Alphinity Global Equity Fund – Active ETF

QUARTERLY REPORT – DECEMBER 2024

Performance[1]	1 Month %	Quarter %	1 Year %	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	Since Inception[2] % p.a.
Fund return (net)	1.2	12.8	34.6	10.2	14.9	14.9	14.1
MSCI World Net Total Return Index (AUD)[3]	2.5	11.9	30.8	12.2	14.0	14.0	13.2

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.[1]
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	%
Apple	Information Technology	6.8
Nvidia	Information Technology	6.5
Microsoft	Information Technology	6.2
Bank of America	Financials	4.8
Netflix	Communication Services	4.4
American Express	Financials	3.8
Alphabet	Communication Services	3.6
Sherwin-Williams	Materials	3.6
Morgan Stanley	Financials	3.4
Chipotle Mexican Grill	Consumer Discretionary	3.4
Total		**46.6**

Fund features

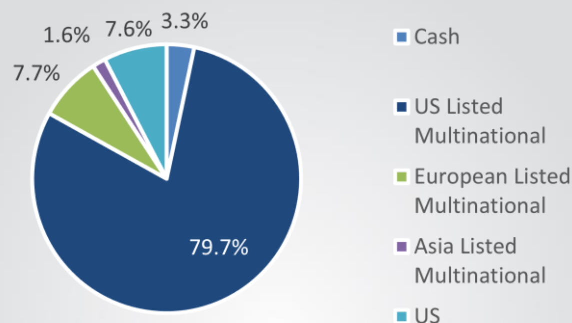
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

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.

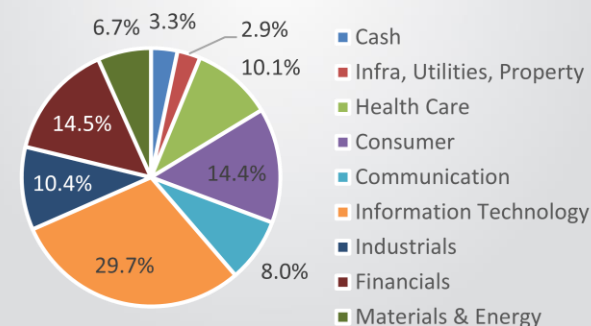
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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



Data Source: Fidante Partners Limited, 31 December 2024

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.

2 The inception date for the Fund is 21 December 2015

3 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

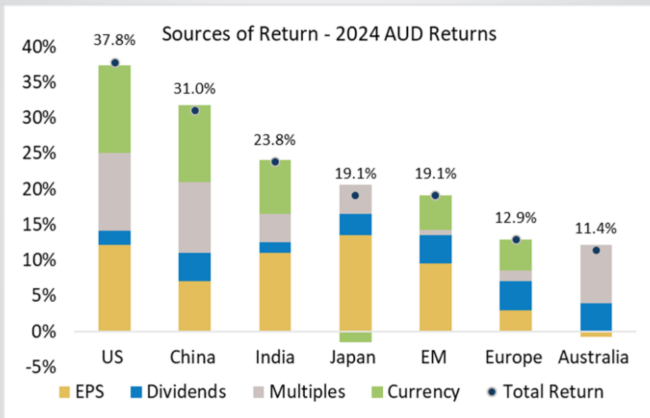
alphinity INVESTMENT MANAGEMENT

Aspire.Sustain.Prosper.

Market comment and outlook

Global equity markets rose in the final quarter of 2024, although a stronger US dollar inflated returns in Australian dollar terms. In local currencies, markets pulled back in December as the Trump trade that ignited markets in November unwound and bond yields rose. The MSCI World Index (AUD) gained 11.7% over quarter, bringing its 2024 return to 30%, but was only up 17% in USD terms. The US market outperformed over the quarter (S&P500 index +14.5%) while the economically challenged European region was a notable laggard (Euro Stoxx 600 +1%) and Emerging Markets closed 3% higher in AUD terms.

Strong for global equities in 2024, driven by earnings growth and multiple expansion



Source: Bloomberg, 31 December 2024

Performance in both equity and bond markets were driven by expectations around Trump policy - be it increased fiscal spending, tax cuts or tariffs- and its effect on inflation and interest rates. Yields initially rose post the Trump victory, although declined in November on the appointment of Scott Bessent as Treasury Secretary. Bessent, widely regarded as a fiscal hawk with a pro-growth agenda but with a more moderate view on tariffs, was taken as a positive counterbalance to Trump's intended policies, and the bond market joined equities in notching up gains. The euphoria reversed in December with an unwind in momentum trades and profit taking, although some of the mega caps like Tesla, Google and Amazon continued to outperform. US banks had one of the strongest positive reactions to the Trump win, given expectations for greater de-regulation, and finished the quarter up 26% in AUD terms, despite the marginal pull-back in December.

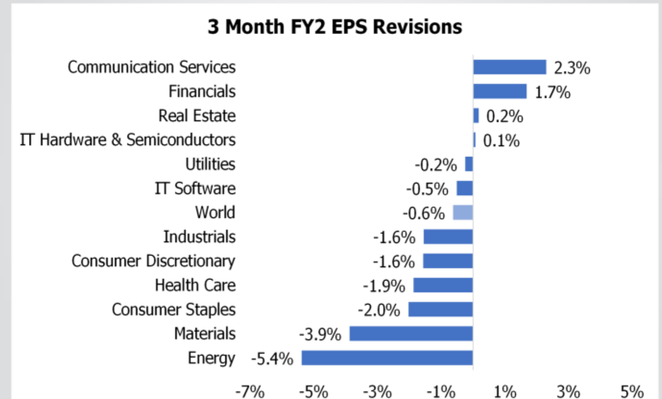
The reaction to a broad range of China stimulus measures was taken positively, although with a degree of caution and there still appears to be a 'wait-and-see' approach from offshore investors as they wait for proof the announcements will convert into tangible growth outcomes, whether that be in a housing rebound or increased consumer confidence and demand for credit. The fall in China bond yields to record lows can be viewed as a response to easing monetary policy, but also indicates a lack in risk appetite as investors are flocking to safety of bonds.

Economic data was largely strong in the US, while other economies such as the UK, Canada and New Zealand are faring relatively worse, creating further political turmoil in a year where elections were held in countries containing more than half the world's population. In the US, the Federal Reserve cut rates by a total of 100bps, comprising of a 50bps cut in September followed by two 25bp cuts in November and December. Inflation is hovering around 2.7% YoY, rising slightly from 2.4% in September but down from the > 3% prints in the first half. With inflation moderating and jobs growth still reasonably resilient (jobs growth of around 250k per month taking out the hurricane impact in November) this seems to be enough to warrant a few more rate cuts in 2025. Markets have been quick to re-price rates, with now just 1 cut being priced in for the rest of 2025, a rapid change from just 3 months ago where the market was expecting at least 3 cuts.

Portfolio comment and outlook

2024 was an eventful year, with a contentious and hard-fought US election, significant ongoing weakness in the Chinese economy, and rising geopolitical tensions in the Middle East. Despite this, Global Equities performed strongly as markets focused instead on better-than-expected US growth underpinned by resilient consumption, broad disinflationary trends and rate cuts. These favourable macroeconomic drivers are largely intact, suggesting that economic growth and financial markets conditions can continue to be supportive in 2025. That said, the risks around this positive outlook have increased. The policy mix under the new Trump administration is highly uncertain, and while likely pro-growth, it also has the potential to be inflationary and disruptive in parts. This has in turn re-introduced uncertainty into the outlook for policy rates, which is unhelpful. Global bond markets are also increasingly focused on fiscal sustainability. Together these factors have contributed to a significant rise in bond yields and the USD over recent months, creating the potential for additional volatility which if sustained could undermine the outlook.

2026 3-month Earnings Revisions – Negative overall and across most sectors

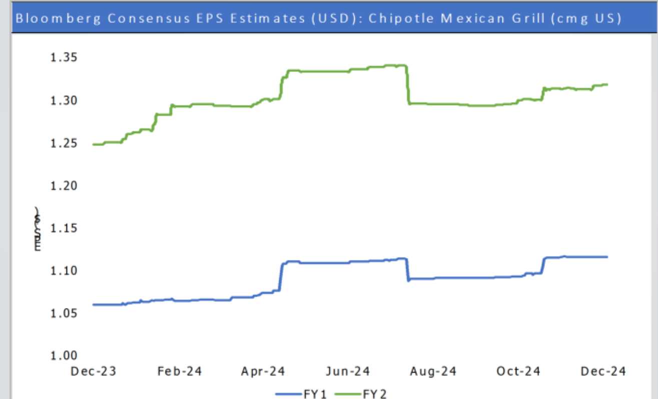


Source: Alphinity, Bloomberg, 11 January 2024

From a bottom-up perspective, earnings growth is currently positive and a tailwind to markets, and confirmation of this momentum in the upcoming earnings season will be another important driver of markets from here. With one quarter left to report, 2024 earnings per share (EPS) for the MSCI World is forecast to have grown by +7.9%, and consensus expects further strong earnings growth in 2025 (+12.0% y/y). This means the bar for further positive surprise is already quite high. Furthermore, the current earnings cycle continues to be relatively narrow and weak from a historical perspective. Mega-cap Technology stocks in the US continue to drive the majority of earnings growth, while estimate revisions in aggregate have been more muted recently. In fact, over the past three months consensus estimates for both this year and next have edged slightly lower (-0.2% and -0.6% respectively), with Communications and Financials continuing to lead with positive revisions, while consensus estimates for Energy, Materials and Consumer Discretionary have fallen sharply. The Alphinity Global Diffusion Index (i.e. aggregate broker upgrades and downgrades) is also slightly negative although in-line with long-term historical averages. The upcoming earning season will likely be a catalyst for renewed earnings momentum, however with the MSCI World up >60% since its trough in October 2022, and higher equity valuations, the stakes are higher than normal.

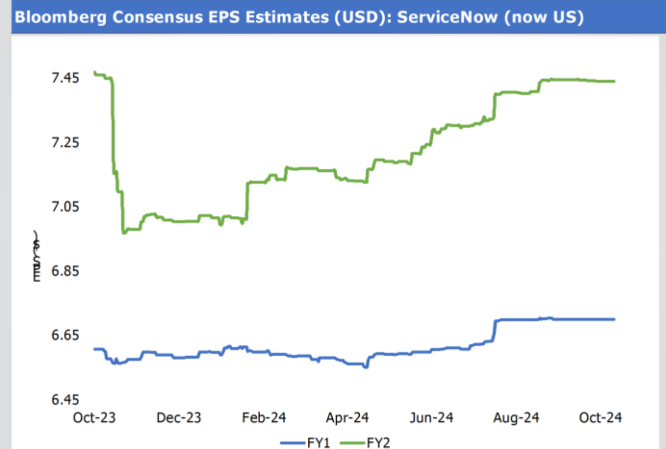
Portfolio activity during the quarter was focused on several idiosyncratic stock changes. We exited a long-held position in ASML after it reported weaker than expected orders and lowered 2025 sales and gross margin guidance. With significant negative revisions to estimates, and low visibility on recovery, we chose to sell out. Similarly, we also sold out of MercadoLibre (higher costs and an unexpected ramp in lower-margin credit card growth), Ferguson (negative pricing and margins) and Novo Nordisk (disappointing trial results which undermined confidence in credible path to next generation formulations). This capital was deployed into new, higher conviction investments in stocks including ServiceNow (high-growth enterprise software business with upside from further expansion into enterprise workflows), Chipotle Mexican Grill (resilient unit economics and strong customer value proposition), CBRE (continued strength in resilient business with further transaction upside) and TSMC (clear foundry leader within a positive revision cycle). Elsewhere we continued to take profit in high performing stocks including Nvidia, Schneider Electric, Motorola Solutions, Trane Technology and Costco. The Portfolio overall remains invested in our highest conviction Growth stocks, combined with selective Cyclicals and Defensives, and remains diversified across most sectors. We enter 2025 with some important question marks around the current outlook for earnings expectations as well as interest rates, and we will be disciplined about following earnings leadership as the economic outlook evolves. After a 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.

BOUGHT: CHIPOTLE – Industry leading unit economics & growing footprint



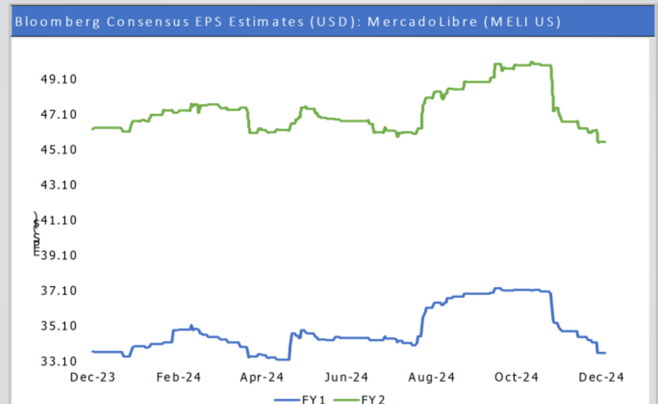
Source: Bloomberg, 31 December 2024

BOUGHT: ServiceNow – Leading software business



Source: Bloomberg, 31 December 2024

SOLD: MELI – Lower 2025 guidance drivers EPS downgrades



Source: Bloomberg, 31 December 2024

CBRE – This time is different

CBRE is the world's largest commercial real estate services and investment firm. With a dominant market position in leasing and property sales, as well as in investment management, CBRE is a formidable business, but one we think is still underestimated. *Sir John Templeton famously said that the four most dangerous words in investing are 'this time is different'*, however we believe CBRE has emerged from recent downcycles as a higher growth and more resilient business. We also believe recent cyclical headwinds are abating and will likely turn to tailwinds, further boosting growth. In this piece we unpack how CBRE has evolved, what has been driving recent performance and why we believe this time really is different.

A high-quality business benefitting from three structural growth trends

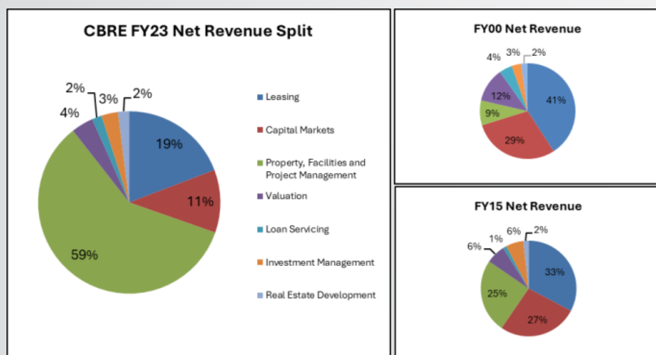
The earliest form of the name CBRE was Coldwell Banker ('CB') in 1974, but the business' origins date back even further to 1906 as a San Francisco real estate franchise. After merging with Richard Ellis International ('RE') in 1998, CBRE began to gain international scale through the early 2000s. It listed via IPO in 2004. Since then, the business has benefitted from three structural trends:

1) **Outsourcing:** Property owners and occupiers seeking to reduce costs, increase efficiencies and focus on core competencies are outsourcing commercial real estate services. In 2004, CBRE served ~60% of Fortune 500 companies. Today its customers include over 95% of the Fortune 500.
2) **Consolidation:** To obtain a more consistent level of service both locally and globally, these property owners and occupiers are also consolidating their property and facilities management service providers. Not only are more companies outsourcing, but they are outsourcing more services. CBRE disclosed that in 2022, 80% of their top 100 clients purchased 4+ services compared to less than 25% in 2012.
3) **Institutional ownership of commercial real estate:** Institutional investors are increasingly allocating to real estate as an asset class through various unlisted and listed vehicles. Not only does this require use of capital markets to acquire and finance purchases, but also service vendors to manage the portfolios

What has changed?

Until quite recently commercial real estate (CRE) services firms including CBRE had largely derived revenues from transactional business lines such as capital markets and leasing. This led to cyclical earnings streams and large peak to trough variations in EPS. Consequently, following the global financial crisis, CBRE has strategically looked to reduce cyclicality by increasing the percentage of group revenues from less cyclical, more recurring sources.

This has largely been achieved by thoughtful capital allocation, including a series of acquisitions within new, higher growth and higher margin segments. Some recent examples include Turner & Townsend (2021, project management with mix of office and infrastructure, accretive to core EPS), J&J Worldwide Services (2024 services provider specialising in government regulated industries) and Direct Line (2024, data centre infrastructure provider).



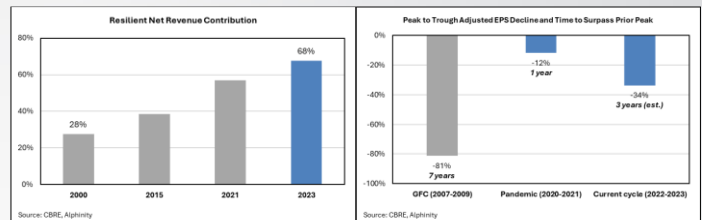
Source: CBRE, Alphinity

CBRE's total addressable market ('TAM') has significantly expanded as a result. At IPO in 2004, with exposure to just the US CRE industry, CBRE estimated their TAM at US$22bn. Today with international capabilities, the occupier outsourcing TAM is worth over US$350bn.

The majority of group revenues are now from 'resilient' sources

Consequently, CBRE today is fundamentally less cyclically exposed, with 68% of group revenues from higher quality, 'resilient' earnings (versus only 28% in 2000). CBRE defines 'Resilient Businesses' as those that grow across market cycles because they are inherently non-cyclical (e.g. facilities management and J&J) or benefit from secular tailwinds (e.g. Direct Line and Turner & Townsend).

Comparing recent cycles to the GFC, this has led to smaller peak to trough EPS drawdowns and faster recoveries (see chart below right). We believe this lower peak to trough variation in EPS shows that this time is in fact different.

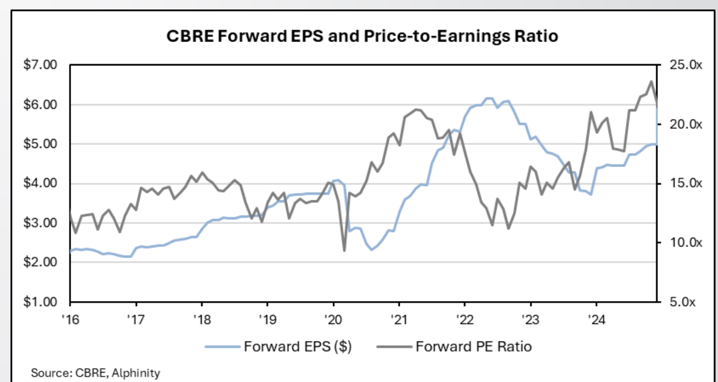


A turn in the cycle?

Despite the dearth of office demand driven by pandemic lockdowns, various segments of CRE showed resilience from 2019 to 2021, which marked the last capital market cycle. From 2021, higher inflation, Central Bank rate hikes and widening credit spreads led to commercial real estate portfolio devaluations and a collapse in property transactions. The subsequent denominator effect for asset allocators and the 'higher for longer' narrative for rates led to further weakness in the sector.

An under-appreciated earnings cycle

CBRE has performed well in 2023 and 2024 and currently trades on a 21x blended forward price-to-earnings ratio, close to historical highs. However, we believe this is fully justified by a significant improvement in the quality and resilience of the business. Furthermore, we also believe the earnings outlook remains under-appreciated, with a substantially larger base of higher growth earnings from its so-called 'resilient businesses', further boosted by a potential cyclical recovery in transaction-related segments which benefit from high incremental margins.



The outlook for CBRE's earnings is of course not immune to the broader macroeconomic cycle; however, our confidence in the earnings outlook remains high even within a 'higher for longer' rate environment, while the improved quality of the business mitigates potential risks around a significantly adverse move in interest rates.

See our website for a copy of the full note: [CBRE: This Time is Different - Alphinity]

Author: Matisse Clark, global analyst.

Travellers' Tales

There was no pre-Christmas lull for the team and various members were traversing the world even in December, researching companies and looking for investment ideas. Jeff and Jess both headed to Asia, with Jeff proceeding on to the US. Before spending some brief Christmas holiday time with her family in Brisbane, Matisse went to the US to meet with companies in various cities and attend some conferences in New York.

Jeff and Jess spent two days in Singapore and three days in Mumbai (pictured). Singapore consisted of a series of meetings with financial companies and also with the management of French cosmetics company L'Oreal. They then spent two days with L'Oreal India at its annual capital markets day which included store visits, a consumer engagement session and various managements presentations.

Many large companies have signalled that India is a priority market, both for growth and as part of their supply chains. For example, Apple has just opened its fourth large iPhone manufacturing plant, French company Schneider Electric manufactures a lot of electrical components there, and companies like Microsoft and Amazon continue to expand data centre development. India also presents some particular ESG considerations, like human rights and gender equity, for both company operations and their supply chains. It was helpful to visit the country to understand better the local context, risks and opportunities.

During one presentation it was said that there are two religions in India: Bollywood and Cricket, and we certainly saw evidence of Indian passion during the cricket test match series! From a consumer perspective, Indian people are tech savvy, deeply connected to the internet, prefer online shopping, want to receive their purchases fast, and spend up to three hours per day on social media. "Quick commerce" started in India and is now moving throughout broader Asia. This is ultra-fast delivery services, where there is 10 minute delivery of food, personal care and essentials/consumables. Goods are distributed within 3km of the order location from dark stores, which are restocked from larger distribution centres multiple times per day.

Like much of the Western world, consumers of beauty products in India are looking to influencers, social media, and elaborate product launches and market activations. Jeff and Jess attended the Maybelline Teddy Tint launch program (pictured below) in Mumbai.

They also met a store assistant working in a large pharmacy/general store who is placed there by Loreal to help customers find the "right" products, earning commission. Labour in India is abundant and inexpensive, and this was in evidence everywhere. Restaurants were overstaffed, people are employed just to push buttons in lifts, and at the hotel there was always someone jumping in to help with your bags.

Matisse's US trip focused mainly on consumer companies. She met with too many companies to list on this page, including Target, Krispy Kreme, Walmart, Starbucks, Wendy's, Williams Sonoma, Tesco, Marks and Spencer, Texas Roadhouse, Shark Ninja and Crocs – and that's only a few of them! She found a number of strong ideas to add to the 'bench' of stocks to be researched for possible inclusion in the Global Equity portfolio. Just as important, she also identified a number that are best avoided at this point in the cycle.

Pictured here → is the original Starbucks store in Seattle. She felt a real buzz at the Starbucks HQ, her impression was that the team feels energised and happy about the new and simplified strategy under its new CEO. No doubt there will be some easy wins through menu simplification and Starbucks margins could bottom out soon.

The elephant in the room however is China, which has some challenges. The main issue in China seems to be that the value proposition of Starbucks' premium branding doesn't work as well as it does in other markets (we think that means it's too expensive). We Australians always chuckle smugly when we hear Starbucks being described as "premium", as its coffee was never good enough to make an impact here!

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