

# Alphinity Global Equity Fund (Managed Fund)

## MONTHLY REPORT - APRIL 2024

Performance <sup>1</sup>	1 Month %	Quarter %	1 Year %	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	Since Inception <sup>2</sup> % p.a.
Fund return (net)	-3.9	7.9	19.3	12.6	13.5	14.0	13.0
MSCI World Net Total Return Index (AUD) <sup>3</sup>	-3.3	5.5	20.5	11.9	12.2	12.5	12.0

### Fund facts

Portfolio managers	Jonas Palmqvist, Jeff Thomson, Trent Masters, Mary Manning, Chris Willcocks.
APIR code	HOW0164AU
Inception date	21 December 2015
ASX Code	XALG
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	\$573m
Distributions	Annually at 30 June
Min. Investment	\$10,000
Max. cash position	20%

### Top 10 positions

Company	Sector	%
Alphabet	Communication Services	6.0
Nvidia	Info. Technology	5.9
Microsoft	Info. Technology	5.4
Bank of America	Financials	4.1
Merck & Co	Health Care	4.1
ConocoPhillips	Energy	4.0
Motorola Solutions	Info. Technology	3.9
Trane Technologies	Industrials	3.7
Linde	Resources	3.6
Parker Hannifin	Industrials	3.4
<b>Total</b>		<b>44.1</b>

Data Source: Fidante Partners Limited, 30 April 2024

<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.

<sup>2</sup> The inception date for the Fund is 21 December 2015

<sup>3</sup> From 21 December 2015 to 30 April 2019, the Benchmark was the MSCI World Equity ex Australia (Net) Index. The current index is effective from 1 May 2019

### Fund features

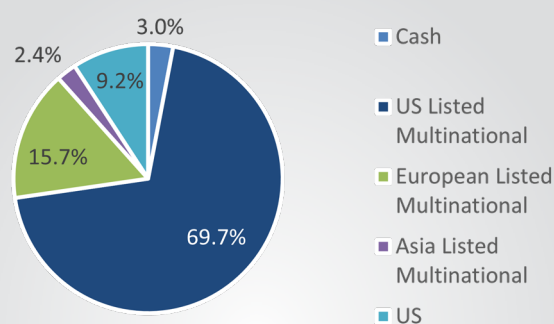
**Concentrated:** A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

**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.

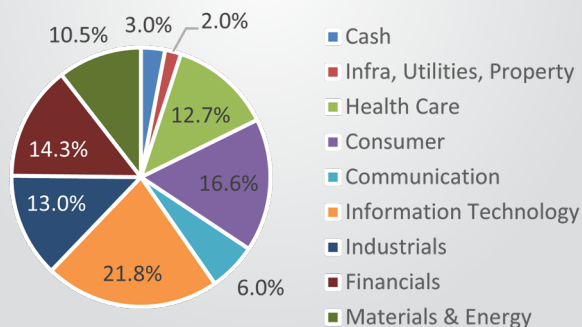
**Talent:** A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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

### Geographical exposure

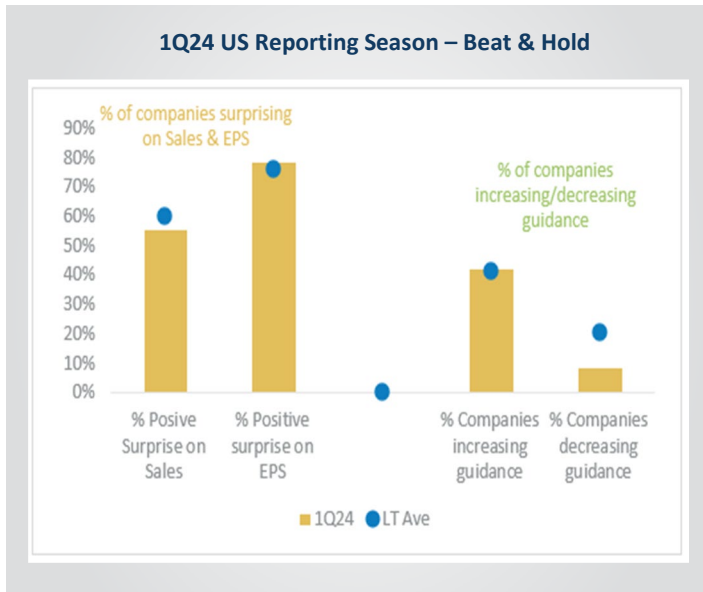


### Sector exposure



## Market comment and outlook

A sharp turnaround in expectations for rate cuts dragged equity markets lower in April, driven by persistently higher than expected inflation in the US. It was a month of trend reversals where US mega cap tech stocks gave up recent gains and struggling markets like Hong Kong and China rebounded. Japan, one the strongest performing equity markets that attracted flows out of China, fell 8% in AUD terms, although some of this was driven by a weaker Japanese Yen.



Source: Bloomberg, 10 May 2024

The MSCI World Index declined 3.4% last month with the US (-3.7%) a large contributor, although global stocks are still up 10% on a year-to-date basis. European shares marginally outperformed US shares (-2%), but the biggest rotation was out of developed markets into emerging (+0.8%) with funds flowing back into China/HK. Hong Kong shares closed up 8%, driven by a positioning-led rally more so than anything fundamental, and possibly a belief the economic slowdown has troughed. One market bucking the trend of developed market weakness was the UK, with the FTSE100 index at record highs. Its composition of less technology exposure and larger weighting to financials and resources stocks helped drive outperformance in that region.

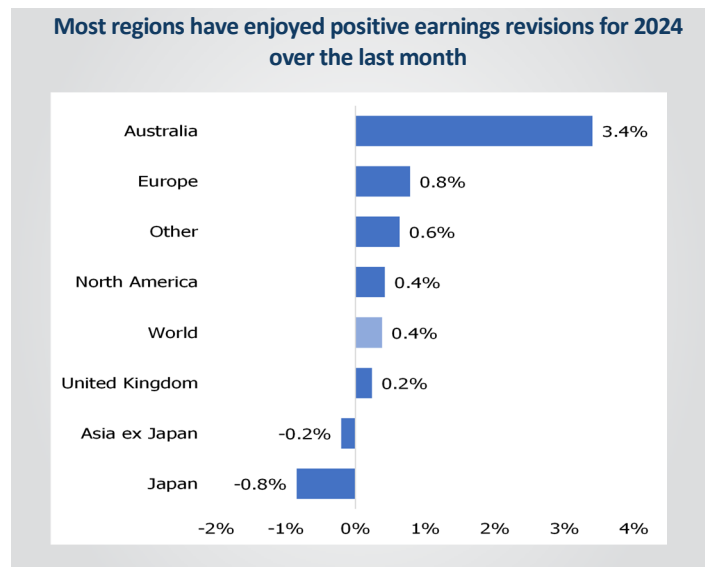
Companies were a large way through their Q1 24 earnings by the end of April, with around 80% of the S&P 500 index already reported. The beat rate has remained strong at 78%, while the magnitude of earnings per share (EPS) beats has held firm at +7.8% - one of the strongest positive quarterly EPS surprises since Q3 21. The strong earnings season has led to modest upward earnings revisions in the US in FY24 and FY25, while Europe and Japan are both experiencing downward earnings revisions over the same periods.

One month doesn't make a trend, but it's becoming increasingly harder for the Fed to ignore three consecutive months of inflation numbers in the US, not only rising in nominal terms but also printing above expectations every month this year. US 10-year bond yields jumped 48 basis points to close the month at 4.68%. Jobs growth also continued, with non-farm payrolls stronger than expected in March, although a decline in April jobs growth provided some relief to both bond yields and equities in the early part of May.

## Portfolio comment and outlook

The US labour market continues to show impressive resilience, with unemployment remaining low and wages rising, which is supporting consumer spending and the broader economy. At the same time, moderating inflation has cleared a path toward policy normalisation, albeit at a pace that will be slower than most hoped for at the start of the year. As long as growth remains positive, a 'higher for longer' environment can remain supportive for financial markets despite stickier inflation and an unsettled geopolitical backdrop. Nevertheless, a complex mix of early and late cycle dynamics across different sub-sectors and geographies means that uncertainty is unusually elevated and there remains a significant risk of policy error.

The first quarter earnings season can best be described as "Beat & Hold". Surprising positive relative to expectations but remaining cautious about the outlook. First quarter revenues for the S&P 500 have grown +3.7% y/y and EPS +5% y/y. Earnings estimates for both 2024 and 2025 have been raised by +0.4%/+0.4% respectively over the last month. By sector, Communication Services, Technology Hardware and Financials have enjoyed the strongest revisions, while traditionally defensive sectors including Healthcare, Real Estate and Consumer Staples have experienced downgrades. Consensus currently expects 2024 earnings growth of +7.9% for the MSCI World Index, accelerating to +12.6% in 2025.



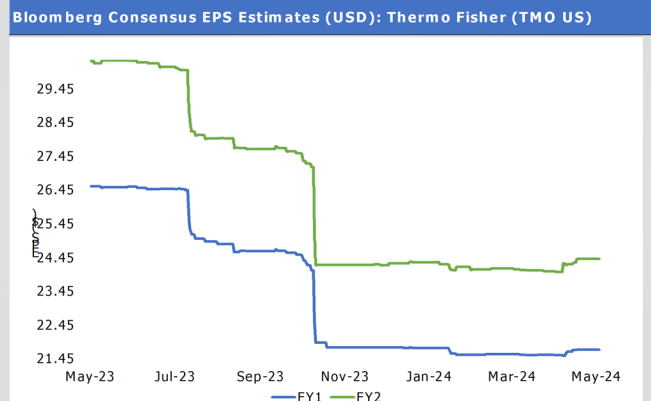
Source: Alphinity, Bloomberg, 10 May 2024

Market leadership has now decisively returned to fundamental earnings, an encouraging sign for the overall health of financial markets, but also a tailwind for our process and a driver of positive performance in the quarter. Growth stocks, including many of the mega-cap Technology titans, continue to lead; although there is now significant dispersion within this group, as well as some early signs of broader market participation.

Market breadth has improved, however leadership largely remains with a distinct group of high-quality growth and cyclical stocks, while defensives are mostly lagging. The ‘Big Six’ tech stocks generally reported well (except for Meta), confirming a re-acceleration in cloud revenues, strong AI-related capex, and a healthy advertising environment. Outside of these tech leaders, performance was more mixed reflecting a generally subdued commercial spend environment and patchy consumption trends. There was notable strength in businesses exposed to energy efficiency and electrification, as well as data centre end-markets, while traditional defensive sectors such as Utilities, Health Care, Real Estate and Consumer Staples continue to mostly underperform.

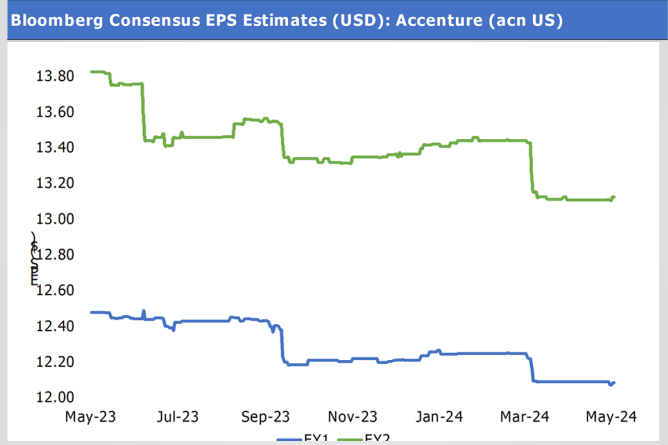
During the month we initiated a new position in Thermo Fisher Scientific, a high-quality life science leader with earnings upside from recovering end-markets and share gains. We also added to Alphabet after a strong report with better-than-expected cloud and advertising revenues, as well as the introduction of a quarterly dividend. This was financed through the sale of Accenture to reflect concerns about a more challenging tech spend environment (ex AI). We also reduced Prologis after management revised guidance lower to acknowledge new growth headwinds. The overall Portfolio continues to see better earnings revisions and growth than the market for both 2024 and 2025, which we expect to drive performance over time. After a strong market rally, we are cognisant of valuation risks and the investment team is travelling widely over the next few weeks to validate conviction on existing investments, but also refresh our best research ideas across different sectors and geographies as the environment continues to evolve.

**BOUGHT: Thermo Fisher – Leader in life science & benefiting from recovering end-markets**



Source: Bloomberg, 18 May 2024

**SOLD: Accenture – AI spend crowding out existing tech spend in the short term**

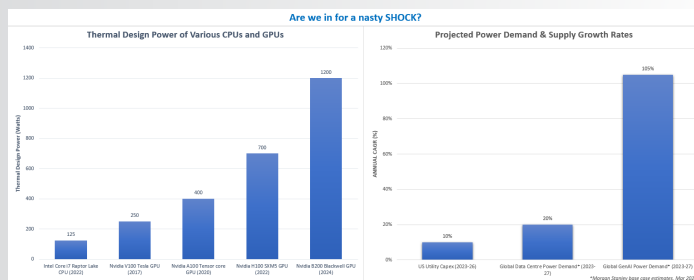


Source: Bloomberg, 18 May 2024

## Opportunities emerging from rising demand for AI computing power

The AI boom is likely to drive a surge in energy consumption after decades of sluggish demand. Powering energy-hungry data centres has become a significant bottleneck within the AI capex cycle. We take a closer look at the implications for global energy and gas markets, but also highlight various potential beneficiaries across different industries.

- The proliferation of Generative AI is likely to cause electricity consumption to inflect higher and begin grow once again.
- Chronic underinvestment in power generation creates a bottleneck, making gas a practical short-term solution amid costly and highly intermittent renewables.
- Analysis suggests this could drive incremental growth in US gas demand of ~1-2 bcf/d or 1% – 1.8% of current demand. That is on top of the ~1% of demand from LNG export projects that have already reached FID.
- Alphinity have multiple avenues of exposure to this thematic. ConocoPhillips benefits as a leading global gas producer and trader, along with tech giants Nvidia, Microsoft, Google, ASML, and Cadence Design who supply essential technology to enable AI. Trane Technologies, Ferguson, and Prologis facilitate the physical construction of data centres. Additionally, in the Sustainable fund, we own Schneider Electric and Quanta.

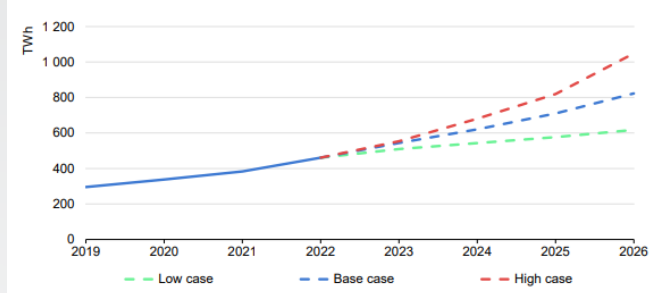


### How much energy do data centres consume today and may consume in the future?

Generative AI and large language models have sparked strong rallies in some stocks, particularly those directly exposed to data centres. These centres, vital for AI processing, are reigniting electricity demand, challenging the adequacy of power supplies and infrastructure. The energy demand from data centres, already high, is predicted to grow, prompting significant investments in energy infrastructure, including natural gas and power distribution systems.

Currently, data centres consume about 2.5% of global electricity, a figure Boston Consulting Group expect to rise to 4% by 2027 and as high as 7.5% by 2030, increasing the U.S. electricity demand at twice the rate of the previous decade. If correct, that will be equivalent to powering ~20% of all homes in the US. This surge underscores the urgent need for expanded power generation to prevent potential blackouts and is driving a meaningful uplift in capital expenditures by utility companies. With the U.S. leading the global data centre market, approximately 40% of global capacity, this trend is likely to be mirrored worldwide, affecting energy consumption and infrastructure development on an international scale.

Global electricity demand from data centres, AI, and cryptocurrencies, 2019-2026



IEA, CC BY 4.0.

Notes: Includes traditional data centres, dedicated AI data centres, and cryptocurrency consumption; excludes demand from data transmission networks. The base case scenario has been used in the overall forecast in this report. Low and high case scenarios reflect the uncertainties in the pace of deployment and efficiency gains amid future technological developments.

Sources: Joule (2023), de Vries, [The growing energy footprint of AI](#); CCRI Indices ([carbon-ratings.com](#)); The Guardian, [Use of AI to reduce data centre energy use](#); Motors in data centres; The Royal Society, [The future of computing beyond Moore's Law](#); Ireland Central Statistics Office, [Data Centres electricity consumption 2022](#); and Danish Energy Agency, [Denmark's energy and climate outlook 2018](#).

### Estimating how this increased demand translates into actual electricity demand.

#### Bottom-up analysis: GenAI to add 1% of incremental electricity demand growth per annum

Power consumption in data centres is calculated by adding server and storage power use, multiplied by power usage effectiveness (PUE) and operating hours. By estimating GPU growth, chip utilization and power efficiency, one can project potential power needs. AI racks can need up to five times more power than traditional ones. AI data centres using GPU clusters, consume 30-100kW per rack. Taking this fact further, mature LLMs such as ChatGPT in inference mode, consume 400-1300 kWh daily, requiring significantly more power as user queries escalate post-training.

### Conclusion

The tech sector's rapid evolution often outpaces slower-moving industries and governments, potentially causing bottlenecks. While technological advancements may offer some relief, they may not suffice to meet the surging demand for power. Consequently, this growing need is expected to spark a renewed interest in gas-fired generation. Companies such as ConocoPhillips are well positioned to benefit from fulfilling this demand and capitalizing on the ensuing market volatility.

Additionally, Alphinity has significant positions in the technology companies that are crucial to the rapid growth of AI, as well as exposure to the "picks and shovels" companies further up the value chain. These businesses are actively addressing emerging challenges, including managing heat generation, enhancing, and securing the electrical grid, and overcoming the scarcity of strategically located land.

These include technology companies like **Nvidia**, **Cadence Designs**, **Alphabet and Microsoft**, alongside companies such as **Trane Technologies**, who are the leaders in data centre cooling solutions. **Prologis**, who are spending ~US\$7-8bn over the next 5yrs to build 20 new DCs. **ASML** who manufacture advanced AI chip equipment, and **Ferguson** who supply infrastructure essentials such as pipes and fire suppression for DCs. Furthermore, our sustainable strategy owns **Schneider Electric** with 20% of sales to DCs and **Quanta**, the top U.S. grid EPC.

**Author:** Chris Willcocks – Global Portfolio Manager

**For a copy of the full note**, visit our website: [Opportunities emerging from rising demand for AI computing power - Alphinity](#)

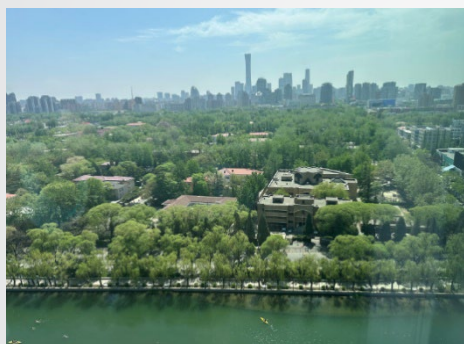


## Traveller's Tale

Stephane, our fearless resource-focused Portfolio Manager, went to China again in April in an attempt to better understand how that critically-important economy is placed for the rest of the year. It's the team's third trip to China in recent months and, given how quickly the dynamics are changing in the world's second largest economy, more trips are in the pipeline. Jacob is going to China in May to get a read on the outlook for some of our consumer-exposed companies.

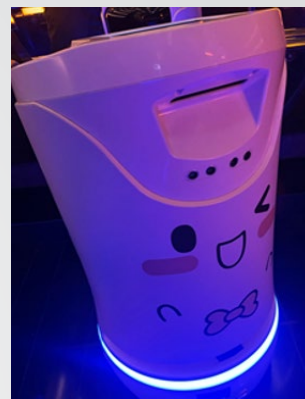
Let's start with an unusual photo Stephane took of the Beijing skyline, showing sunshine and blue skies. As a lover of nature, this is a scenic photo. As a commodities analyst, however, the first thing that comes to mind is concern for steel mill inventories and what a clear sky means for industrial

production and steel demand. To get clear skies in Beijing you usually need a special event like an Olympics or the annual flower festival, during which factory output is purposely limited in order to reduce smog and make the place more visually appealing.



During the week-long trip, Stephane met with several steel mills and steel traders, China's national development body, and various property consultants and developers. He also met with scrap steel specialists and some downstream companies. To summarise his high-level views on various commodities post the trip, he came away mildly positive for iron ore, and lot of more positive on the outlook for Copper and Aluminium. Gold is still a 'black box' and is generally as unpredictable as forecasting exchange rates but one thing is clear: the Chinese are buying lots of it, both individuals and the government. Stephane came away with a more negative view of rare earths, and a marginally negative view on lithium. The spot price of Lithium has been under immense pressure, but could become an opportunity closer to 3rd quarter re-stocking. We will need to closely monitor battery production and inventory levels at CATL, the world biggest battery maker.

Moving away from commodities to technology, during this trip Stephane interacted with robots more than he wanted to. Arriving back in his hotel late one night in Shanghai and ordering room service, the doorbell rang but there was no one there. He looked down and saw a small winking robot looking back up at him. Its top opened and out came his dish. After incredulously thanking the bot for his meal, it disappeared down the corridor to the next room. These robots were seen often in China, zipping through reception halls quietly and efficiently making deliveries. We've seen similar innovations at restaurants here in Australia (like Din Tai Fung in Chatswood, Sydney and The Spirit of Punjab in Halls Gap, Victoria), where happy little robots dutifully serve up the meal of your choice. Look out for this innovation coming to hotels here soon.



The main company behind these robots is Shanghai Jingwu Intelligent Technology, established in 2019. Its algorithm that calculates a robot's route of travel for deliveries apparently has an accuracy rate of 99.8%, and multiple types of robots and various pieces of equipment can be linked through its cloud platform. The robots can make 70-80 deliveries per day, and a study from a large hotel chain in China showed that the workload of one robot was equivalent to the workload of one hotel staff member and one security guard, reducing labour costs by around \$US1400 per month. The technology comes at an interesting time in China, where youth unemployment is still very high. Productivity gains like this through innovative technology will allow for different kinds of new jobs in the future, but the timing of productivity gains and new job creation is often lagged, and can be quite tricky in the short term.

## A responsible framework for Investors

We are excited to present this essential guidance for investors on how to assess the responsible use of Artificial Intelligence (AI). This framework not only delivers insightful research, but it provides practical tools for investors by operationalising Australia’s 8 AI Ethics Principles. It is hoped the investment community – and companies more broadly – will embrace these tools as standard practice for responsible AI measurement.

This report presents the insights and outcomes developed through a collaborative partnership between CSIRO’s Data61. It is intended to be used by equity investors who want to assess the environmental, social and governance (ESG) implications of the design, development and deployment of Artificial Intelligence (AI). It can also be used as a guide for listed companies and other stakeholders that are considering how best to integrate efforts in Responsible AI (RAI).

We encourage you to:

- Read the 10 key insights from the company engagements and research.
- Understand Australia’s AI Ethics Principles.
- Follow the ESG-AI framework’s assessment steps (1 to 3, as needed)
- Use the spreadsheet templates provided.

### 10 Key insights - Developed following engagement with 28 listed companies and other research

<b>1</b> Only a small percentage of companies publicly disclose their RAI policies	<b>2</b> Global equities are at the forefront of AI implementation	<b>3</b> Employee engagement is essential to deliver AI-related opportunities	<b>4</b> Strengthening Board and leadership capability in AI, technology and ethics
<b>5</b> RAI governance is best embedded within existing systems	<b>6</b> Strong track record in ESG performance is a measure of confidence	<b>7</b> A balanced view of threats and opportunities is needed to explore AI	<b>8</b> Supply chain management can be overlooked
<b>9</b> Most companies are investing in AI, but RAI disclosures are nascent	<b>10</b> Data privacy is a key ESG issue but others are being overlooked		

### Nothing to see here

While most ESG reports are public, we found only a small percentage of companies publicly disclose their responsible AI (RAI)

Forty per cent of interviewed companies had internal RAI policies, yet only ten per cent shared these publicly. Despite this, 62 per cent of companies were starting or had implemented an AI strategy.

Global companies were more advanced than Australian companies in implementing these strategies. Even the companies that were doing considerable RAI work didn’t reflect it in their external reporting. Some companies fail to mention AI in their risk statements, strategic pillars and annual reports, despite expressing enthusiasm about it in discussions and making significant investment into exploring the technology.

### Caution to the wind, kind of.

Many companies express concerns about the potential negative impacts of AI on their reputation, consumer trust, and regulatory consequences.

We found that companies with good overall governance structures are more likely to balance AI threats and opportunities and therefore have a healthy curiosity of new technology. Conversely, companies with weak overall governance are unlikely to show leadership characteristics when it comes to developing and implementing RAI. This could limit the opportunities that AI offers. For example, some companies we interviewed restricted employees from using AI tools such as ChatGPT, while others took an educational stance.

### ESG: the way to see

So, if public reporting isn’t commonplace and a balanced view of threats and opportunities is needed to mitigate harm and leverage AI benefits, where can investors look for answers?

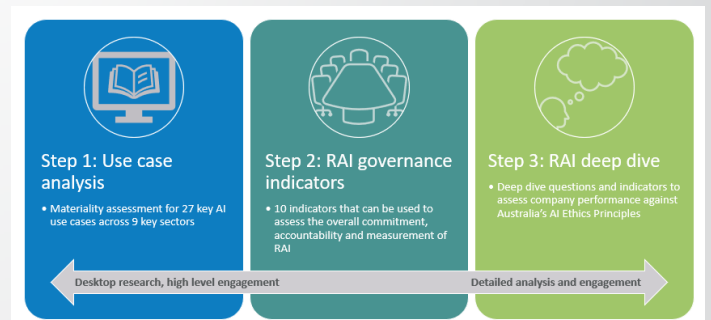
We found that a strong track record in ESG performance is an indicator of confidence for investors. Companies that carefully consider how their actions affect people, their reputation, and how they’re seen by society will approach new technologies like AI with the same care. These companies generally have well-respected Boards, robust disclosures and ESG commitments. They’re also likely to implement AI responsibly and in a measured way.

Because AI is evolving so rapidly, good leadership on existing topics like cyber security, diversity and employee engagement suggests that the impact of AI will also be considered thoughtfully.

### But wait, there’s more

While looking to existing ESG frameworks is a handy stop-gap for investors, we’ve created something much more robust. In our report, The intersection of Responsible AI and ESG: A Framework for Investors, we’ve created a framework to help the investment community assess RAI practices and integrate ESG considerations.

**The ESG-AI investor framework:** A three -part framework designed to bridge the gap between existing ESG theory and the AI ethics principles to enable RAI assessment.



**Authors:** CSIRO & Alphinity IM

**For a copy of the full note,** visit our website : [A Responsible AI Framework for Investors - Alphinity](#)

# Alphinity Global Equity Fund

## MONTHLY REPORT – APRIL 2024

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