Alphinity Global Equity Fund – Active ETF

MONTHLY REPORT - JANUARY 2025

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)	2.0	10.3	30.2	13.0	14.4	14.9	14.2
MSCI World Net Total Return Index (AUD)[3]	2.8	10.7	28.7	14.1	13.7	14.2	13.4

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	$865m
Distributions	Annually at 30 June
Min. Investment	$10,000
Max. cash position	20%

Top 10 positions

Company	Sector	%
Microsoft	Information Technology	6.0
Apple	Information Technology	5.4
Nvidia	Information Technology	5.2
Bank of America	Financials Ex property	5.0
Netflix	Communication Services	4.8
American Express	Financials ex property	4.1
Alphabet	Communication Services	3.8
Morgan Stanley	Financials ex property	3.8
Sherwin Williams	Materials	3.7
Parker Hannifin	Industrials	3.7
Total		**45.6**

Fund features

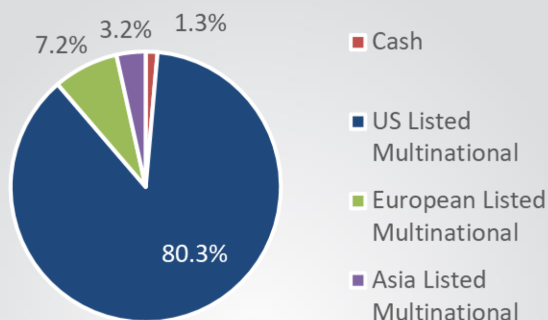
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

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.

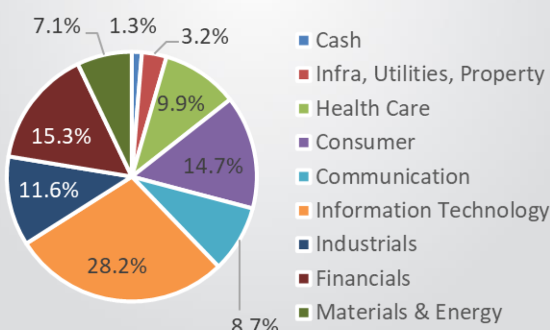
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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 January 2025

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.

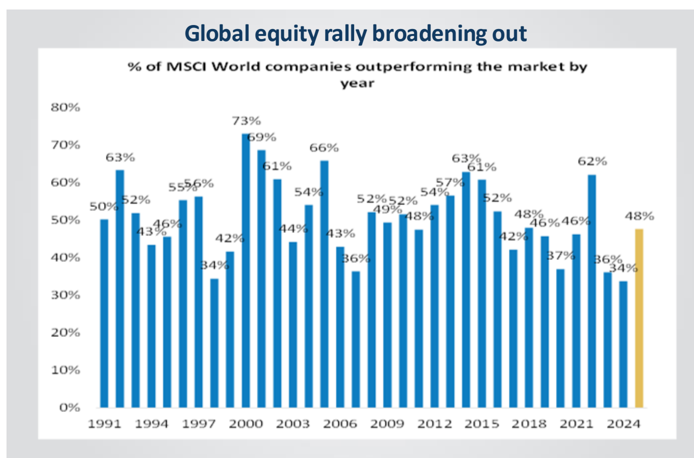
2 The inception date for the Fund is 21 December 2015

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

Market comment and outlook

The year began on a solid footing, with equity markets closing out January recording broad-based gains, despite having to contend with US tariff risk and potential disruption around cheaper AI models and the impact on technology spending. A good start to the US and European reporting seasons helped support global developed markets (MSCI World Index +2.3%), while softness in China held back Emerging Markets (MSCI EM Index +0.5%). European shares recovered from a lackluster 6 months of returns to gain 5.8% in January as flows returned to the region, funded by profit-taking in some the US mega cap tech stocks that wobbled on the release of China's Deep Seek AI model.

The new Trump administration wasted no time with tariffs; some of them were implemented (e.g. 10% China) while others are still up for negotiation (e.g. Mexico, Canada and many others) although the messaging changes almost daily. The constant daily newsfeed shocks created noise in the market, with many political decisions being either reversed or misunderstood, and unfortunately this uncertainty could well become the norm for the next 4 years.



Source: Bloomberg, 31 January 2025

Outside of the macro and geopolitical noise, there was encouraging economic data out of the US, and a stronger-than-expected start to Q4 earnings seasons in both the US and in Europe. US Manufacturing PMIs turned expansionary (+50.9) for the first time in 2.5 years which has historically driven an acceleration in EPS growth. Jobs data came in a bit lighter initially, although the upward revisions (+307k jobs added vs 175k expected) helped stop a fall in bond yields. The US 10-year bond yield fell 3 basis points to 4.54%. Inflation has also stopped its downward trajectory, with CPI coming in a little higher than expected, and markets have been quick to re-price rate cuts, with only 1 expected for the rest of the year.

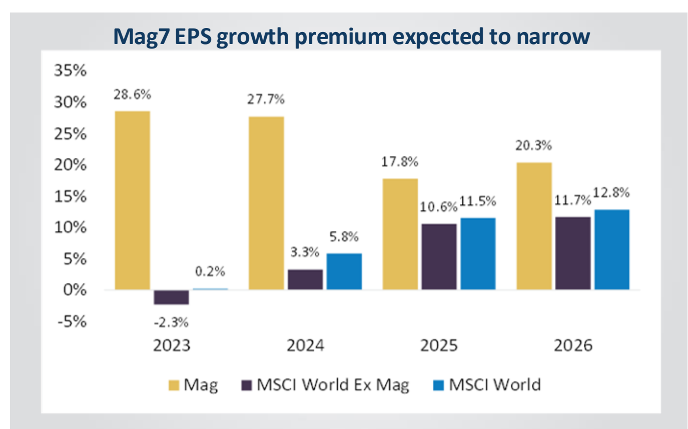
While January only saw around half of US companies and 1/3rd of European companies complete their Q4 earnings reports, growth was ahead of expectations with 77% of US companies beating EPS estimates and 56% so far in Europe.

The Mag-7 turned into the Mag-1 in terms of performance last month, with only Meta producing a positive return. On a sector level, Communication Services (+7.5%) and Financials (+5.3%) were the biggest contributors on the MSCI World Index, while Tech stocks (-2.6%) were the only group to end the month in negative territory.

Portfolio comment and outlook

Resilient consumption, broad disinflationary trends and easier monetary policies are likely to remain supportive macro drivers, underpinning the outlook for economic growth and financial markets. 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 rise in bond yields and the USD over recent months, creating the potential for additional volatility which if sustained could undermine the outlook.

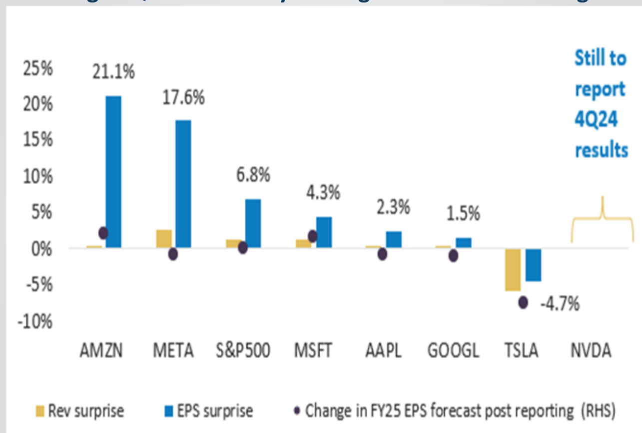
The fourth quarter earnings season has so far been supportive. Top and bottom-line beats have been in-line with historical averages, although management guidance for 2025 has been mixed, reflecting FX headwinds and some general caution about the outlook. Consequently, post-report earnings revisions have been modestly negative in aggregate. Over the past month consensus estimates for both this year and next have edged slightly lower (-0.4% and -0.3% respectively), with Financials a notable leader seeing positive revisions. Communications and IT Software are also amongst the leading sectors over most the time-period. In contrast, Materials, Energy and Industrials all continue to experience negative revisions. The Alphinity Global Diffusion Index (i.e. aggregate broker upgrades and downgrades) is also slightly negative although in-line with long-term historical averages.



Source: Alphinity, Factset, 31 January 2025

For 2024, EPS for the MSCI World is currently forecast to have grown by +5.8%, and consensus expects another year of strong earnings growth in 2025 (+11.5% y/y). This means the bar for further positive surprise is already set quite high. Furthermore, the current earnings cycle continues to be relatively narrow and weak from an historical perspective. While mega-cap Technology stocks in the US continue to drive the majority of earnings growth, for the first time in almost two years recent earnings reports did not contain major positive surprises in aggregate. Furthermore the 'growth gap' to the rest of the market continues to narrow, suggesting that some broadening in market leadership is likely. The MSCI World is up >60% since its trough in October 2022, and with equity valuations mostly towards the top of historical ranges, the stakes are higher than normal.

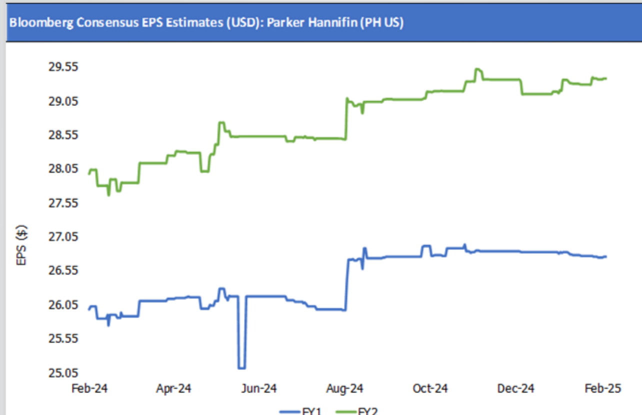
Mag7 4Q24: still mostly beating but at a smaller margin



Source: Bloomberg, 30 November 2024

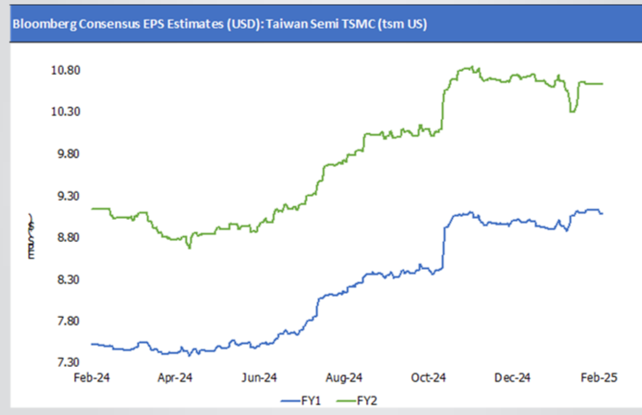
Portfolio activity during the month was limited. We continued to take profits in Nvidia; while we remain convicted about the near-term outlook for earnings, we have adjusted position sizing to reflect strong performance and overall portfolio risk. We also trimmed Apple after an in-line report which included negative iPhone sales and a relatively soft guide acknowledging stronger FX headwinds. Elsewhere we added to existing positions in Parker-Hannifin and TSMC after strong results. The Portfolio overall remains invested in our highest conviction Growth stocks, combined with selective Cyclicals and Defensives, and remains diversified across most sectors. We remain focused on the outlook for earnings, where we believe there are some question marks about the maturing earnings cycle which remains relatively weak and narrow. The investment team will be travelling widely again over the next few months to test conviction in existing investments and search for new ideas across different sectors and geographies. We will remain disciplined about following earnings leadership as the macroeconomic outlook continues to evolve.

PARKER HANNIFIN – Earnings beat in 2Q25 & improving longer cycle orders



Source: Bloomberg, 10 February 2025

TSMC – Solid result & upgrade of multi-year revenue growth from AI -related demand



Source: Bloomberg, 10 February 2025

AI infrastructure trade post DeepSeek - Is it over?

There has been significant news flow over the last few days about a Chinese AI lab called DeepSeek, who released their latest cutting-edge AI model (R1), alongside a detailed paper on how to build a large language model on a limited budget that is able to use reasoning and self-evaluation to improve accuracy.

So far it appears that the DeepSeek model is actually quite good, and on par with the Llama 45b model and Open AI's o1 model. This conclusion comes from their own disclosures, as well as some independent testing from participants in the AI chain. There are also some innovative architecture shifts in the way that they train and use the model, which enables it to generate a significant uplift in efficiency including model distillation (where a more compact, less computer intensive "student" model is trained off a larger more complex "teacher" model) and MoE or Mixture of Experts (where only required parameters are selectively activated for any task rather than the whole model during inference). These advances have led to DeepSeek claiming to have only spent $6m on model development (with many caveats attached).

In other words, it appears that this model is able to generate close to the same intelligence as leading models like ChatGPT etc., but at a fraction of the cost and power consumption. If true, this has significant implications across the market as investors re-assess likely future investment in AI hardware.

This is an evolving story, and we are still validating a lot of the claims being made. There are some reports that DeepSeek have access to a 50k Nvidia Hopper cluster, and that therefore the disclosed costs are only a fraction of what was actually incurred. And that these architecture developments around distillation and MoE are known by other AI labs who are still committing to large capex plans with efficiency assumptions taken into account. However, with these points as caveats, we would make the following observations:

- Taken at face value, this has significant (negative) implications for AI infrastructure stocks across semiconductors, power, data centres, networking equipment etc. These stocks all fell significantly overnight however further losses are possible if the initial claims made by DeepSeek are validated.
- On a more constructive note, this may prove to be a net positive for businesses focused on building AI applications. To the extent that businesses will now be able to train and use AI models more cheaply, it's reasonable to expect a faster roll-out and uptake of these applications. Beneficiaries may include various software companies, but also many businesses across various industries including healthcare, retail and financial services.

Over the last few weeks, there has been several positive signs about the outlook for continued AI related capex. For example, recently Microsoft 'soft' guided to $80bn of capex to build out Azure, while META talked about $60bn-$65bn in capex to build out AI infrastructure in a blog post on Friday (vs consensus $53bn). In addition, the Stargate Project included headlines of a further $500bn of AI related investments.

Many of the US hyperscalers will report over the next few weeks, including Microsoft and Meta on Thursday morning Sydney time (30th January), and we would expect management commentary to provide further colour on the outlook.

Portfolio Implications

We have been actively managing AI infrastructure exposure over the last several months to reflect the strong performance of many of these stocks while also acknowledging the maturing earnings cycle.

Our current direct AI infrastructure exposure includes investments in Nvidia, TSMC, and Cadence Design. We also have indirect exposure through Schneider Electric and Trane Technologies. We are modestly (c.1.3%) overweight Technology Hardware and Equipment sector, although this includes a c.3% investment in Motorola Solutions which we believe is not impacted by this news.

For reference, we have continued to actively reduce exposure to Nvidia by taking profits, including most recently in mid-January. Our current active weight is c.1.5%, which is effectively offset by not owning the other AI chip leader in Broadcom. We have also diversified our Technology and Communication exposures away from AI by adding stocks such as Netflix and ServiceNow to the portfolio.

We are still working through the potential earnings implications of these stocks and will be disciplined about exiting positions where we lose conviction on earnings. We are also mindful of broader risk correlations across the Portfolio and will make further changes if necessary.

Next steps

We are working through potential earnings implications while validating DeepSeek information with a view to ensuring that this exposure continues to be managed within appropriate risk limits. Specifically, we intend to focus on validating:

- the effectiveness and performance of the DeepSeek model
- the actual all-in cost of training the DeepSeek model
- the AI model roadmaps of the leading labs to ensure that the efficiency gains disclosed by DeepSeek were embedded within hyperscaler capex plans

This is a fluid situation with new information being unearthed on an hourly basis so please feel free to follow up with any questions. We will look to provide more detail as we draw more definitive conclusions.

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