

# Alphinity Global Sustainable Equity Fund (Managed Fund)



## MONTHLY REPORT – OCTOBER 2024

Performance <sup>1</sup>	1 Month %	3 Months %	1 Year % p.a.	3 Years % p.a.	5 Years % p.a.	Since Inception <sup>2</sup> % p.a.
Fund return (net)	2.4	0.3	30.8	7.3	-	11.6
MSCI World Net Total Return Index (AUD)	3.8	2.1	29.2	11.3	-	13.1

### Fund facts

Portfolio managers	Jeff Thomson, Jonas Palmqvist, Trent Masters, Chris Willcocks.
APIR code	HOW1000AU
Inception date	3 June 2021
ASX Code	XASG
Investment objective	To outperform the MSCI World Net Index (AUD).
Management fee	0.75% p.a.
Performance fee	10% of the excess return of the Fund above the Performance Benchmark (MSCI World Net Return Index (AUD)) and only paid if performance is above the Performance Hurdle (Reserve Bank of Australia cash rate target). Any negative or unpaid performance is carried forward to the next period. <sup>1</sup>
Buy/sell spread	+0.25% / -0.25%
Fund size	\$84m
Distributions	Annually at 30 June
Min. Investment	\$10,000
Max. cash position	20%
Carbon Intensity (ave weighted) Scope 1 & 2	91.2 (vs MSCI Benchmark 106.9)

### Top 10 positions

Company	Sector	%
Nvidia	Info. Technology	6.6
Apple	Info. Technology	6.5
Microsoft	Info. Technology	5.9
Bank of America	Financials	4.6
Thermo Fisher	Health Care	4.2
Alphabet	Communication Services	4.0
Merck & Co	Health Care	4.0
Novonosis	Materials	3.9
Motorola Solutions	Info. Technology	3.7
Intuitive Surgical	Health Care	3.6
<b>Total</b>		<b>47.0</b>

Data Source: Fidante Partners Limited, 31 October 2024

### Fund features

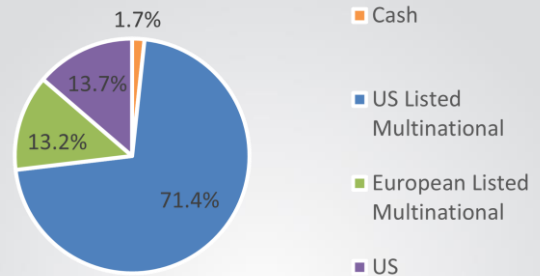
**Sustainable:** A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Diversified across sectors and regions.

**Discipline:** A disciplined process finding quality businesses with strong earnings that are under appreciated by the market. This approach has proven successful across different market cycles.

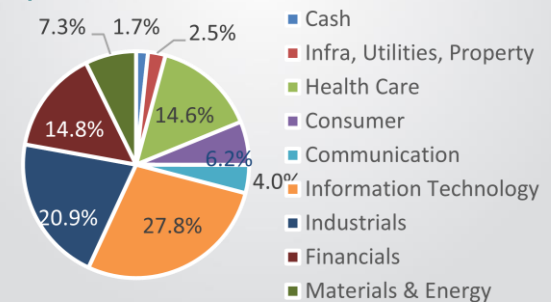
**Talent:** A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

**Aligned:** Alphinity Investment Management is a boutique firm, strongly aligned with its clients' investment objectives and focused solely on growing clients' wealth

### Geographical exposure



### Sector exposure



<sup>1</sup> Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance.

<sup>2</sup> The inception date for the Fund is 3 June 2021

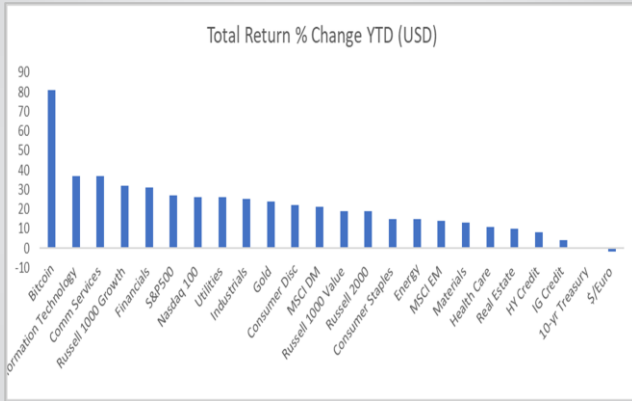
<sup>3</sup> Numbers may not add due to rounding

## Portfolio comment and outlook

Global equity markets declined in October with investor caution around rising bond yields, third quarter company earnings, the impact (if any) of China stimulus and uncertainty around the 5 November US election weighing on returns. The stronger US Dollar provided a translation benefit which converted a -2% USD based return for the MSCI World Index into a +3.5% gain in AUD terms. The extent of the Trump victory surprised markets, with a clean sweep of the 'swing states' and the Republican Party now close to clinching control of the US House of Representatives. This ignited the "Trump Trades" where the US Dollar, Financials and crypto all rallied in response. Although a November story, there was evidence of this building October as the likelihood of a Trump victory was becoming more apparent.

In Australian Dollar terms, the US S&P 500 index outperformed global markets, rising 4.6% in AUD terms with the tech-heavy Nasdaq gaining 5.1%, despite an end of month wobble as some of the US mega cap tech stocks fell post their Q3 earnings results. While overall, there was a healthy beat rate on EPS of around 70%, some cautious guidance and CAPEX increases have driven downward earnings revisions. Equities outperformed the bond market, with a sharp 50 basis point move higher in US 10-year bond yields to 4.28%, despite the Fed cutting 50 bps in September, and a further 25bps this month. Although it remains to be seen how the Trump policies will play out, the consensus appears to be ultimately inflationary which is driving up yields further.

### Pro-Trump trades outperforming YTD



Source: Bloomberg, 12 November 2024

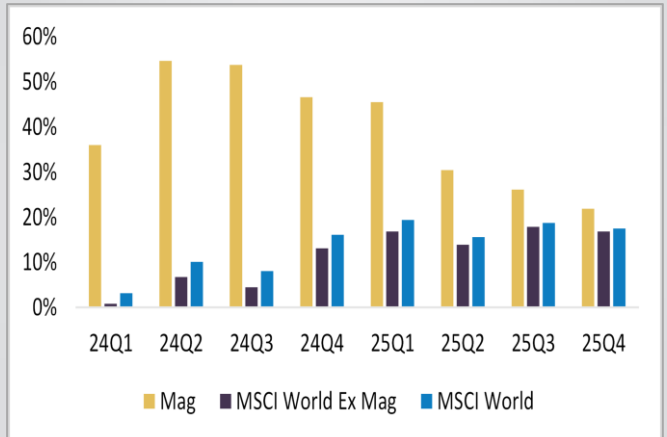
On a sector level, Communication Services, Financials and Energy stocks were the strongest, while Materials, and the more defensive Healthcare and Consumer Staples sectors lagged. Economic data was generally positive with US Services PMIs continuing to print around the 55 level (expansionary) while the Manufacturing PMI of 48.5 was slightly ahead of forecasts. Inflation data continued to trend lower with annualised CPI trending down from 3.5% in March to its latest reading of 2.4%, giving the Fed enough reason to justify cutting rates by 75 basis points in the last 3 months. With tax cuts and

more fiscal stimulus on the agenda, it becomes more challenging to envisage a continued path of rate cuts in the near term.

## Portfolio comment and outlook

Recent months have been eventful, with the Fed cutting rates, China boosting economic stimulus due to weak growth, rising geopolitical tensions in the Middle East, and a fractious US election. Meanwhile Treasury yields have surged again due to renewed concerns about higher fiscal deficits and associated inflationary pressures. While considerable uncertainties remain, we continue to view the outlook for economic growth as supportive and consistent with a soft landing. The US labor market and consumer spending have remained resilient throughout, even if slightly weaker over the last few quarters. Importantly inflation has continued to moderate, opening a path to further rate cuts across most major geographies. China stimulus is also encouraging, and likely removes a potentially significant tail risk for growth, even if considerably more will likely be required to fully reverse a difficult deflationary spiral. The principal risk to global growth is likely fiscal and/or monetary policy mistakes which re-ignite inflation and reverse the outlook for interest rates.

### Quarterly EPS Growth for MSCI ex Mag 5 broadening out



Source: Alphinity, Factset, 31 October 2024

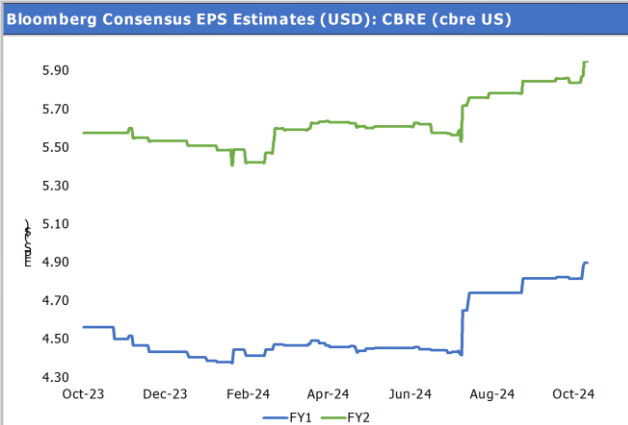
Earnings also remain a tailwind for equity markets. Consensus expects a steady acceleration in earnings growth in 2024 (+7.8%) and 2025 (+12.2%), although the upgrade cycle so far has been weaker than usual. In fact, over the past three months consensus estimates for both this year and next have edged lower overall (-1.1% and -1.9% respectively), with Communications and Financials continuing to lead with positive revisions, while consensus estimates for Energy, Consumer Discretionary and Materials have fallen sharply. In this context it's reassuring that third quarter results were robust and better than expected. With most companies in the S&P 500 having reported, approximately 67% of companies beat EPS expectations, with earnings 6.6% better in aggregate. Quarterly revenues (weighted) grew by 5.2% y/y and EPS by 8.2% y/y. Financials overall were a stand-out, with notable 'green shoots' in capital market and generally stable credit metrics. Interest income was resilient with encouraging signs that consumer rate seeking behavior is beginning

to subside, which is supportive for margins. Nvidia is yet to report, however the rest of the Magnificent 7 reported well, with still market-leading EPS growth of c.30% y/y versus only 3% growth for the rest of the S&P 500. Consensus continues to expect this growth differential to narrow significantly in 2025, which if realized suggests market leadership will begin to broaden out.

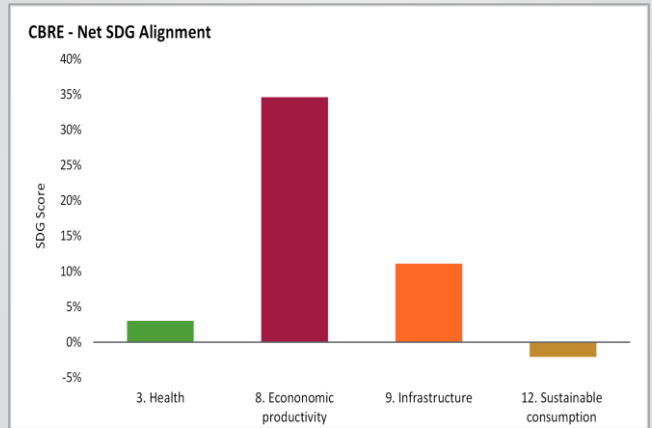
The Portfolio overall reported good third quarter earnings, with particularly strong reports from Cadence, Intuitive Surgical, Bank of America and Cintas. On the other hand, ASML reported weaker than expected orders and lowered 2025 sales and gross margin guidance. With significant negative revisions to estimates, and low visibility on recovery, we chose to sell out. We also continued to take profit in stocks including Nvidia, Schneider Electric, Motorola Solutions and Trane Technology after strong performance. This capital was mostly invested into two new positions including ServiceNow, a leading high-growth enterprise software business where we expect earnings upside from further expansion into broader enterprise workflows, and CBRE, a market leader in CRE leasing and sales with a growing mix of 'resilient' earnings drivers.

The Portfolio overall remains invested in our highest conviction Growth stocks, with selective Cyclical and Defensives, and remains diversified across most sectors. The outlook for inflation and rates continues to be unusually uncertain and we will be disciplined about following earnings leadership as the macroeconomic outlook evolves. After period of extensive travel by the investment team, there are several promising new ideas which are likely to challenge for inclusion in the portfolio over the next few months.

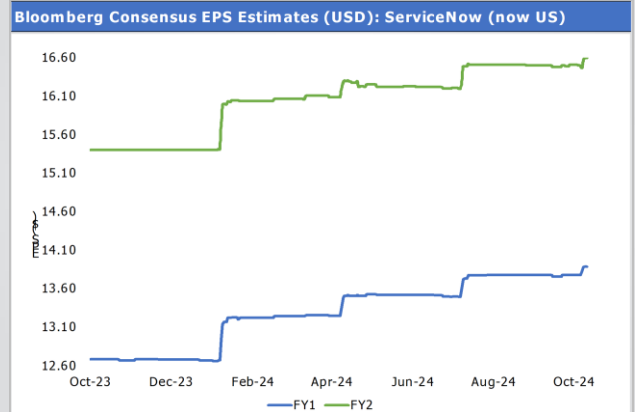
**CBRE – Leader in CRE leasing and sales – seeing EPS upgrades following a strong result.**



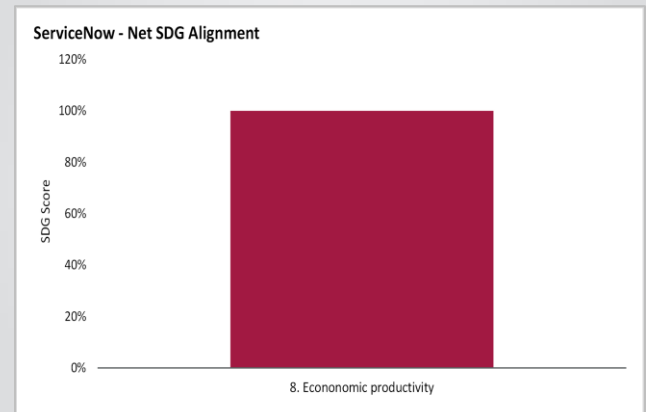
**CBRE – SDG Net Alignment = 47%**



**BOUGHT: ServiceNow – Leading software business**



**ServiceNow – SDG Net Alignment = 100%**



Source: Alphinity, Bloomberg, 31 October 2024

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Important information: This material has been prepared by Alphinity Investment Management Limited (ABN 94 002 835 592, AFSL 234668) Alphinity, the investment manager of the Alphinity Global Sustainable Equity Fund. Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (Challenger Group) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at [www.fidante.com](http://www.fidante.com) should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. Alphinity and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, Alphinity and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.