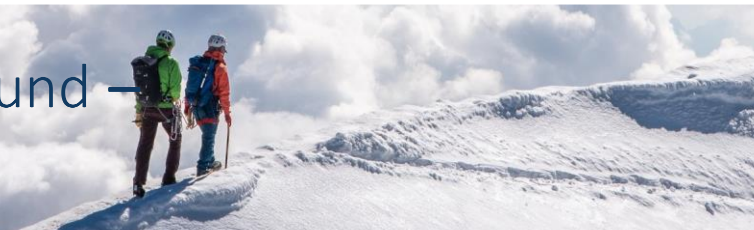
Alphinity Global Equity Fund – Active ETF



MONTHLY REPORT – FEBRUARY 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)	-2.3	0.8	17.5	14.7	14.6	14.5	13.8
MSCI World Net Total Return Index (AUD)[3]	-0.4	4.9	21.1	16.0	14.7	14.2	13.3

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	5.8
Bank of America	Financials ex property	5.1
Coca-Cola Company	Consumer Staples	4.8
Nvidia	Information Technology	4.4
Apple	Information Technology	4.2
Netflix	Financials ex property	4.1
Parker Hannifin	Industrials	4.1
Morgan Stanley	Financials ex property	4.0
American Express	Financials ex property	3.9
Sherwin Williams	Materials	3.8
Total		**44.3**

Fund features

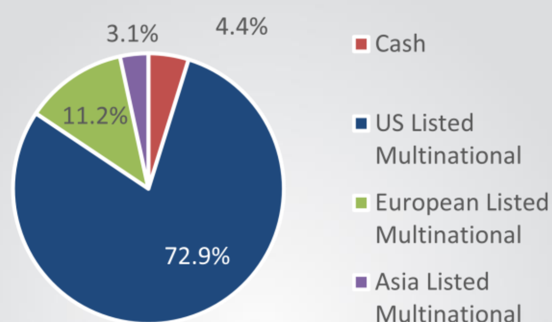
Concentrated: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions. A truly global fund consistently exposed to powerful trends reshaping our world.

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.

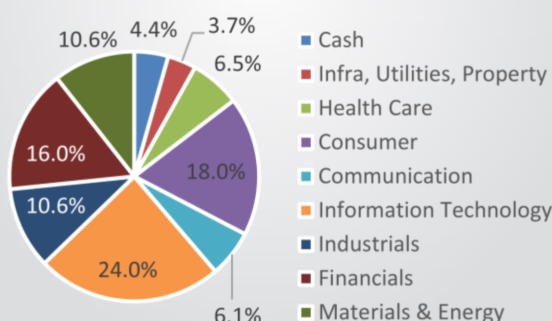
Talent: A united and deeply experienced team of global portfolio managers each with an average of 22 years of financial experience.

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, 28 February 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

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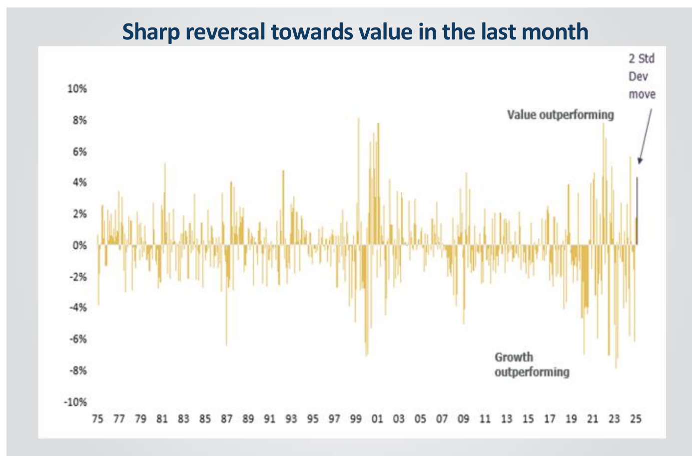
alphinity INVESTMENT MANAGEMENT

Market comment and outlook

The 'Trump Inauguration' rally that kicked off 2025 reversed sharply in February as tariff risk and heightened volatility gave global markets a reality check of the uncertainty that lies ahead. In addition to geopolitical risks, companies reported their Q4 2024 earnings, and despite earnings coming in better-than-expected the lack of clarity around tariff negotiations drove a rotation of US equities into other regions including Europe and Asia.

Global shares were flat in February in AUD terms, with the US market falling 0.6% while Europe (+3.9%) and Emerging Markets (+1.2%) outperformed. There was a large momentum unwind that saw US MAG-7 stocks slide 8%, largely driven by Tesla weakness, and the flow of funds got directed into other markets like Asia and Europe that trade on cheaper multiples and have also historically underperformed. It remains to be seen whether this is the start of a more sustained re-positioning, acknowledging the numerous false starts on China stimulus and some structural issues in Europe around its regulatory environment, minority governments and lack of AI leaders. Recent data out of China has been supportive including increased loan growth and retail trading activity picking up.



Source: Bloomberg, 28 February 2025

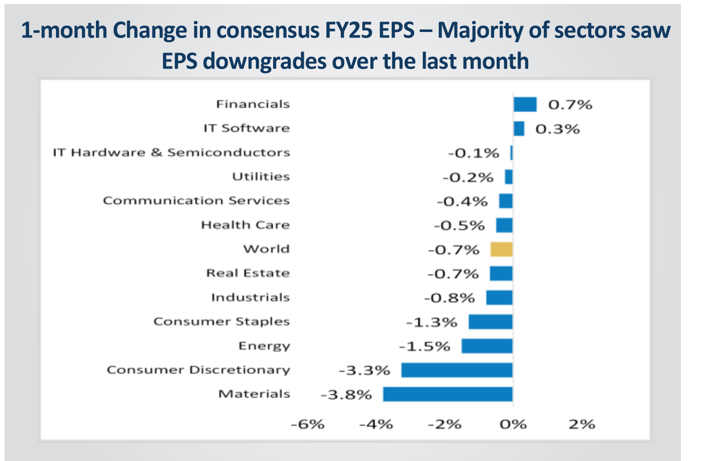
In terms of sector performance, this was also consistent with a rotation out of winning sectors into those that have historically underperformed, with Consumer Staples (+5.6%), Property (+3.8%) and Energy (+2.9%) the best performers while Consumer Discretionary (-6%), Communication Services (-4.4%) and Technology (-1.1%) were the biggest laggards.

Another feature of markets in February was the sliding US dollar, and after having rallied 10% in the final quarter of 2024, the US dollar fell 0.7%, and has fallen a further 3% in the first week of March. Although US equities have relatively underperformed, its bond market held up much better, with US 10 year bond yields fell 33 basis points to 4.21%, while Germany and Japan suffered a bond market sell-off as their yields spiked higher. Germany's 'whatever it takes' plan on infrastructure and defence spending pushed Bund yields higher in anticipation of more issuance. Economic data showed inflation printing a bit above expectation at 3% YoY vs 2.9% expected, while ISM Manufacturing prices paid also rose above expectations, indicating that inflationary pressures are still persisting. Consumer confidence indicators also weakened in February with both University of Michigan Consumer Sentiment and Conference Board consumer confidence both falling short of expectations.

Portfolio comment and outlook

Markets have witnessed significant turmoil over the last few weeks, with substantial changes to consensus views on the outlook for various key macro indicators and geo-political risks. One of the most important of these has been regarding tariffs; initially markets had largely discounted US rhetoric, however recent events have demonstrated an intent to follow through with actual tariffs at a scale and breadth that is worse than expected. Not only is this inflationary, but it is also a downward shock to the outlook for growth. At the same time, Trump 2.0 is pursuing an aggressive reset of various long-standing international alliances, which has also translated into an important re-appraisal of various geopolitical risks. One immediate consequence has been an announcement by Germany to substantially increase defene and infrastructure spending, which if executed would likely significantly improve the relative growth outlook for Europe. At the same time, China has signaled that more stimulus and reforms are coming.

While the outlook remains uncertain, and it's likely that there will be a near-term 'air pocket' in growth as companies and consumers digest these abrupt changes, it's still unclear how sustained this weakness will be and whether recessionary fears are justified. US policies remain highly unpredictable and may yet pivot back towards a more pro-growth agenda. Furthermore, there is some offset from potentially stronger growth in Europe and possibly also China.



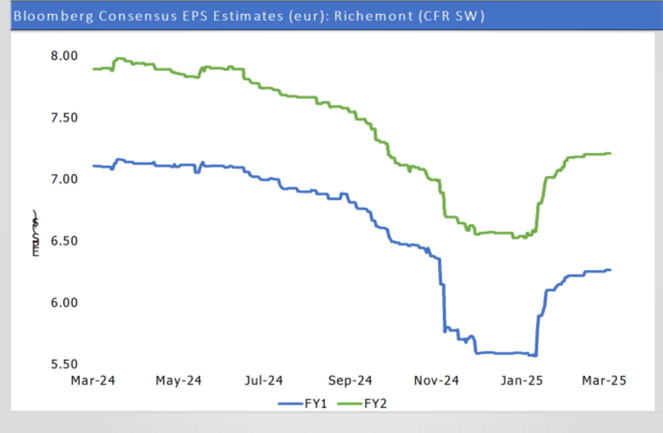
Source: Alphinity, Factset, 28 February 2025

After a relatively solid earnings season, corporate earnings revisions have been broadly flat over the last month, with positive momentum in Financials and IT Hardware, offset with weakness in Consumer Discretionary, Materials and Staples. While this is encouraging and represents a marginal improvement from the beginning of the year, the unexpected escalation in trade and geopolitical tensions suggests that there are clear downside risks significant to estimates over the next few months. Of particular interest will be how relative leadership evolves reflecting some of the apparent changes to the outlook for regional growth, but also within defensives and cyclical sectors.

During February, we exited an investment in Cadence after another relatively weak guide. We also sold out of Merck (continued weakness in China Gardasil sales with limited visibility on recovery) and Trane Technologies (taking profit to recognize a maturing earning cycle). In addition, we also chose to further reduce our exposures to Mag-7 stocks including Nvidia, Apple, Alphabet and Amazon recognizing weaker relative earnings momentum. New investments were initiated in CRH (high quality construction aggregates exposure with pricing power) and Richemont (a luxury leader under new leadership).

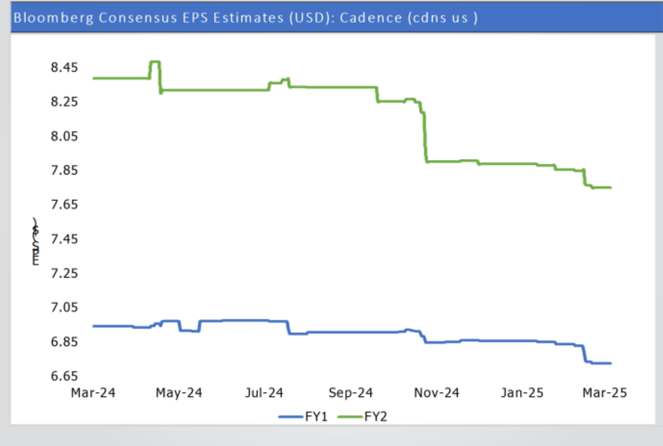
The Portfolio overall remains invested in our highest conviction Growth stocks, combined with a range of Cyclicals and Defensives, and remains diversified across most sectors. We acknowledge that policy and geopolitical risks have materially increased, with potential downside risks to the outlook for economic growth and the earnings cycle. There are also implications for US leadership more broadly. The team will continue to travel widely to test conviction in our current investments and search for new ideas across a wide range of different sectors and geographies. We believe that our disciplined, bottom-up stock-selection focus which follows earnings leadership will be important in navigating a difficult period in the cycle.

BOUGHT: RICHEMONT – Global luxury player winning with entrenched hard luxury brands



Source: Bloomberg, 28 February 2025

SOLD CADENCE – Weak EPS guide & reducing AI infrastructure exposure

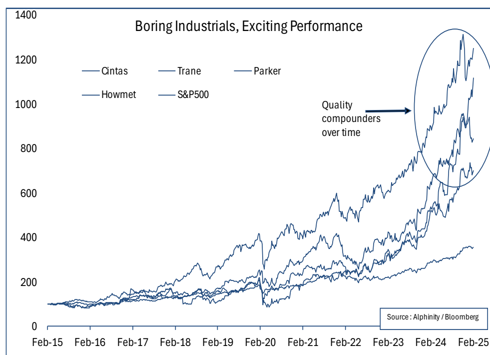


Source: Bloomberg, 28 February 2025

On the Road with Alphinity Global

After a volatile fourth quarter earnings season in the US many of our global PMs hit the road to meet with companies and get a deeper understanding of recent results and to help find new ideas. Chris went to the US to attend two conferences and also visited a large of number of companies across various industries taking in aerospace, equipment manufacturing, waste management and uniform making.

While areas like uniform cleaning and waste management might see some readers tune out due to boredom, and we acknowledge they're not as 'hot' as companies like Netflix, Apple or Tesla, these seemingly boring' companies can actually be 'quality compounders' over time. Chris met with Cintas, the largest US manufacturer and distributor of corporate uniforms; Trane, industrial air conditioning and heating equipment; Howmet, provider of engineered materials for aviation; and Parker Hannifin, which makes aerospace systems. This chart shows the extent to which these companies outperformed the US market over the past ten years.



Cintas, the uniform company, gained 1150% since 2015 in $A terms, which compares with the overall US market at 260%. Not only is Cintas a great quality compounder, it has a fascinating history and is a great example of American capitalism. After their circus closed during the Great Depression, Doc and Amelia Farmer (pictured here) saw the opportunity to collect old rags factories had thrown away, wash them and sell them back to those same factories. That was the foundation of the company that would become Cintas.

On to some of the learnings of his trip, the US industrial vibe could be best described as 'low and slow' in terms of economic recovery, although there were glimpses of green shoots. While there were subtle positive trends, the overall trajectory suggested a gradual industrial recovery rather than any rapid resurgence. Perhaps the exception to this may prove to be those companies' activities outside the US, as activity in Europe and China had seen sharp declines and therefore might experience a more pronounced, albeit optically stronger, recovery phase.

Two themes Chris saw in his trip were the potential impact of tariffs and the presence of a short-cycle manufacturing recovery. Management teams in general were cautious, a wise stance considering the prevailing uncertainties surrounding inflation, tariffs, politics and the economic landscape in China. While CEOs were reluctant to make definitive predictions, it is notable that no executive reported a deterioration in business conditions. All confirmed either the continuation of the previous trend or nascent signs of improvement. Investor sentiment, however, remained relatively subdued and somewhat confused by what to do next. One person he spoke to called it as "peak not sure what to do".

Given the conference was in Miami, the divide in the US between the haves and the have-nots was plain to see, although there seemed to be more 'haves' in Miami. Chris didn't need to walk far from the conference centre to see expensive cars and luxury fashion stores. It was quite a contrast with the relatively boring industrial companies he was talking with. Not that he is unfamiliar with expensive cars, he covers Ferrari shares too.

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