

# Alphinity Global Equity Fund (Managed Fund)



## QUARTERLY REPORT – SEPTEMBER 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)	-2.0	-0.4	25.0	9.8	13.0	14.0	12.9
MSCI World Net Total Return Index (AUD) <sup>3</sup>	-0.4	2.4	23.2	10.6	12.4	13.1	12.2

### Fund facts

Portfolio managers	Jonas Palmqvist, Jeff Thomson, Trent Masters, 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	\$634m
Distributions	Annually at 30 June
Min. Investment	\$10,000
Max. cash position	20%

### Top 10 positions

Company	Sector	%
Nvidia	Info. Technology	6.2
Apple	Info. Technology	6.0
Microsoft	Info. Technology	5.9
Bank of America	Financials	4.4
Alphabet	Communication Services	4.3
American Express	Financials	4.0
Thermo Fisher	Health Care	4.0
Motorola Solutions	Info. Technology	3.9
Merck & Co	Health Care	3.9
Trane Technologies	Industrials	3.8
<b>Total</b>		<b>46.4</b>

Data Source: Fidante Partners Limited, 30 September 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

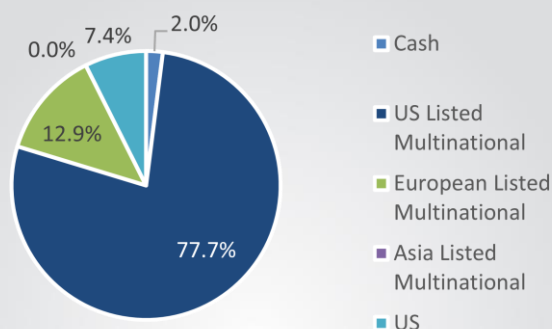
**Concentrated:** A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

**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.

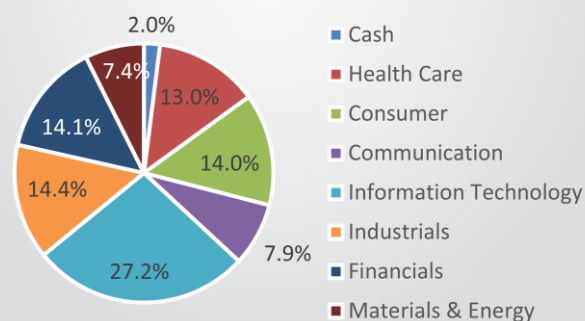
**Talent:** A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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

### Geographical exposure



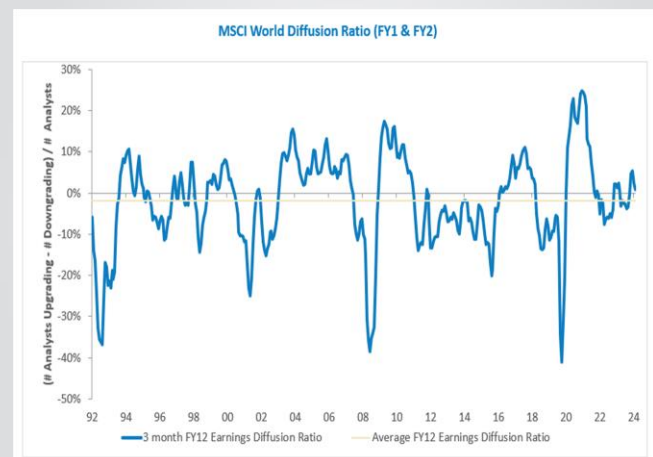
### Sector exposure



## Market comment and outlook

Equity markets rose in the September quarter, after contending with a number of significant market events including company earnings, the Bank of Japan raising rates, the US cutting rates by 50bps and multiple rounds of monetary and fiscal stimulus from China, which drove some aggressive buying into Emerging Markets towards the end of the month. Global markets (MSCI World) gained 6% in USD terms over the last three months, although a weaker US Dollar translated this return into a much lower 2% gain in AUD terms. The US S&P500 index gained 1.5% (AUD) and underperformed other regions including Europe (+2.3%) and Emerging Markets (+3.7%), with the latter part of the quarter driven by a reversal in positioning with winners being sold to fund short covering and general under-positioning in unloved pockets of the markets including HK/ China and cheaper value stocks in the Commodities space.

### Global Earnings cycle remains positive & a tailwind for markets



Source: Bloomberg, 30 September 2024

The monetary and fiscal stimulus measures announced in China - including a cut to their key interest rate, easing regulations to make it easier to buy properties, and direct cash injections for families with two or more children - drove a rotation out of Tech into Mining stocks and into some consumer stocks that derive earnings from China. The persistence of any such rally is likely only proven when there are real signs of a pickup in demand and economic data improves in the region. Despite escalating tensions in the Middle East, with Iran and the US becoming increasingly (and reluctantly) drawn into the Israeli / Lebanon conflict, the one commodity that still didn't bounce was oil. Crude prices fell 13% to USD72 /bbl, driven more by supply as there was talk of the Saudi's abandoning their USD100 oil price target and looking to increase supply to gain market share. Of course, the situation remains very fluid and could quickly change should any Iranian supplies be targeted.

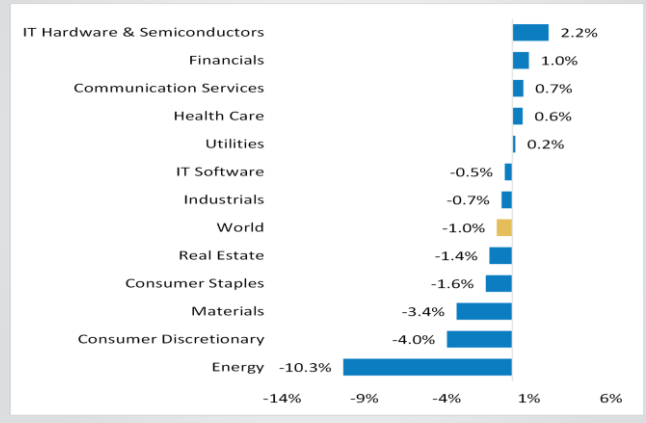
There were only 2 scenarios for US interest rates – does the Fed cut by 25bps or 50bps? They went with 50bp, and while the initial reaction was somewhat muted, markets did continue to grind higher into the end of September. The slump in early August was

driven by a weaker jobs report (non-farm payrolls at +114k vs +175k expected) and continued lower revisions to previous months jobs growth set a cautious tone with some recession concerns creeping in, which ultimately led to the Fed cutting by 50bps. Inflation also continued to come down from 3.5% YoY in March to 2.4% YoY at end of September which again left the Fed with greater flexibility to cut, with some concern they might be too late, although the soft landing appears to be the more likely outcome.

## Portfolio comment and outlook

Most global central banks have now shifted decisively toward easing monetary policy, including of course the Fed which recently cut by a larger than expected 50bps and signaled that more cuts are on the way. Furthermore, in the last few weeks authorities in China have stepped up efforts to support the property market. This is 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. While geopolitics and US elections suggest a period of heightened uncertainty over the next few months, inflation is slowing, the economy remains generally resilient and central banks are easing. This is a constructive backdrop and remains consistent with a soft economic landing. Policy error is one of the key risks given the ultimate destination for inflation and rates continue to be unusually uncertain.

### 2025 3-month Earnings Revisions – Negative overall, but broadening out



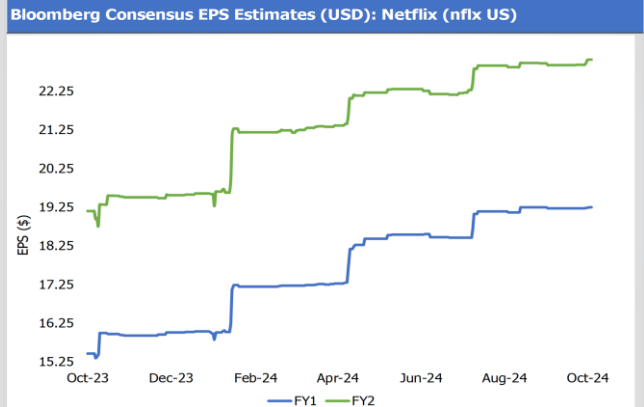
Source: Alphinity, Bloomberg, 30 September 2024

Turning to corporate earnings, the cycle also remains positive with earnings growth now a tailwind to markets. The Alphinity Global Diffusion Index (i.e. aggregate broker upgrades and downgrades) is in positive territory and above long-term historical averages. However, the upward cycle so far is weaker than usual, and revisions have also become more mixed over recent months. Over the past three months, consensus estimates for both this year and next have edged lower (-1% respectively), with IT Hardware & Semiconductors and Financials continuing to lead with positive revisions, while consensus estimates for Energy, Consumer Discretionary and Materials have fallen sharply. It's not unusual

for estimates to be revised lower immediately prior to earnings season, only for results to 'beat', however we expect investors will be more focused on confirming current expectations for earnings growth to accelerate to low double-digit percentage growth next year. Consensus currently expects 2024 earnings growth of +8.4% y/y for the MSCI World Index, accelerating to +12.6% y/y in 2025. The so-called 'Magnificent-7' Technology stocks will also continue to be a focus. These stocks are still likely to deliver market leading earnings growth in the third quarter, however growth rates and 'surprises' appear set to continue decelerating versus the rest of the market, supporting further broadening out of market performance.

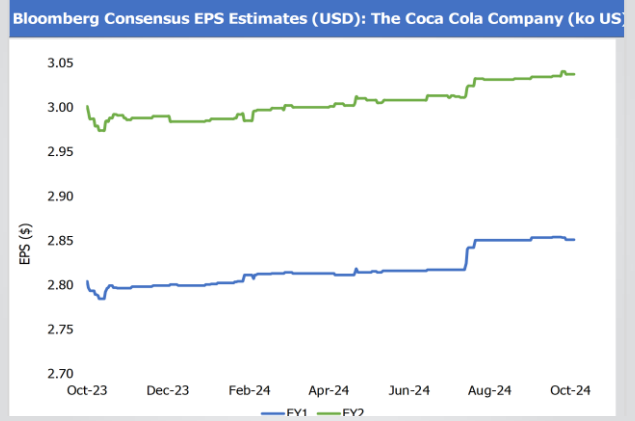
Portfolio activity during the quarter focused on idiosyncratic stock changes, as well as some profit taking in select names following strong performance. We exited AirBnB following weak earnings reports from travel-related peers, as well as Home Depot after a soft report. We still see the US Housing cycle improving but have higher conviction in other portfolio stocks into this recovery. Elsewhere we took profits in SK Hynix following particularly strong performance and concerns about growing capex, and decided to divest positions in LSEG, Partners Group and ConocoPhillips in favor of other higher conviction earnings cases. During the quarter we also trimmed some of our best performing stocks (e.g. Nvidia, Microsoft, Trane Technologies and Intuitive Surgical) to acknowledge fuller valuations. The capital was deployed into new positions in Netflix (increased monetisation from the leading streaming platform) and Coca-Cola (high-quality business with superior organic growth and margin expansion). We also initiated an investment in Morgan Stanley where we expect continued capital market recovery to inflect earnings higher. Position increases included Apple (strong report and reasonable expectations into '25) and Cadence (steady, long-term AI winner). We will continue to be disciplined about following earnings leadership within an evolving macro backdrop, which has a complex mix of early and late cycle dynamics across different sub-sectors and geographies. The team has recently traveled widely and returned with several promising new ideas which are likely to challenge for inclusion in the portfolio over the next few months.

**BOUGHT: Netflix – Increased monetization from the leading streaming platform**



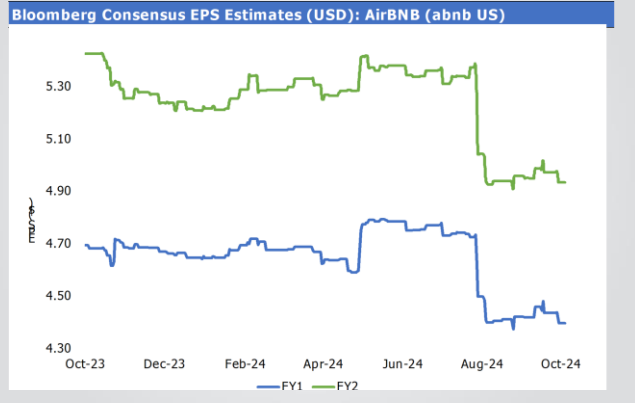
Source: Bloomberg, 30 September 2024

**BOUGHT: Coca-Cola – High quality defensive with superior organic growth and margin expansion**



Source: Bloomberg, 30 September 2024

**SOLD: AirBnB following weak earnings reports from travel related peers**



Source: Bloomberg, 30 September 2024

## Travellers' Tales

The August reporting season is generally followed by a bout of travel, and September was no different – in fact it stepped up a gear. Travelling all over the world for research might sound glamorous but it rarely is: the process of putting a trip together, arranging meetings, dealing with all the last minute contingencies and actually getting to the various locations is rarely much fun. Air travel within the US is particularly miserable.

Domestic PM Stuart set off for the US, ending up in Louisville, Cincinnati and San Antonio. He saw a number of US homebuilders, Australian companies exposed to the US such as Brambles, and some of the big US consumer-facing stocks like Mondelez, the owner of Cadbury and Oreo; and Procter & Gamble, which makes laundry and cleaning products, beauty care among other things. Along the way he visited Brown-Forman, the spirits company that owns Jack Daniels and many other spirits brands. Interestingly their first brand, which happened to be America's first bottled bourbon, Old Forester, was launched in 1870. It is the only bourbon to be continuously sold by the same company before, during & after prohibition. During Prohibition, only six Kentucky distilleries were granted permits to bottle bourbon for medicinal purposes. Brown-Forman secured Permit KY-3. Apparently, there were 11 million scripts written during the prohibition era and Stu was able to secure one.



Andrey also went to the US but to Dallas, Atlanta, San Francisco and Salt Lake city. He visited some exciting locations including an explosives storage depot and a quarry in rural Georgia, as well as a copper mine in Utah. He attended the Goldman Sachs technology conference saw Australian explosives companies Orica and Incitec Pivot, and met with a number of companies and experts along the way. This is him → pressing the button to set off a (small) blast.



There was one tourist hot spot in Salt Lake City he really couldn't miss: the museum at the headquarters of the Mormon Church. He received a warm welcome there and had the beliefs of the church explained to him by a very kind old lady. Andrey's natural scepticism was not overcome on this occasion (the prospect of a compulsory 10% tithe on his income didn't help!) and he escaped with a little more knowledge and a complimentary Book of Mormon to (possibly) read in his spare time.

The mine outside SLC also had a Mormon aspect to it. The Bingham Mine was established by pioneers Sanford and Thomas Bingham. In 1850, they found an ore body and took a sample to one of the church founders, Brigham Young, for his advice. He told them not to mine it. The discovery of silver and gold nearby a few years later led them to re-examine the site and it turned out to be one of the biggest copper deposits ever found. It has been churning out copper ore since the late 1800s and the Bingham Mine was bought by our own Rio Tinto in 1989.

Ty, from our Global team, went to Europe: Sweden, Germany, the Netherlands, UK and France, covering six cities and 28 company meetings. The one-line summary is, unfortunately, that there continues to be slim pickings in Europe. The consumer there is weak and the traditional manufacturing industries which used to be the driving force of the European economy are still suffering. Even European luxury, once the shining light, has faded. The message from uber-luxurious Louis Vuitton Moet Hennessy was pretty clear: its major market, China, is bad and getting worse. There would need to be a decent recovery in that market to move the needle in a positive way for European luxury companies. It should be noted however that this trip took place prior to the bout of China stimulus which may or may not drive better demand, although also before China slapped tariffs on European brandy in retaliation for EV tariffs being imposed in Europe. The longer-term question is whether growth will reset at a lower rate than in the previous decade, as the key drivers (Dior and LVMH, corporate activity, pricing, China) seem to have run out of puff, with no obvious engine for the next five years. It will be interesting to see if the China stimulus announced in late September will be enough to make much difference.

Ty also visited global mining equipment manufacturer and mining services provider Atlas Copco's test mine site in Stockholm. Having had a foray into construction work in a past he couldn't help himself and jumped right back on the tools. The drill he is holding here → was an important innovation – the addition of the supporting arm stabilised the tool and changed drilling from a three-person job to being manageable by a single worker. There was an Australian connection there too: in the 1980s Atlas Copco provided equipment and support for excavation works at Dinosaur Cove in Victoria which uncovered bone fragments from a number of entirely unknown species. In honour of the assistance received, one of the new species was named *Atlascopcosaurus Loadsii* (Bill Loads was the Atlas Copco manager in Victoria at the time who supported the project). Not every company has a dinosaur named after it!



life

After the mining stuff, it was time to get onto something a little cooler (no offence to mining equipment): luxury cars. While they might be more relatable, and more desirable, the current investment landscape remains very challenging. EV is demand slowing, there is strong Chinese competition both within China and in Europe, and a weaker consumer auto makers are struggling, as are suppliers to the industry. Some of this is cyclical but a large part is structural as the very cheap Chinese EV alternatives could reshape the market longer term. He also went to BMW's iconic headquarters in Munich, which is shaped like engine cylinders.



### Travellers' Tales (cont)

BMW is facing pressure on a number of fronts and recently had to downgrade its earnings guidance due to weak Chinese demand and delivery issues in its third quarter. At Mercedes, Ty was lucky enough to get a look at its latest concept car, shown here. It has no steering wheel, being controlled instead by a joystick between the two front seats. It also has the ability to move sideways without forward motion, making parking a dream. We're not entirely sure that it will make it to production but some of the ideas might end up in your next Merc in a few years time.



There are luxury cars and there is THE car, one that has been able to withstand the pressures facing all other auto makers: Ferrari. Global team members Chris and Matisse met with management at Ferrari's HQ in Maranello, Italy. A tough gig but someone had to do it! It was all very top secret though, there were no photos allowed inside and Ferrari even went as far as taping up the cameras on their phones and laptops, so these pics → are the only photographic evidence we have of their visit.

Matisse did get to test drive a Formula 1 car – or at least a simulator in the Ferrari Museum. She was quick to point out that it's a lot harder than it looks, after crashing about ten times. Who said race car driving was easy? On the walls of the museum were various quotes from the great Enzo Ferrari, such as: "the best Ferrari ever built is the next one". Ferrari (the stock) has been in our Global Equity portfolio for some time and has been a good contributor: a quality compounder throughout various market cycles and, having delivered a steady stream of earnings upgrades, a good example of an Alphinity stock.

A woman wearing a red racing suit is seated in a Formula 1 simulator, holding a steering wheel. The background is dark with some red lighting.



# Alphinity Global Equity Fund

## QUARTERLY REPORT – SEPTEMBER 2024

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