months or even years. It's not only foolish but impossible.

Happily to do well one doesn't need to try!

On the other hand, you can to some degree, predict how a specific company will be trading five or ten years from now if you know that business well and the big silent factors driving their operating environment. There's no telling how the Fed will react with interest rates during the next 12 months, but in five years, it's highly likely people will still be investing in technology solutions (Accenture) and purchasing luxury hand bags (LVMH).

Focusing on the most profitable businesses with sustainable earnings enjoying long runways of growth (Quality) remains central to Insync's investment strategy.

Understanding the business fundamentals of high quality companies such as Accenture and LVMH is likely to deliver better outcomes for investors than decisions based on economic predictions, timing, sentiment and fear.

Insync invests in businesses not markets. Invest with us.

September 2022

Statistical Monthly Update

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Risk Measures – Global Quality Equity Portfolio^

	1 Year	3 Years	5 Years
Standard Deviation	18.50%	17.02%	15.31%
Tracking Error	9.31%	8.73%	7.81%
Information Ratio	-1.13	-0.30	0.12
Sharpe Ratio	-1.17	0.15	0.59
Batting Average	33.33%	47.22%	55.00%

Risk Measures – Global Capital Aware Fund*

	1 Year	3 Years	5 Years
Standard Deviation	17.77%	16.13%	14.44%
Tracking Error	9.04%	9.45%	8.45%
Information Ratio	-1.32	-0.30	-0.00
Sharpe Ratio	-1.29	0.15	0.56
Batting Average	33.33%	47.22%	50.00%

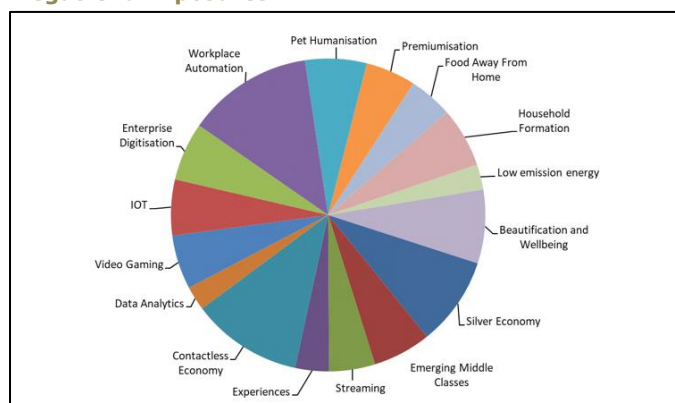
Capture Ratios – Global Quality Equity Portfolio^

	3 Years	Since Incep [#]
# Index Positive Months	20	96
# Index Negative Months	16	60
Up Market Capture	1.26	0.99
Down Market Capture	1.53	0.87
Capture Ratio	0.83	1.14

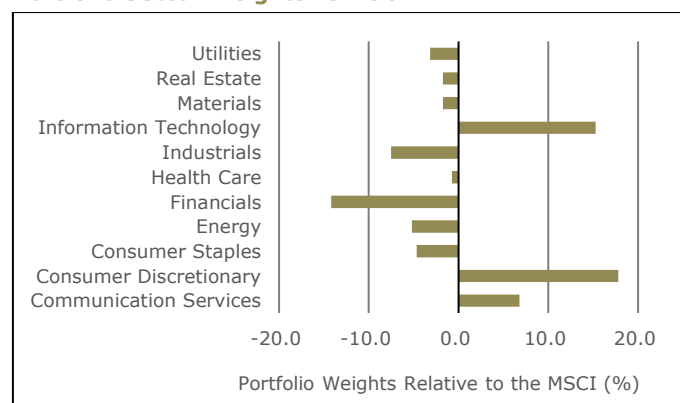
Capture Ratios– Global Capital Aware Fund*

	3 Years	Since Incep [#]
# Index Positive Months	20	96
# Index Negative Months	16	60
Up Market Capture	1.16	0.85
Down Market Capture	1.41	0.80
Capture Ratio	0.82	1.06

Megatrend Exposures



Portfolio Sector Weights vs MSCI



Top 10 Active Holdings

Stock	%
KLA Corp.	4.2%
Visa	4.1%
Ulta Beauty	3.6%
Alphabet INC-CL A	3.6%
Nintendo	3.4%
Qualcomm	3.3%
LVMH	3.3%
Roche Holding	3.0%
Accenture	2.9%
Dollar General	2.8%

Key Portfolio Analytics

	Portfolio	Index
Forward PE	18.78	13.45
Forward PCF	15.52	15.61
ROIC	39.88	15.39
Market Cap (USD Bn avg)	418.38	40.60
Market Cap (USD Bn median)	137.35	15.42
Std deviation (ex ante)	18.82	16.36
Interest Cover	223.97	67.18
Total Debt to Ebitda	1.58	3.23

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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