

Alphinity Global Sustainable Equity Fund (Managed Fund)

MONTHLY REPORT – APRIL 2024

| Performance ¹ | Quarter % | 1 Year | 2 Years | 3 Years % p.a. | 5 Years % p.a. | Since Inception ² % p.a. |
|---|-----------|--------|---------|----------------|----------------|-------------------------------------|
| Fund return (net) | 7.3 | 21.9 | 13.3 | - | - | 11.1 |
| MSCI World Net Total Return Index (AUD) | 5.5 | 20.5 | 15.6 | - | - | 11.8 |

Fund facts

| | |
|---|--|
| Portfolio managers | Jeff Thomson, Mary Manning, 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. ¹ |
| Buy/sell spread | +0.25% / -0.25% |
| Fund size | \$82m |
| Distributions | Annually at 30 June |
| Min. Investment | \$10,000 |
| Max. cash position | 20% |
| Carbon Intensity (ave weighted) Scope 1 & 2 | 86.3 (vs MSCI Benchmark 104.4) |

Top 10 positions

| Company | Sector | % |
|--------------------|------------------------|-------------|
| Alphabet | Communication Services | 6.4 |
| Microsoft | Info. Technology | 6.1 |
| Nvidia | Info. Technology | 5.6 |
| MasterCard | Info. Technology | 4.9 |
| Motorola Solutions | Info. Technology | 4.5 |
| Procter & Gable | Consumer Staples | 4.4 |
| Merck & Co | Health Care | 4.4 |
| Home Depot | Consumer Discretionary | 3.8 |
| Trane Technologies | Industrials | 3.7 |
| Linde | Materials | 3.5 |
| Total | | 47.3 |

Data Source: Fidante Partners Limited, 30 April 2024

Fund features

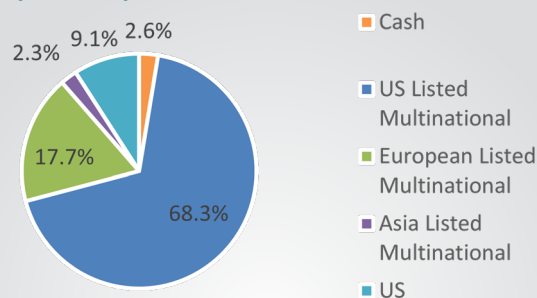
Sustainable: A long only, concentrated portfolio of 25-40 global companies with strong ESG practices that contribute towards at least one of the UN sustainable development goals. Diversified across sectors and regions.

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.

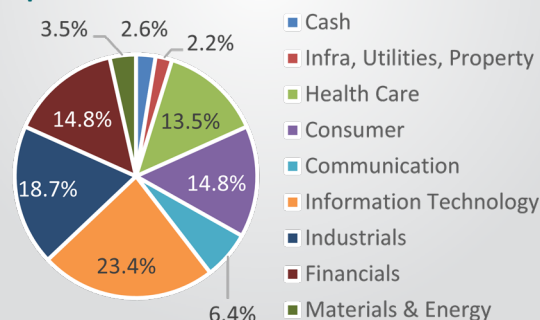
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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



¹ 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.

² The inception date for the Fund is 3 June 2021

³ Numbers may not add due to rounding

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 of 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.

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

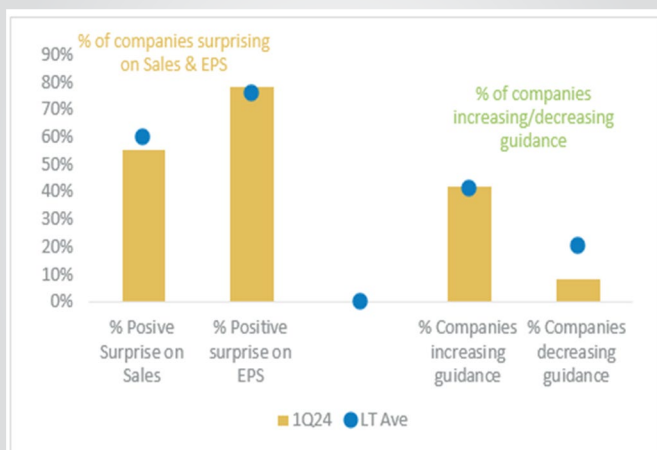
The US labour market continues to show impressive resilience, with unemployment remaining low and wages rising, which is supporting consumer spending and the broader economy. At the same time, moderating inflation has cleared a path toward policy normalisation, albeit at a pace that will be slower than 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%/+0.3% 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.

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.

1Q24 US Reporting Season – Beat & Hold



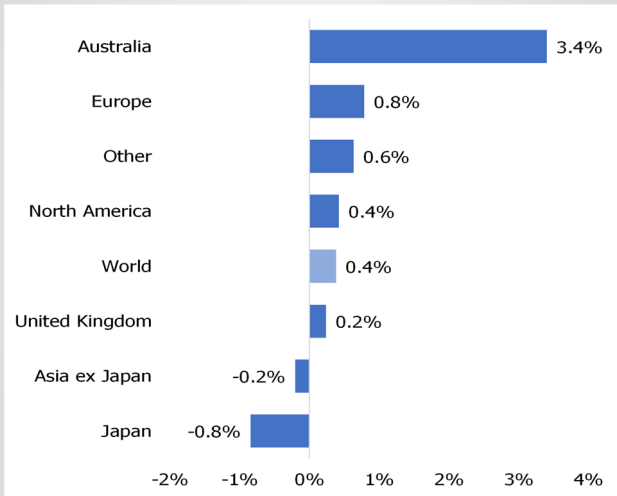
Source: Bloomberg, 10 May 2024

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

Most regions have enjoyed positive earnings revisions for 2024 over the last month

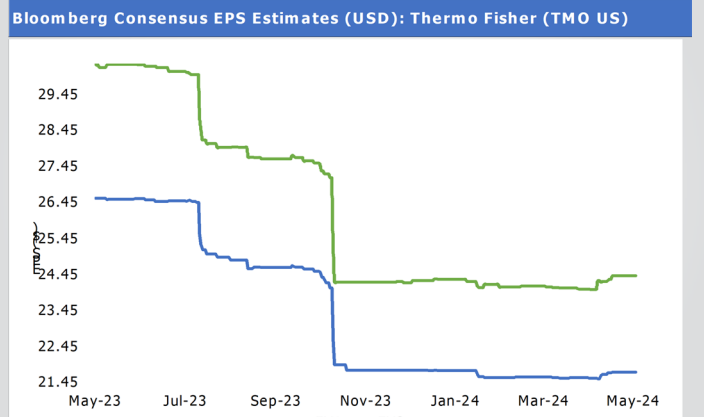


Source: Bloomberg, 10 May 2024

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 Veralto, a high-quality industrial offering water purification equipment and services. In addition, we increased our holding in 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.

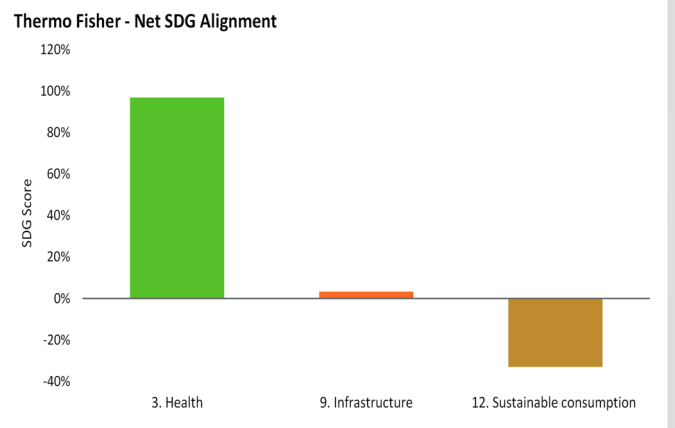
The overall Portfolio continues to see better earnings revisions and growth than the market for both 2024 and 2025, which we expect to drive performance over time. After a strong market rally, we are cognisant of valuation risks and the investment team is travelling widely over the next few weeks to validate conviction on existing investments, but also refresh our best research ideas across different sectors and geographies as the environment continues to evolve.

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



Source: Bloomberg, 10 May 2024

Prologis - Net positive SDG Score of 67%



Source: Alphinity, 10 May 2024

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



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 had 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?

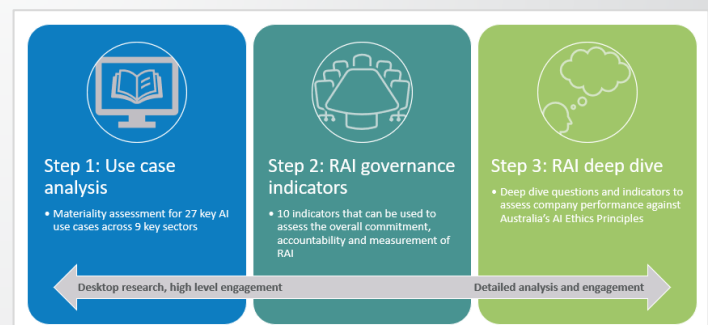
We found that a strong track record in ESG performance is an indicator of confidence for investors. Companies that carefully consider how their actions affect people, their reputation, and how they're seen by society will approach new technologies like AI with the same care. These companies generally 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.



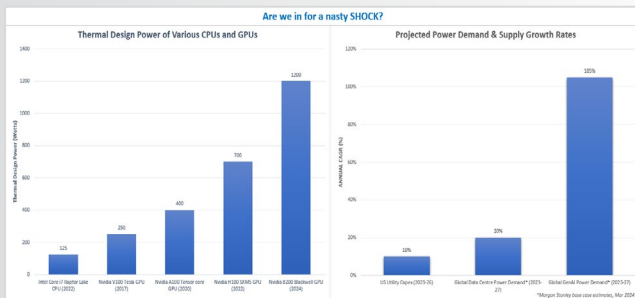
Authors: CSIRO & Alphinity IM

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

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.

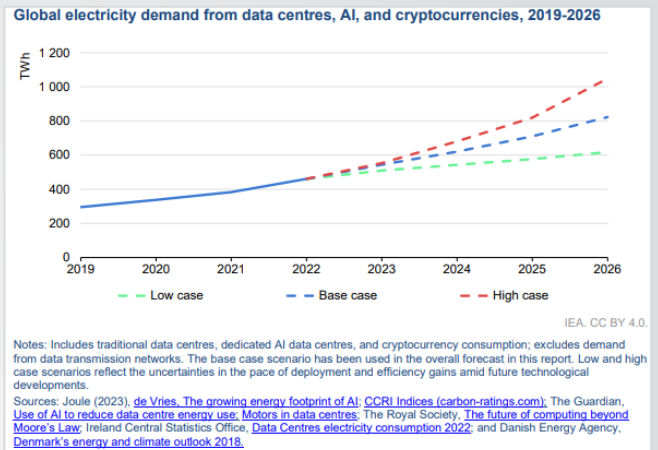
- The proliferation of Generative AI is likely to cause electricity consumption to inflect higher and begin grow once again.
- Chronic underinvestment in power generation creates a bottleneck, making gas a practical short-term solution amid costly and highly intermittent renewables.
- Analysis suggests 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.



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](#)

Alphinity Global Sustainable Equity Fund

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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 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. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the Banking Act 1959 (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (Challenger ADI) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. 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.