

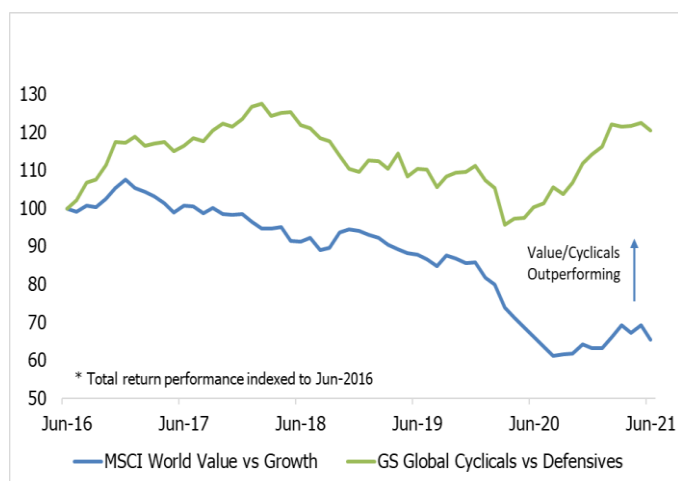
Quarterly Fact Sheet June 2021

Market comment and outlook

Global equity markets rose 6.9% in the quarter, lifted by strong corporate earnings, vaccine rollouts and continued policy stimulus. The US market (+8.2%) and Europe (+5.4%) led, whilst Japan was the only major market which fell (-0.5%). From a sector perspective, the picture was more mixed in the second quarter compared to earlier stages of the ongoing global recovery. Some cyclical sectors continued to perform well (semiconductors, energy, media), but at the same time certain growth sectors also saw a strong revival from May, performing at least as well for the quarter (tech software, diversified financials). Defensive sectors overall continued to lag, in-line with previous trends.

The equity moves continue to reflect the current relative earnings leadership which has been in place since the second half of 2020. 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%. Global equity analysts continued to lift earnings forecasts - during the second quarter, global earnings expectations rose by 8.2% for 2021 and 4.7% for 2022, a slightly higher pace than the first quarter.

Cyclicals and growth outperformed during quarter



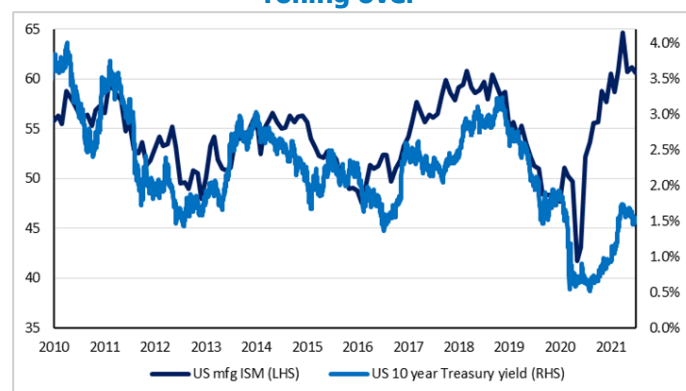
Source: Bloomberg, Goldman Sachs data

The global economy has experienced a rapid recovery from the covid-lockdown recession, with 2Q GDP above its pre-pandemic level, which is supportive of markets. However, while the underlying outlook

remains positive, growth has begun to decelerate back towards long term trends again.

US ISM Manufacturing fell back from its earlier historic high of 65.0 to 60.6 in June, and ISM Services surprised to the downside in June, falling to 60.1 from 64.0, despite the US economy continuing to open up on the back of its rapid vaccination roll-out. Surprising most forecasters, the US 10y yield fell by -0.27% in the quarter to 1.47%, as did the 5y and 10y break evens. This move seemed closely correlated with the revival of growth stocks during the quarter, as has become typical in markets. The Chinese recovery is largely complete and activity indicators there were slightly disappointing in the quarter, with the economy going through a phase of financial tightening. The rally in global commodity prices lost some momentum in May and June, but the CRB All Commodities Index still ended up +9% for the quarter.

Momentum in economic activity and bond yields rolling over



Source: Bloomberg, UBS

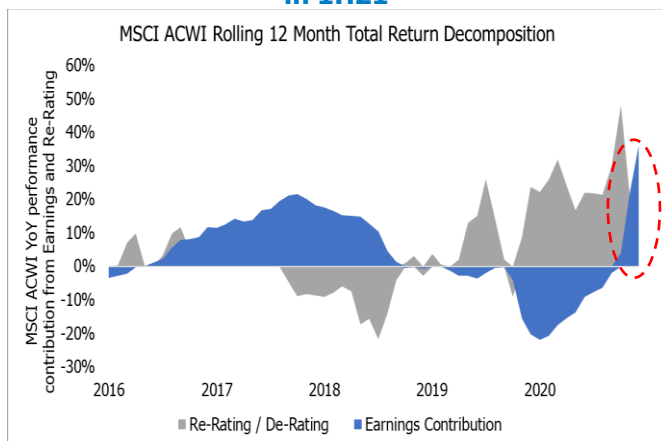
Closely tied to trends in bond yields, the key macro debate was focused on whether the global inflation spike will prove transitory or not. This is a key source of concern for markets as persistently high inflation would likely trigger the Fed to wind back its extraordinary levels of support. The markets saw two such convulsions in the quarter; first was the inflation data for May that saw consumer prices +5% from a year ago, representing the largest rise since August 2008. However, the initial negative market reaction unwound as "base effects" and reopening quirks such as big lifts in used car and airline fare pricing were viewed as temporary. The next shudder occurred around the US Federal Reserve meeting for June where the outcome was a view by FOMC members of an economy running hotter than prior expectations, and a "dot plot" that showed Fed Board Members had accelerated their expectations for raising rates. Again the initial market reaction was unwound as

a procession of US Federal Reserve participants subsequently talked down the risk of an early move in interest rates, and that the “talking about talking about” phase of asset purchase moderation (still running at \$120bn per month) has just begun.

Portfolio comment and outlook

The outlook for growth, inflation and bond yields continue to be top of mind for investors. The U.S. economy has come storming back, surpassing 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 generally supportive despite some initial talks about tapering, with little apparent appetite to begin significantly reigning in fiscal or monetary stimulus in any of the larger global economies. It’s clear that strong inflationary forces are currently in play, however at this stage they appear mostly transitory, in-line with the view of the Federal Reserve.

Earnings the key driver of MSCI World returns in 1H21



Source: Alphinity, Bloomberg, 30 June 2021

Of course, compared to 6-9 months ago, the global economic recovery is now well understood by investors. The initial explosive demand growth meant economists scrambled to catch up with reality, upgrading their GDP growth forecasts aggressively. More recently, as growth has begun to decelerate, there have been some slight disappointments, primarily in China and the US. Also, equity markets have already rallied strongly, 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. The strong market rally has clearly raised risks, and periods of elevated market volatility seem likely from here.

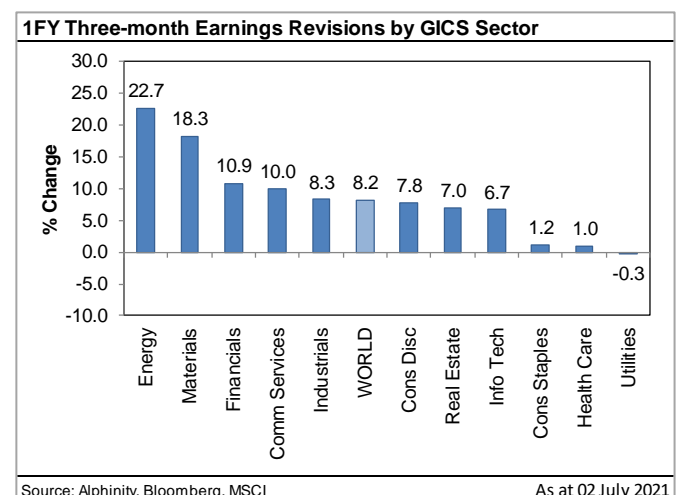
Portfolio activity during the quarter was limited, although we made some changes to reflect the maturing cycle, as well as rising stock valuations. We are conscious of remaining disciplined on both valuations and quality as we move deeper into the cycle. We sold out of Teck Resources (early cyclical with dimming earnings outlook) and Lumentum (fading earnings outlook). We cut back on positions in Infineon, Volvo and Vestas as the clarity around near-term earnings has fallen. During the quarter, we also added to a few of our existing holdings: Prologis, S&P Global and Danaher. These are all high-quality companies with long-term earnings growth still under-estimated by the market.

Our portfolio continues to be positioned around the two dominant drivers of global earnings currently: the cyclical recovery, but also various structural, longer term growth stories. As a reminder, we have maintained investments in our favourite growth stocks through the recent recovery cycle, as the earnings outlook for these businesses remain under appreciated by the market. We believe both the cyclical and growth parts of the equity market continue to offer attractive investment ideas.

In contrast, we remain less invested in defensives, which are still facing various earnings headwinds, although we are doing increasing amounts of work in this area to prepare for any potential change in earnings leadership. We are on high alert for signs that analysts have over extrapolated current cyclical trends, with overly bullish analyst expectations one of the classic end-of-cycle signals.

As always, we will let the earnings leadership guide us through the cycle and avoid making sweeping, brave, lower probability global macro calls in the portfolio.

Cyclicals continue to see majority of earnings upgrades



Source: Alphinity, Bloomberg, MSCI

As at 02 July 2021

What's on our mind - Stock in focus

NIKE – The Greek goddess of victory (and innovation!)

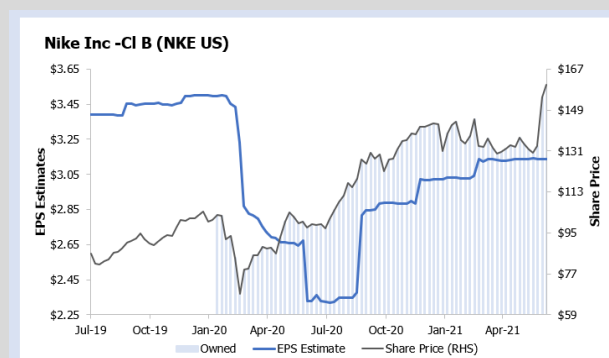


Nike is the **global athletic market leader** selling footwear (~60% of sales), apparel and equipment across all regions of the globe (~40% North America, ~25% EMEA, ~20% Greater China, ~10% APLA). It dominates many sporting categories, from basketball to running while continuing to grow strongly in others, from football to tennis. It has done this by spending on sponsorships and sporting activities from grassroots to Olympics and World Championship/ World Cup levels, capturing the hearts and minds of consumers by being seen worn by the world's best athletes. This "demand creation" expense is its major competitive advantage – its scale allows it to persistently outspend competitors.

In mid-2017, Nike announced its Consumer Direct Offense - a strategy it called **"Triple Double"**: its intention – to 'double'-down on its 1) cadence and impact of innovation; 2) speed to market; and (3) direct connections with consumers – three things which expand its differentiation and leadership. In late 2019 John Donahue (ex eBay) stepped into the CEO role bringing his capabilities in e-commerce and consumer direct. In simple terms, the strategy means Nike can sell the same product direct to its customers instead via other retailers and in doing so:

- learn about and connect to its end consumers in way which builds loyalty,
- gain granular detail on customer needs and wants, so it can then innovate more effectively and bring product more quickly and more efficiently to market
- financially, capture more of the final retail sale price of each unit (show, shirt, ball etc) it sells, driving its margins and cash flow conversion higher.

Nike – In an earnings upgrade cycle



Source: Alphinity, Bloomberg

So far, the shift has been a resounding success. While initially Covid-19 looked like it would hurt Nike's business as stores globally were closed, instead it has fast-tracked the strategic shift to its benefit. We believed the market was misunderstanding this opportunity and so held through the shorter period of lost sales in 2020, and significant downgrades of Nike's expected earnings, and built our position. The proof came at the end of June, when Nike reported a blowout 4Q21 result, even with the short-term impact of boycotts in Greater China, delivered a high-quality earnings beat (93c vs. consensus expectations of 51c). More importantly, it raised its longer term outlook for revenues, gross margins, profits and cash flows materially as the strategy has been accelerated by the Covid-induced changes in people's buying behaviour and Nike's ability to pivot quickly.

Specifically, Nike now expects Direct to reach 60% of total revenue by FY25 (vs. ~40% today) comprised of owned digital at 40% (vs. 21% today) and owned + partner accelerating to 50% (vs. ~35% today). Just a year ago it had planned to reach 50% digital some (unquantified) time after 2025.

Nike was without doubt a winning franchise even before Covid-19 changed the world forever. But we believe Nike's strategy and superb execution through these difficult months has further strengthened the quality and competitive advantage of this company. The shift to digital and direct will continue allowing Nike to capture much more of the value of its franchise. While expectations have been recalibrated higher since the 4Q21 result, we believe there is still significant upside to our investment in coming years as the market does not yet fully appreciate the transformation underway.

For context, prior to Covid-19, we believed Nike could earn over \$8.00 in EPS by 2025. Post recent upgrades, consensus forecasts are for Nike to earn <\$6.50 in EPS in 2025, over 20% less than what we see as probable.

JUST DO IT.  +

NIKE – ESG Considerations

Nike is all about healthy living, healthy lifestyles, and empowering people through sport. As a brand it is well known for its 'just do it' slogan and breaking down barriers, sometimes controversially, to the inclusion of minority groups through its advertisements and products. It was the first major sporting brand to create a pro-Hijab product, allowing Muslim women to feel comfortable playing sport. It also was criticised in Japan for an ad campaign which shined a light on racial inequality and the importance of sport for inclusion.

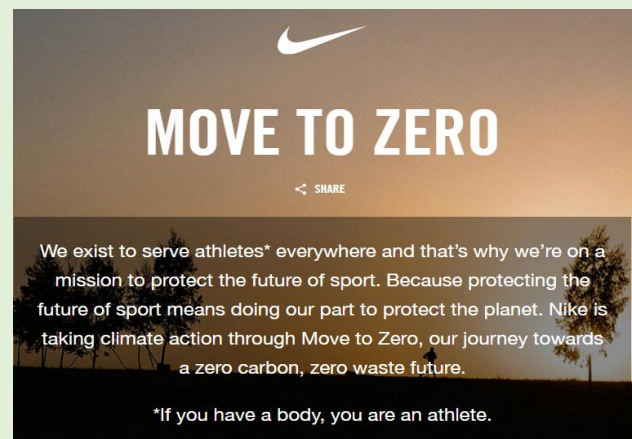
As a large global player, with an appetite for pushing the boundaries, it can be used as a lightning rod for criticism. It also sometimes makes mistakes. In 2019 it was criticised for contract conditions that did not support female athletes who wanted to start a family. Within 6 months of this issue hitting the news, Nike had publicly apologised and made the appropriate changes to its policies. This is just one example but is indicative of the typical Nike response to mistakes and controversies – forward leaning, responsive and responsible.

Nike's most significant ESG risk is related to supply chain. Nike sources finished goods from 38 countries and regions, and from 477 factories employing over 1 million workers globally. Mindboggling to consider the supply chain oversight and resources needed to manage human rights, modern slavery issues, as well as efforts to improve the overall environmental footprints of raw materials' farming and production such as cotton.

Nike is a well-regarded leader in supply chain management and in 2005, well before any Modern Slavery regulation came in place, it was the first company in the industry to disclose its factory base publicly. Nike has been proactive in trying to manage supply chain risks and issues do arise. For example, in 2017 there was a mass fainting incident at a factory it uses in Cambodia due to the long hours and working conditions.

Late in 2020, Nike made headline news when the Chinese population began boycotting Nike brand due to its statement (made two years prior but highlighted by the Chinese government) that it did not source from the controversial Xinjiang region. This stance against the Chinese Government's treatment of the Uyghur people, in the regions' vast cotton farms, saw boycott of western brands, both instore and online, by some Chinese consumers, including some celebrities and influencers. This issue kicked off in March 2021 and while the issue is unresolved, the blowback to Nike (of doing the right thing, but its stance not aligned to Beijing) lasted only about six weeks and sales are again normalising. But controversy in China will be an issue we will continue to monitor.

Nike also has an opportunity to improve the overall sustainability of sporting fashion, apparel, and goods, and improve the standard of the industry. Nike is on the journey towards zero carbon and zero waste and are already making headway to reduce the footprint of its products.



BTW

“Early to bed, early to rise, makes a [person] healthy, wealthy, and wise”. So says the proverb, although the causal link has never been definitively established. We all must be sleeping really well then: we are wealthy and we are healthy. Are we wise? Might be best to leave that topic for another day...

The fact you are reading this suggests you care about your wealth, and Alphinity is pleased to be able to provide products to assist you in building that. We are always interested to see the annual Credit Suisse global wealth survey, the 2021 version of which was released this month. It examines the state of peoples’ wealth around the world and it’s always intriguing to see how well Australia fares in this respect. While the strength or otherwise of the \$A can have an impact from time to time (all countries’ metrics are expressed in \$US), in recent years we have tended to end up close to the very top. Credit Suisse’s home market of Switzerland generally ends up #1.

This year Australia came in at #4, with average wealth (total assets net of debt) of \$US483,760 per adult. Switzerland topped the list with a \$US673,960 and was followed by the USA at \$US505,420 and Hong Kong at \$US503,340. Our friends across the Tasman were not far behind in 8th place with \$348,200. Between us and New Zealand were the Netherlands, Denmark, and Belgium.

More pleasing however is that Australia is the highest-ranking country in the world when it comes to median wealth, with \$US238,070 per adult. Median wealth is the point at which there are just as many adults with higher wealth as lower wealth. This means our wealth is shared more equally than most wealthy places: the rich here are not as super-rich and the poor are not as super-poor as in some countries. The US for instance is often perceived as a place where there is great inequality and the Credit Suisse report supports that: average wealth is half a million dollars but that is distorted by a relatively small number of people with obscene amounts of wealth – Musk, Gates, Buffet, Bezos, Zuckerberg et al – which increases its average a lot. Median wealth in the USA is \$US79,000, just a third of ours. New Zealand also scores highly in the equality stakes, coming in at #4. Switzerland, with the highest average of wealth, has the 6th highest median wealth with \$146,730.

	mean (\$US)	Δ 20 to 21	% Δ		median (\$US)	Δ 20 to 21	% Δ
1 Switzerland	673,960	70,730	10.5%	1 Australia	238,070	32,280	13.6%
2 United States	505,420	41,870	8.3%	2 Belgium	230,550	35,330	15.3%
3 Hong Kong	503,340	-26,420	-5.2%	3 Hong Kong	173,770	-10,550	-6.1%
4 Australia	483,760	65,700	13.6%	4 New Zealand	171,620	7,180	4.2%
5 Netherlands	377,090	46,030	12.2%	5 Denmark	165,620	16,980	10.3%
6 Denmark	376,070	38,750	10.3%	6 Switzerland	146,730	14,090	9.6%
7 Belgium	351,330	54,030	15.4%	7 Netherlands	136,110	16,880	12.4%
8 New Zealand	348,200	15,150	4.4%	8 France	133,560	7,090	5.3%
9 Sweden	336,170	55,460	16.5%	9 United Kingdom	131,520	8,100	6.2%
10 Singapore	332,990	25,460	7.6%	10 Canada	125,690	11,330	9.0%

source: Credit Suisse

Why is Australia so well off? A number of factors contribute but compulsory superannuation, which has forced most workers to save a meaningful proportion of their income for the last 30 years, is a big factor. This has grown into an enormous pool of assets, a bit over \$A3 trillion, which is bigger than the country’s annual economic output, around \$A2 trillion). Thank you Mr Keating!

Covid has turned out to be pretty good for wealthy people. Almost all countries showed hefty increases in average and median wealth, largely thanks to huge amounts of economic stimulus around the world, and zero interest rates which sparked booming share and housing markets almost everywhere. In Australia, for instance, wealth in \$US rose by 13% on the prior year and in many other countries it was up double digits too.

Wealth fell by about 5% in Hong Kong, although one can probably attribute this to other factors being in play there, such as the pro-democracy crackdown and exit of expats which has hit property values. Still Hong Kong’s average and median wealth remain very high at \$US503,340 (average, #3) and \$US173,370 (median, also #3): much wealthier and more equal than across the border in China (average \$US67,771; median \$US24,067). It is intriguing that China would rather impose its own system onto Hong Kong than replicate Hong Kong’s clearly successful economic model.

The number of millionaires per country is also measured in the survey. Credit Suisse found that there were 1.8 million \$US millionaires (adults with a net worth of about \$A1.3m) in Australia at the end of 2020 – up from 1.4 million the year before. Of course, this used to be quite an impressive claim; these days it just means you have a decent wedge of equity in a house in one of our major capital cities. There are 56 million millionaires around the world, 22 million of which are in the US. But our relative equality is again shown by the proportions: with 9.4% of the adult population we are second only to Switzerland, 15% of whose population is a millionaire. The US comes in a close #3 with 8.7%.

What does the future hold? No one really knows but for what it’s worth Credit Suisse forecasts a continuation of the upward trend, projecting a further 39% increase in overall global wealth by 2025. It expects the robust recovery from the Covid recession (which was mercifully brief in Australia) to continue, and our number of millionaires to increase by 50% – to 84 million – by then. Our own number is supposed to rise by 70% to a bit over 3 million. China’s number is expected to almost double, from 5.3 million to 10.2 million, although will remain well short of the 28 million they say will be in the US at that time.

Performance ¹	Quarter %	6 months %	1 year %	3 years % p.a	5 years % p.a	Inception % p.a ²
Fund return (net)	13.5	21.0	32.2	16.7	17.4	14.4
MSCI World Net Total Return Index (AUD)	9.3	16.2	27.5	14.4	14.7	12.9
Excess return ³	4.2	4.8	4.7	2.3	2.7	1.5

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	\$112M
Distributions	Annually at 30 June
Min. Investment	\$10,000
Max. cash position	20%

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 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.

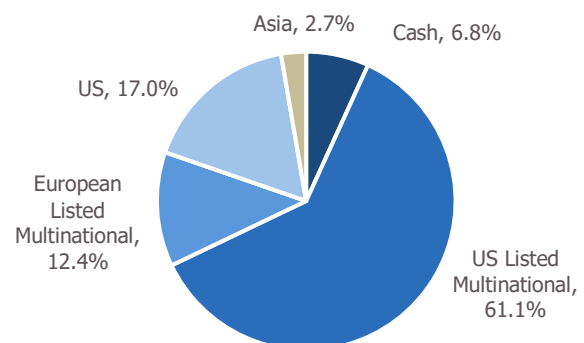
Top 10 positions

Company	Sector	%
Alphabet Inc	Communication Services	5.9
Microsoft Corp	Info. Technology	5.1
Morgan Stanley	Financials Ex Property	5.1
Bank of America Corp	Financials Ex Property	4.8
Nvidia Corp	Info. Technology	4.1
Target Corp	Cons. Discretionary	4.0
Otis Worldwide Corp	Industrials	3.7
Danaher Corp	Healthcare	3.6
Keysight Technologies Inc	Info. Technology	3.5
Prologis	Property Trusts	3.4
Total		43.2

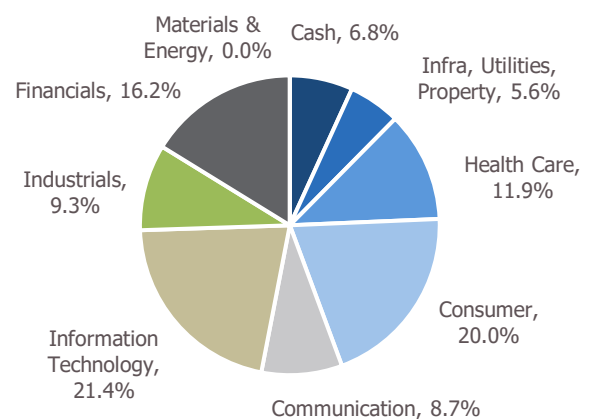
Data Source: Fidante Partners Limited, 30 June 2021.

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.

Geographical exposure



Sector exposure



² The inception date for the Fund is 21 December 2015

³ Numbers may not add due to rounding

Growth of \$10,000 (net of fees)



For further information, please contact:

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