

Monthly Fact Sheet May 2021

Market comment and outlook

Economic data continues to be strong, although global equity markets were more subdued after the recent strong rally amid growing concerns around supply chain problems, higher inflation, peaking growth and a possible tapering announcement by the Federal Reserve.

The US PMI for manufacturing (62.1 v 61.5) and services (70.4 v 70.1) both beat expectations, rising to the highest levels on record. The underlying detail shows that consumer demand remains good, but also that businesses are experiencing pressure from rising input costs. Headline consumer inflation rose to 4.2% y/y and 0.8% m/m, both well ahead of market expectations.

Earnings rallying in line with economic activity – now well above pre-covid levels



Source: Bloomberg

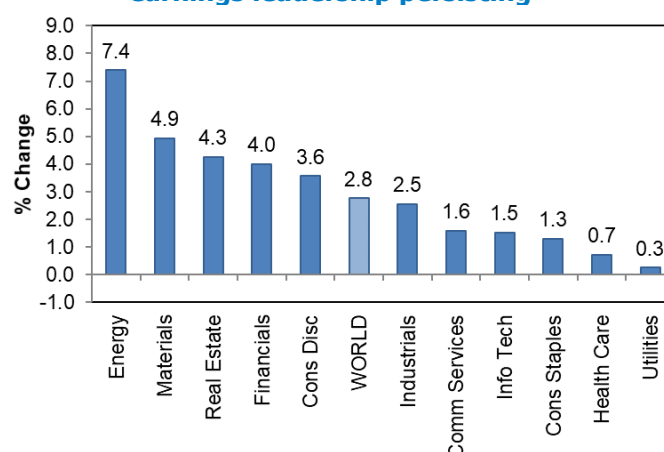
The Fed spoke about potentially starting to discuss tapering, although April minutes continue to show that they view inflationary pressures as transitory. The April Nonfarm Payroll report disappointed expectations, growing only 266,000 (vs 1 million expected), which most commentators ascribed to difficulties in filling jobs due to support from unemployment benefits and other stimulus.

Elsewhere May Eurozone PMIs (released after month end) were also generally positive, led by manufacturing (63.1 v 62.8 expected). Services (55.2 v 55.1 expected) are also improving as vaccination rates rise and restrictions are slowly relaxed. The Chinese Manufacturing PMI for May was in line with expectations and reflects modest expansion (51.1 vs 51 expected).

US corporate earnings for the first quarter were very strong, with S&P 500 companies reporting earnings growth of 47% y/y (vs consensus of 20% y/y). Similarly, in Europe, reporting season delivered the best ever pace of earnings per share (EPS) surprises going back to 2007, with weighted earnings coming in >20% better than expected and the median stock beating by 11%.

Cyclical market leadership was still evident, with the best-performing sectors in the MSCI World Index during May being Energy (+4.7%), Financials (+4.4%) and Materials (+4.3%), while Consumer Discretionary (-1.2%), Information Technology (-1.1%) and Utilities (-1.1%) all lagged. Meanwhile earnings revisions over the period were most positive in Energy, Materials and Real Estate, while Utilities, Health Care and Consumer Staples were lowest (albeit still positive). Earnings expectations for the MSCI World Index overall continued to be revised higher during the month, up 2.8% and 1.7% for 2021/22 respectively.

Earnings Revisions 2021 Four week - Cyclical earnings leadership persisting



Source: Alphinity, Bloomberg, MSCI, 1 June 2021

The outlook for growth, inflation and bond yields continues to be top of mind for investors. The U.S. economy has come storming back and is now expected to surpass pre-pandemic levels this quarter. European growth is also likely to accelerate over the next few months as their vaccine rates improve and economies open further. Meanwhile policy makers remain

supportive, with no apparent appetite to begin reigning in fiscal or monetary stimulus in any of the larger global economies, despite inflation data and forward expectations moving higher.

Of course, this is now relatively well understood by investors. Markets have already rallied strongly in anticipation, and while corporate earnings have also surged back in-line with growth, this has been needed to justify elevated valuations. Looking forward, while we remain optimistic on the growth outlook, we also believe that the most explosive part of the recovery is now behind us.

What this means for equity markets as we enter the mid-cycle phase of the recovery, will to a large extent depend on the outlook for inflation and bond yields. It's clear that strong inflationary forces are currently in play. The speed of the rebound has triggered significant supply side shortages generally. This has been most acute in semiconductors, although labour shortages and rising commodity prices are also contributing to inflationary pressure. It remains to be seen whether these near-term pressures are transitory as most currently believe, or stronger and more persistent, requiring an earlier than expected policy response. The probability of higher corporate taxes and more active regulatory intervention also appear to be rising. The strong market rally has clearly raised risks and periods of elevated market volatility seem likely as all of this plays out.

Cyclicals outperforming defensives as inflation expectations rise

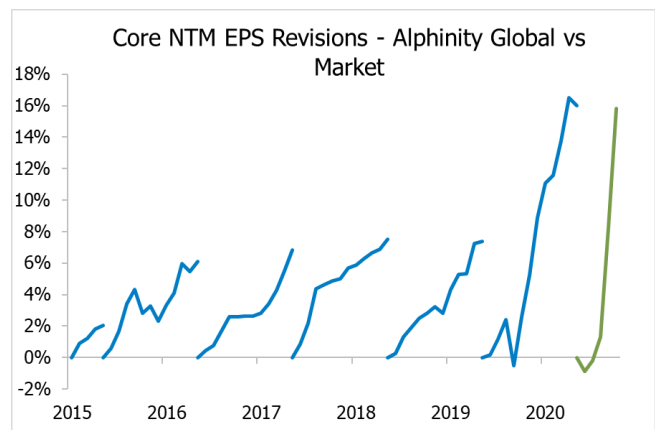


Source: Bloomberg

Portfolio comment and outlook

The Alphinity Global Equity Fund enjoyed another strong month in May, generating gross alpha of c1.4%, with our portfolio continuing to enjoy earnings upgrades following an exceptional 1Q21 earnings season. This is reflected in our portfolio's 2021 relative earnings revisions to the MSCI World index, which is already well ahead of relative beats we would normally expect for a full year.

Alphinity Global enjoying strong relative earnings revisions



Source: Alphinity, MSCI, Bloomberg, 1 June 2021

Performance contributors were broad-based across sectors, with Morgan Stanley, Teck Resources and Target coming through in the top three positions, whilst NextEra, Vestas and PulteGroup detracted.

Looking ahead, our portfolio positioning continues to reflect the current cyclical leadership, however we are conscious of remaining disciplined on both value and quality as we move deeper into the cycle. Portfolio activity during the month was limited, although reflected some modest adjustments for valuations. We took some profit in Teck Resources after a strong rally and reinvested this in high quality earnings winners including Prologis, Danaher and Alphabet. As a reminder, we have largely maintained our investments in our highest conviction growth stocks through this volatile pandemic period. These stocks remain some of our strongest structural earnings stories and we continue to look for opportunities to add to these positions as the cycle matures.

What's on our mind - Stock in focus

Blackstone – A rare kind of gem

Many Australian investors might recognise the name Blackstone from the recent bid for Crown Resorts. In this note, portfolio manager, Jeff Thomson, takes you behind the scenes of the phenomenal success story that has seen this US listed financial services company expand to a US\$114bn market capitalisation in just 13 years. Since the start of 2019, Blackstone (BX US) has outperformed the MSCI World Index by 50% and the MSCI World Financials Index by 13%.

Outperforming peers since 2019

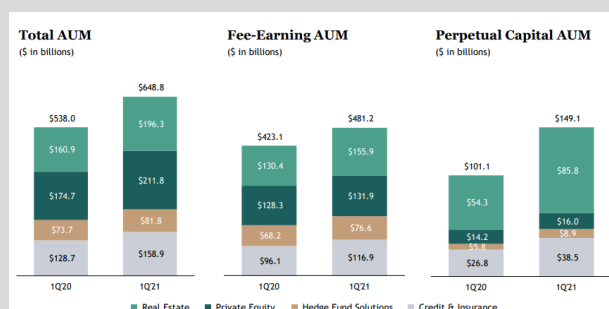


Source: Bloomberg, 31 May 2021

Best in class 'alternative' asset manager:

Blackstone is the world's leading alternative investment firm, benefitting from a structural shift towards private assets as investors continue to search for yield and non-correlated sources of alpha. At the end of the first quarter, Blackstone had total assets under management of \$648.8bn (+21% y/y), with \$99.3bn of inflows over the last twelve months alone.

Growing AUM by 21% despite Covid



Source: Blackstone 1Q21 Quarterly update

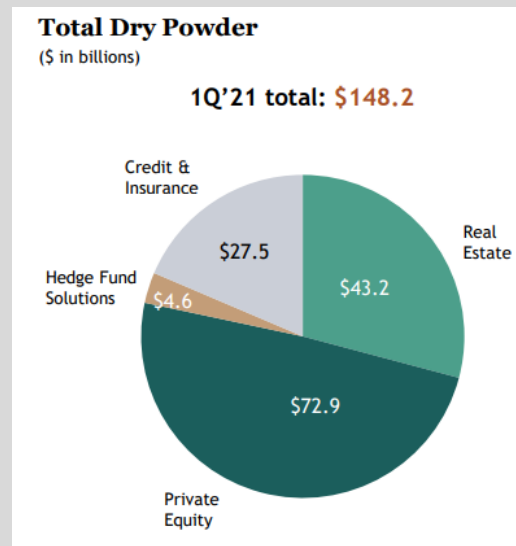
A high-quality growth business: Strong business momentum is likely to drive fee-related revenue growth 15-20% p.a. for the next several years at least, with positive operating leverage pushing fee-related margins up towards the high 50's by 2023 (vs current 52.8%). A capital-light business model enables high payout ratios (typically ~85%) whilst maintaining a very strong balance sheet. The Group has minimal net debt and is rated A+ by S&P.

Transformational shift toward permanent capital vehicles:

Blackstone has increasingly been successful with permanent capital vehicles, raising capital from high net worth individuals in the large and growing wealth management channel. Permanent capital currently represents ~\$150bn (~23% of AuM). This pivot into retail permanent capital, with the associated investments in technology, product development, marketing, investor services and education, is an important point of differentiation versus peers and is likely to drive significant shareholder value going forward.

High visibility: The vast majority of revenues (~87%) are tied to perpetual or long-term vehicles with minimal fee pressure. Investment performance continues to be strong across all asset classes, and the environment remains supportive for both fund raising and realisations. At the end of the first quarter dry powder was \$148.2bn.

Enough undrawn capital for ongoing growth

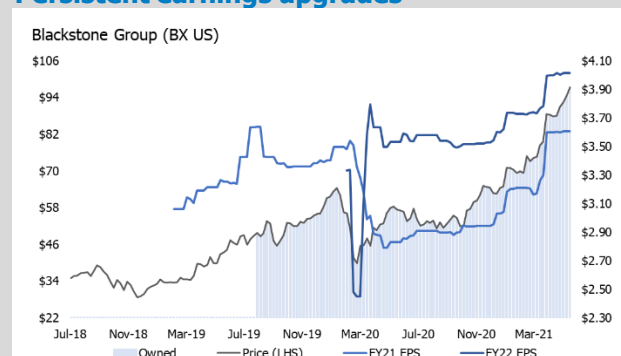


Source: Blackstone 1Q21 Quarterly update

Long-term growth potential remains under-appreciated:

We continue to believe that the outlook for strong and sustainable earnings growth remains undervalued by the market. Blackstone currently trades on a 2022e PE of ~23x, with an expected dividend yield of ~3.6%, and remains a significant investment in the Alphinity Global Equity Fund.

Persistent earnings upgrades



Source: Alphinity, Bloomberg, 31 May 2021

BTW

Action in the crypto space hotted up even more in May. The great Elon Musk must have read our piece last month as he abruptly ceased accepting Bitcoin to pay for his cars for environmental reasons, although he implied that he would hold on for now to the Bitcoin Tesla already owned. His confidence in that particular cryptocurrency had clearly taken a hit and so did the Bitcoin price which crumbled from the \$US63,000 it reached in April, in the initial aftermath of Tesla's buying, to \$US34,000 at the end of May. So much for it being a store of value. The other traditional "store", gold, rose sharply (about 6%: that's sharp for gold) during May – so possibly there's been a bit of switching between the two by some speculators.

Elon hasn't completely lost faith in the crypto concept though: in an appearance on the influential US financial news show Saturday Night Live he declared himself the Dogefather, although he also caused some concern by describing Dogecoin as "a hustle". He has spoken about Dogecoin in the past and seems to be positioning it as a more responsible cryptocurrency. We're sure he's aware of that coin's history: it started out as a joke. In the early days of crypto, way back in 2013, a couple of IT developers in Oregon USA wanted to establish an alternative to Bitcoin. They did it with just a few hours of work, taking from a meme the mis-spelling of "dog" and the image of an adorable Japanese breed of dog.



They said at the time: "Dogecoin is an open source peer-to-peer digital currency, favored by Shiba Inus worldwide." Now it is a \$US50 billion joke. Dogecoin was trading at about 50c at the end of May but there are more than 100 billion of the coins out there. In that



sense the scarcity which gives Bitcoin some of its (questionable) value – that a maximum of 21 million can ever be issued – is completely absent. The upside however is that if Dogecoin were to be used for transactions, it would be a lot cheaper, quicker, and far less power-consuming

than Bitcoin. It wasn't designed that way – the founders admitted that power usage wasn't considered at all – but it is, so maybe Elon is onto something.

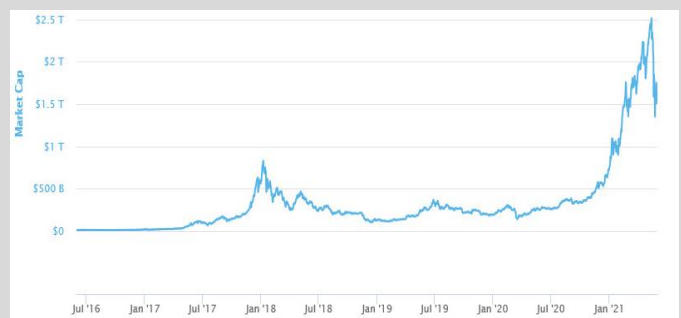
There were another two crypto developments in May. The first was the establishment of another joke coin called Shiba Inu – a joke on a joke – which quickly became worth a few billion dollars, even at the tiny fraction of a cent at which it trades. Its website says: "Once upon a time, there was a very special dog. That dog was a shiba inu, and this dog inspired millions of people around the world to invest money into tokens with the dog's image on it." It also has subsidiary coins known as Leash and Bone. It seems to have the aim of killing Dogecoin.

The second was \$ASScoin. The ASS part stands for Australian Safe Shepherd and its image is just as adorable as the shiba inu. The link with Australia is highly tenuous: the breed of dog and nothing else. We're not sure where the "safe" bit comes in, possibly to infer security and to enable its edgy acronym. Australian Shepherd dogs are quite popular in North America apparently.



\$ASScoin describes itself as a "community driven fair launch token that thrives on memes". We've not yet seen a compelling use case for it over the myriad other coins out there but plenty of people must have because in its first month in existence it apparently attracted 272,000 holders. It is hard to argue any scarcity for this coin, there is a maximum issuance number of ten thousand trillion (1 with 16 zeros). Should be enough.

If it's that easy to create an asset supposedly worth billions of dollars from nothing, one might ask why isn't everyone launching new coins? Seems like they are. Look out for the new Alphinitycoin soon. There are now 10,385 coins being tracked by coinmarketcap.com which at the end of May had a total market value (i.e. number of coins times the spot price of those coins) of more than \$US1.5 trillion. It reached \$US2.5 trillion during the month, as the chart below shows, before Bitcoin and its ilk corrected.



Performance ¹	Quarter %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a ²
Fund return (net)	11.9	14.9	21.0	15.1	14.8	13.4
MSCI World Net Total Return Index (AUD) ³	9.7	10.5	20.6	13.6	12.8	12.1
Excess return ⁴	2.2	4.3	0.4	1.6	2.1	1.3

Fund facts	
Portfolio managers	Jonas Palmqvist, Jeff Thomson, Nikki Thomas, Trent Masters
APIR code	HOW0164AU
Inception date	21 December 2015
Investment objective	To outperform the MSCI World Net Index (AUD).
Management fee	1.00% 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	\$93.2M
Distributions	Annually at 30 June
Min. Investment	\$10,000
Max. cash position	20%

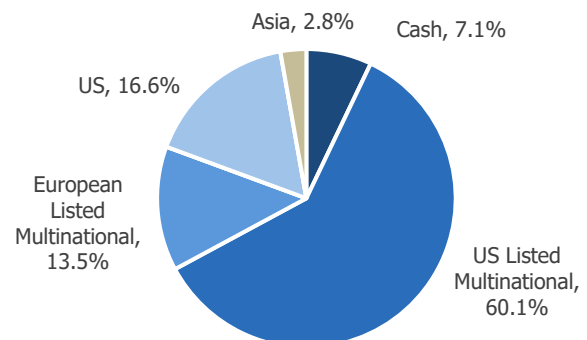
Fund features
Conviction: A long only, concentrated portfolio of 25-40 of our best ideas, highly diversified across sectors and regions.
Discipline: A disciplined process finding quality businesses with strong earnings that are under appreciated by the market. This approach has proven successful and agile across different market cycles.
Talent: A united and deeply experienced team of global portfolio managers each with over 20 years in the industry.
Aligned: Alphinity Investment Management is a boutique firm, strongly aligned with its clients' investment objectives and focused solely on growing clients' wealth.

Top 10 positions

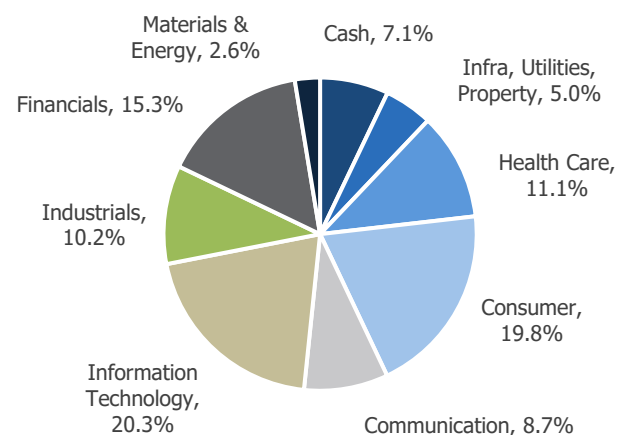
Company	Sector	%
Alphabet Inc	Communication Services	5.8
Morgan Stanley	Financials Ex Prop	5.1
Bank of America Corp	Financials Ex Prop	5.0
Microsoft Corp	Info. Technology	4.8
Nvidia Corp	Info. Technology	4.1
Target Corp	Cons. Discretionary	3.9
Otis Worldwide Corp	Industrials	3.6
Amazon.com Inc	Cons. Discretionary	3.2
Danaher Corp	Health Care	3.0
PulteGroup Inc	Cons. Discretionary	3.0
Total		41.5

Data Source: Fidante Partners Limited, 31 May 2021.

Geographical exposure



Sector exposure



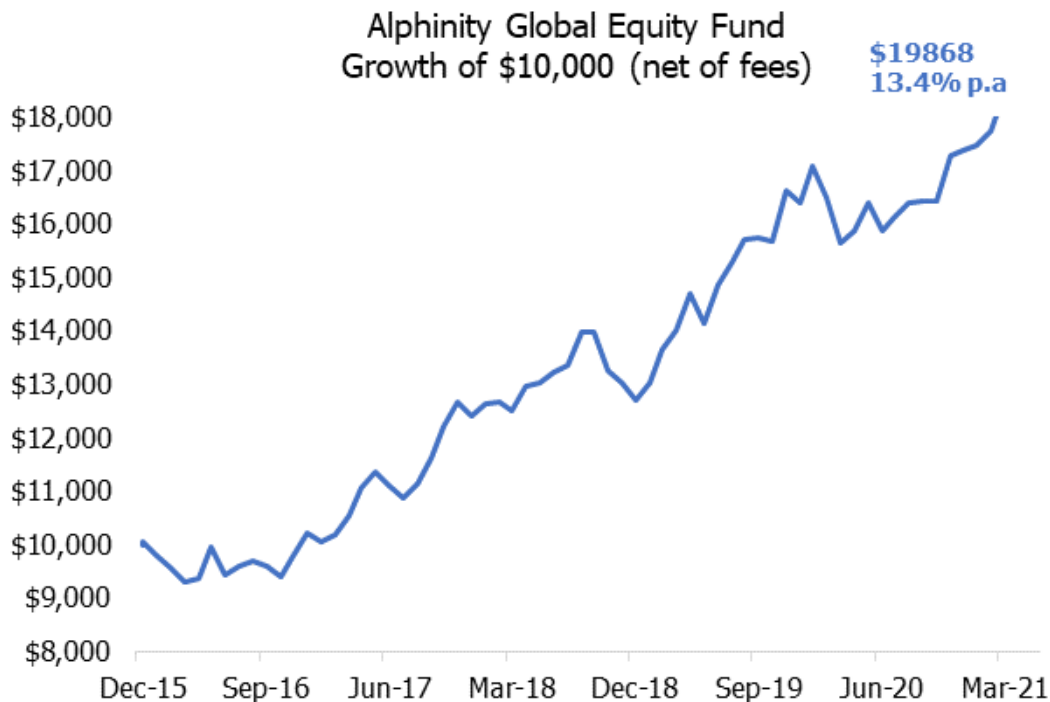
¹ Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

² The inception date for the Fund is 21 December 2015

³ From 21 December 2015 to 31 March 2019, the Benchmark was the MSCI World Equity ex Australia (Net) Index. The current index is effective from 1 April 2019.

⁴ Numbers may not add due to rounding

Growth of \$10,000



For further information, please contact:

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