Alphinity Australian Share Fund

QUARTERLY REPORT – MARCH 2025

Trumponomics

Market comment

The March quarter can only be described as rocky, with macro events making a noticeable impact on returns. Everyone was marvelling last year about how expensive the US share market had become; well, that's now being sorted. Maybe Trump's motto should have been Make America Cheap Again! The reality and (thus far) chaos of the new administration has taken its toll on US shares, ours too, and it's not over yet. There could be a grand plan at play that no one but the President and his closest associates appreciate but, until that becomes clear, the default action of global investors appears to be 'sell the US, buy anywhere else'. To this point, much of what Trump says has been geopolitical gaslighting but with his tariffs, the US could be committing an even bigger act of economic self-harm than Brexit.

The stark contrast between the US putting up barriers to the rest of the world and a panicked Europe loosening its purse-strings to spend up big – especially on defence – seems to have made Europe not just a nice holiday destination, it has also become a much more viable investment proposition despite the manifest challenges it still faces. We admit, as we prepare to commemorate 80 years since the end of WWII, it does seem a bit odd to be celebrating German re-armament when a far-right political party could only be one more election away from gaining power there: what could go wrong with that? But with Russia looking increasingly acquisitive and the US placing doubt around its willingness to live up to its NATO obligations, what choice does Germany really have? The risk for the US is that its new fortress mentality could well force some long-time partners to look elsewhere for friendship and protection. China is starting to look like a more predictable and reliable partner by comparison, despite the appalling economic coercion it exercised on Australia only a few years ago.

This is not a great environment for share markets generally, and the US in particular. US shares fell 5% in $A terms over the quarter while the tech-heavy Nasdaq was down 11%. The rotation into Europe sent various markets there up sharply, averaging 12% but ranging between 6% (Belgium) and a massive 20% (Greece). Australia had quite a soft quarter, although less bad than the US. Our market (ASX300 including dividends) fell 3.7%, half of which happened on the final day, and finished 10% below its all-time high on Valentines Day. The $A was broadly unchanged over the quarter.

Economic data weren't out of line with what played out in financial markets, with sentiment indicators such as consumer and business confidence trending lower. The widely-followed University of Michigan index of US consumer confidence has now been below expectations for three straight months, its latest reading representing a 2½ year low. Despite this poor sentiment, however, the hard data, like manufacturing indices and industrial production, remain strong. We are yet to see the uncertainty around tariffs and trade wars migrate from sentiment into the real economy but one thinks this will just be a matter of time, should the current uncertainty persist. On the other hand, China data offered some green shoots and, while we are yet to see any evidence of a rebound in its property market, demand for credit there has improved with new loan activity increasing and manufacturing and non-manufacturing indices were both improving. For now.

Back home, and there wasn't much to cheer about when looking at sector returns, with only three in positive territory: Industrials, Utilities and Communication Services. The fall in WiseTech shares led tech stocks lower (-18%), while Healthcare (-10%), Energy (-8%) and Property (-7%) also performed poorly. The price of oil was fairly steady over the quarter but other commodities moved around a lot: Gold rose by 18% but Coal fell by between 15 and 20%, depending on the type. Base metal prices were generally higher, Copper, Tin and Nickel especially, but the price of Zinc fell a little. Oh yes, and the federal election was finally called.

Portfolio comment

The Fund outperformed the market nicely over the March quarter. The biggest positive was from owning gold producer Newmont, health insurer Medibank Private, global insurer QBE and owning neither software group WiseTech Holdings or building materials company James Hardie. These were partially offset by detraction from payment platform Block and property developer Goodman Group, and from not owning gold producers Evolution Mining or Northern Star.

Performance*	1 Month %	Quarter %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception^ % p.a.
Fund return (net)	-2.7	-2.4	5.2	5.9	13.5	7.5	9.1
S&P/ASX 300 Acc. Index	-3.3	-2.9	2.6	5.3	13.2	7.1	8.4

* Returns are calculated after fees have been deducted, assuming reinvestment of distributions. No allowance is made for tax. Past performance is not a reliable indicator of future performance. Source: Fidante Partners Limited, 31 March 2025.

^ The Fund changed investment manager and investment methodology on 12 July 2010, at which time Alphinity Investment Management commenced managing the Fund and started the transitioning of the portfolios to a structure consistent with Alphinity's investment views. The transition was completed on 31 August 2010. The inception date for the returns for the Fund is 1 September 2010. For performance relating to previous periods, please contact the Fidante Partners Investor Services team on 1300 721 637 during Sydney business hours.

Market outlook

If we were debating the extent of US slowdown or inflation lift before 'Liberation Day', there seems very little debate about that now. While we clearly have no better idea than anyone else as to where final tariffs end up or what else gets done, retaliation-wise or deal-wise, the administration's intent is very clear, and anyone expecting some material backdown in the short term is likely to be disappointed. Whilst the end-game may also well be to reduce not only the US fiscal deficit but also its elevated debt level, the path chosen comes with a potentially fundamental and lasting change to Global trade. Pushing the Fed to lower interest rates, and extending consumer and or business tax cuts to cushion the downturn may be the silver bullet Trump and the market is looking for (in the US anyway), but quite a few things have to go his way for that to ultimately play out and work as intended. In the meantime, this period of 'adjustment', to put it mildly, is likely to be disruptive to markets and the economy for some time.

The Alphinity team has been travelling extensively through the last month seeing many different companies across China, Europe and the US, and the refrain has been the same from them all, "We Don't Know", typically followed by an amount of nervous laughter and hands in the air. We have always found our best macro view comes from a vast collection of micro views collected from many companies and industry contacts across the team. When it is a common theme, it is typically a powerful insight. As such, a consistent, "we don't know", is very instructive, that typically leads to inaction and a lot of sitting on hands waiting, and that leads to economic stagnation. Companies don't approve or start the next project, capex spend gets delayed, new products don't get launched, the M&A doesn't take place, orders don't go through. If you are a consumer you perhaps save a bit more rather than spend, you worry about your job a bit more, the travel gets delayed, you don't do the renovation. All of which is exacerbated if the things you might otherwise have wanted to buy have also just had a decent price increase because of tariffs. Our concern is that small economic pauses tend to gather lives of their own and may build into something bigger, especially when accompanied by an erratic US government. Markets hate uncertainty even more than the certainty of downside. At least you can price downside in.

The other issue we all have, is that we haven't had to price a disruption to global trade like this since maybe WWII, nor an experiment with tariffs of this scope by the largest global economy since the great depression so it is clearly a bit different this time, and unprecedented to those doing the buying and selling in markets. The market has been trained to "buy the dip", starting with the Global Financial Crisis and reinforced by the Pandemic response in 2020 whereby central banks co-ordinate globally to flood market with liquidity in response to tricky markets such as we're now seeing. While there is still a decent amount of liquidity around, the current situation feels different to previous dislocations: we are not sure there will be the global co-ordination this time, and in none of those other times did we have stagflation to contend with, should that eventuate.

It is also worth remembering, these things are usually not played out in days and weeks or even months, but more likely years. While markets never move in a straight line and there will no doubt be periods of bouncing off lows, sometimes materially, we would be surprised if this was just the 'usual' 10% correction before going back to the old bull market, unless there is a miracle conversion of Trump's views. Even then, the seeds of doubt and uncertainty have been sown.

We have focussed on the US here because of the large global impacts stemming from US policy and economy, and also because what happens to US investment markets tend to follow here in Australia. Around half of Australian company earnings come from offshore so we are not immune. The reality is that Australia is in a relatively better place than most, at least from what we know to date. While inflation has re-emerged in the US, it is still slowly retracing here although the flow-on effects of a lower A$ and disruption to global trade are yet to be seen, so unclear for now. Where the consumer is rolling over in parts in the US, the Australian consumer appears to largely have bottomed at the end of 2024 and at worst has stopped deteriorating, although will be interesting to see how the global news cycle on tariffs impacts the Australian consumer in terms of confidence. Our central bank has firepower to use if needs be in a slowdown. We don't have the huge direct exposures to tariffs relative to others. The second derivative impacts are harder to gauge, whether directly through China or via the broader global economy, however we do expect a decent China stimulus response over time that could actually be helpful for our market, or at least offset some impacts. So we expect Australia should do relatively well, although in an absolute sense it is harder to forecast.

Valuations here have come down but are still elevated compared to history. While down from a high of around 20x a few months ago, the overall market multiple of ~17x, against the historical average of ~15x, is still elevated. Given the extent of uncertainty created globally, and that we are only at the start of this cycle where we haven't seen the earnings impacts yet, it would not be a stretch to assume multiples may have to get below long term averages to be considered cheap, in the absence of large interest rate or liquidity responses from central banks. Companies are still on average having earnings downgrades. This is not a great backdrop for stellar market returns or stability near term you would think.

So the risk is that the market is trying to price in what we know today, but there could be more to come tomorrow and it could be good or bad. However, we are stressing patience here as volatility is likely to remain for some time. Great opportunities will arise, but for now quality and earnings certainty will be even more important going forward, we believe.

Portfolio outlook

The portfolio remains a little defensive as it becomes increasingly difficult to find high conviction earnings upgrade stocks, especially now that even more risk has been injected into company outlooks due to US tariffs. We have reduced exposures to the global economy which is likely to weaken. We are already underweight Oil, which falls into that category. On the other side we have added to companies where we see earnings upside, or at least stability, i.e. those selling non-discretionary goods/services, companies that have pricing power, or are less affected by tariffs, and with strong quality characteristics. If you can find them, you are being well rewarded. Holding earnings expectations is the new 'beat' for the time being, which suggests earnings defensiveness will be sought in the market, and the portfolio has benefited from this thematic. Australian exposure is also likely relatively resilient this year and could well be supported by more interest rate cuts here, and possibly any fiscal stimulus induced by the current election promises.

We have been noting in these pages recently that the market here wants to rotate to a new earnings leadership regime, it just isn't sure where to rotate to. While it knows where it wants to rotate from, i.e. the Banks, earnings resilience in that sector is keeping them in the game. Bank valuations have also come back somewhat, so they are less stretched than before. The Fund remains modestly underweight Banks as we see the earnings upgrade cycle coming to an end, however in a relative sense they remain a little attractive, if unexciting.

Our Commodities exposures have become harder to gain conviction on with global tariff announcements, especially as they relate to China.

Although China's economy had stopped deteriorating prior to this, it wasn't clear to us that there was a material recovery either and even if there was, the areas of improvement were unlikely to be commodity intensive. Perhaps this changes in light of the extreme US tariff head-wind which will force China to reconsider how and the extent to which it stimulates its domestic economy. Old engines like infrastructure and social housing may regain support, but we doubt the extent and suspect a bit of water has to go under the bridge before we will know. We remain modestly underweight commodities and energy. Gold is the only clear upgrade candidate from here.

Consumer is more a mixed bag. The Australian consumer has been quite resilient and looks in part to have bottomed. Some sections of consumer appear better than others, for instance staples and electronics. The offshore consumer seems more vulnerable. As such we are remaining very bottom-up focused on consumer stocks. Finding value is the key here.

Sectors like Insurance that have their own unique earnings stories and are not directly influenced by US policy and tariffs remain attractive. As do pockets of Healthcare, Utilities and Telecommunications.

Top five active overweight positions as at 31 Mar 2025	Index weight %	Active weight %
Newmont Corp	0.4	2.6
Rio Tinto Limited	1.8	2.3
Medibank Pvt Ltd	0.5	2.2
Amcor Limited	0.4	2.1
QBE Insurance Group Limited	1.4	2.0
Asset allocation as at 31 March 2025	**%**	**Range %**
Securities	98.9	90-100
Cash	1.1	0-10

BTW

For a long time, the world has been suffering from a surplus of hyperbole, nowhere more so than on the part of commentators on financial markets. We see evidence of this on evening news programs (does anyone still watch those?) when the resident expert spends a minute making banal comments and/or spurious connections between events and prices, shows a few share price charts or index or currency moves and then it's on to the weather. The words used however often don't really match the numbers. For instance the RBA drops interest rates and the $A briefly falls say half a cent, and we're told breathlessly that it "plunged" or "plummeted", before recovering back to pre-cut levels because everyone was already expecting it. It didn't matter! The $A fell fairly sharply in the wake of Trumpy's tariff announcements, from 63c to 60c over a few days, but it shouldn't really be called a "plunge": even 5% is a big move but hardly a plunge. Or a plummet. Or a bloodbath. Or a rout. Or being in freefall.

While we're on things that annoy us about public commentary on financial markets, very high on the list is the tired old "12 (or however many) billion dollars was wiped off the value of the market today". Yes, when you have big market moves such as we've seen in recent weeks the numbers can look impressive, even scary. The world is surely ending! But the dollar number itself is completely meaningless without context. Is $1 billion dollars a big loss? If the company is only worth $2 billion then it is huge; if it is worth a trillion dollars, $1 billion is just 0.1% - a rounding error, maybe not even the bid-offer spread. One thing we've never heard, however, is "the market put on twelve billion dollars today" – the embellishment only ever happens on the negative side. The old tabloid newspaper maxim is "if it bleeds, it leads" and that seems to apply to financial journalism too. No one buys a newspaper (or these days, clicks on a link) for a good news story but it is disturbing to see even previously august journals such as the Australian Financial Review ↓ increasingly falling into the same trap.

> **Market rout hits $97b and investors fear there are billions more to go**

This last one thankfully doesn't happen in Australia much but US commentators certainly are fond of anxiously saying "the Dow dropped 1000 points today", again without giving any context. Back in 1999 that would have been a big deal, a 10% fall, but from its current levels 1000 points is around 3%. A decent fall but not the end of the world. So when you hear "the biggest points loss since 2020" or something similar, don't be too concerned, it just means the percentage loss wasn't big enough to be scary!

It's a little like the boy who cried "Wolf!". The problem with over-catastrophising relatively insignificant movements is that when something truly noteworthy happens, they don't have the language to properly describe it.

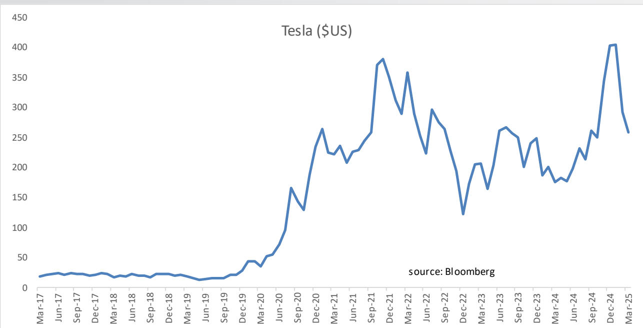
BTW2

It's been a while since we talked Tesla on these pages but with the current ubiquity of its supposed founder [he claims to have founded the company but he was really just an early investor who ultimately forced out the real founders], Tesla has again become very topical. Elon Musk wears many metaphorical hats and has his metaphorical fingers in many pies. He is CEO of a major carmaker, CEO of Twitter/X, CEO of xAI, CEO of SpaceX, CEO of brain research company Neuralink, and chairs tunneller The Boring Company – among other things. In his spare time, he is leading efforts to cut trillions of dollars out of US government spending. These are all big jobs, you would think at least one of those roles must be receiving a sub-optimal amount of attention at present!

Elon is highly intelligent, no doubt a genius, and we've concluded in the past that he will go down in history as one of the more consequential people of our age. The fact that he's currently the richest person in the world is not relevant to his worth as a person but the power and cachet that brings adds to his mystique. Musk's brilliance clearly makes him feel qualified to intervene in the social discourse on topics as varied as German politics, UK politics, South African society, Australian cyber regulation and myriad other issues that directly or tangentially affect him. Even on things that don't: who can forget his vicious unwarranted attack on the brave Aussie cavers who rescued the soccer team in Thailand in 2018? And he does it all with the conviction of someone with an unhealthy degree of self-belief and an extreme lack of self-awareness.

It was a surprise to many that he was willing to take on a job with DOGE working on improving government efficiency while holding onto all the others. Americans often struggle to recognise irony but the sight of him railing against unelected bureaucrats in the civil service while himself being the ultimate unelected bureaucrat was breathtaking. He's trying to cut swathes through the civil service and government programs in a way that could have unintended consequences.

We're not Tesla shareholders but we still feel their pain. They've had a rough trot recently, the shares having almost halved from the record high they reached in the aftermath of the US election last year; of course still well up from the <$20 level of a few years ago when survival was looking a bit doubtful. There are many factors in play but a significant one must be Musk's political views and actions. There has been undeniable brand damage to Tesla. In Europe, sales of most car makers this year have been up or down a few percent but Tesla's have halved. And now even some of the people who have sunk large amounts of money into buying one of its vehicles seem to be having second thoughts.



The bumper stickers– "I bought this before Elon went crazy" and such like – are well known but more serious brand damage is increasingly in evidence. In the UK they are becoming known as Swasticars, a reference to his awkward "[my heart goes out to you]" hand signals made at the Washington DC rally in January. Tesla cars are now starting to appear in the US with other brands' badges on them. Considering the converging shape of many cars, the result is surprisingly plausible. The spelling on the Subuwu gives it away, but does anyone think an Audi or a Mazda badge looks out of place on the rear of these Teslas?

Less convincing was the owner of this Cybertruck↓, clearly hoping people would believe their ridiculous vehicle was actually a Toyota.

It remains to be seen whether those car companies start to push back on people impugning their brands, or whether they actually see it as a backhanded compliment. But one thing is for sure, shareholders should be putting pressure on Tesla's board (chaired by Australian tech guru Robyn Denholm) to wrangle Elon's focus away from DOGE back to what Tesla shareholders expect him to do, maximise shareholder value. Even at its current reduced share price Tesla is the most valuable car company in the world, still 2½ times the value of the next biggest (Toyota), a huge premium to all other, much larger manufacturers. If people won't buy its vehicles, Tesla is really just a home battery and car charging business, likely worth only a small fraction of its current market value of close to a trillion US dollars.

Travellers' Tales

Alphinity hit the road with a vengeance in March, with our people trawling through Asia, Europe and North America – and there's more to come in April.

Stephane started with China, conducting one of his regular visits to see companies, mines and steel mills. It was a timely trip given the recent rotation in equity flows out of the US into regions like Europe and China. Is it a short-term rotation? Or are the economic fundamentals in China finally beginning to turn? Time will tell, but Australian mining companies are highly exposed to Chinese growth across a range of commodities.

The government there seems determined to stabilise its economy, lift the consumption of consumer goods, increase childbirth rates, expand domestic demand and continue the country's transition from the 'old' (heavy industry) to the 'new' economy (tech, AI, robotics, batteries, EVs). The old, which is 60% of GDP, might still grow but its share of the economy will shrink. Sentiment in China has improved but is still subdued, with another year of decline in the property market likely. Consumers are still reluctant to spend although there are some anecdotes of improving shopper traffic.

There is a more positive outlook for stee. He heard rumours of a 50 million tonne cut to production which, if true, would be supportive of steel prices. It would represent downside risk to the iron ore price, though, especially later in the year as seasonal demand falls, tariffs impact and the large project in Guinea starts to produce ore.

Andrew went to London and through Europe seeing insurers, then on to the US to meet with a range of industrial and financial companies. Unlike his other trips to London this time of year, there was actually some sunshine. It was not a metaphor for sentiment, however, because it didn't feel like blue skies on the investment horizon, despite the UK share market having a strong quarter. Two weeks of travel was made up of 40 meetings across France and the UK and New York, Chicago and Dallas in the US. The overall tone across both continents was one of uncertainty, with a persistent view from companies being "lets wait and see for now, in the end it will probably be fine". The daily announcements around US tariffs produces noise and unpredictability, making it hard for companies to make sensible investment decisions. As a result, many capital spending plans are being put on hold until there is more clarity on the path forward. Given the chaos of the first couple of months, this could become a problem if it goes on too long.

He found that people in Europe are still talking a lot about data centres, even more than AI. One company he met said it was considering building a powerful data centre in orbit and linking it back to earth by low orbit satellites like Starlink: this possibly signifies peak data centre hype! Although compared to Elon Musk's aim of colonising Mars, data centres in space seem quite sensible.

His time in New York coincided with St Patrick's Day, where he witnessed the big parade from the balcony of Macquarie Group's new US head office on 5th Avenue, appropriately in view of St Patricks Cathedral.

There was an interesting change of tone around energy policy, with the talk changing from 'energy transition' to 'energy security', both in Europe and the US. Of course, renewables will still be part of that but there felt to be a lot more pragmatism around the timing, mix and source of the energy required. There was a lot of discussion around how nuclear fits in, with its baseload power availability. Of course, Europe and the US are in a much more advanced stage of nuclear energy than Australia, although aspiring next PM Dutton has nuclear ambitions. Let's see how this plays out at the election in May.

Meanwhile our global equity PM Jonas went to a healthcare conference in the US. What stood out to him was the amount of security in force. Not just security guards, there was actually a police presence in the hotel corridors. This was a response to the murder of United Healthcare CEO Brian Thompson in New York in December last year, while he was walking to the Hilton Hotel to present an investor day. The extraordinary public reaction, with sections of US society supporting and even celebrating this unprovoked killing as a reaction to the seemingly dysfuntional healthcare system there, was quite disturbing. It was very clear at this conference that the risk tolerance of healthcare CEOs generally has plummeted, with many of them attending by video rather than in person.

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