30 June 2021 – Factsheet

Centuria LifeGoals

Alphinity Sustainable Australian Shares Fund

The fund aims to outperform the S&P/ASX 300 Accumulation Index after costs and over rolling five-year periods.

Investment Manager

Alphinity Investment Management Pty Ltd

Investment Strategy

The fund provides a diversified portfolio of Australian stocks listed on the ASX that have strong Environmental, Social and Governance (ESG) characteristics and, where possible, contribute towards the advancement of the UN Sustainable Development Goals (SDG) agenda. The fund aims to be invested across different industries and sectors in order to meet the fund's investment objectives in a risk-controlled manner. The fund will utilise Alphinity's unique process of seeking sustainable, undervalued companies in or about to enter an earnings upgrade cycle.

Target Allocation

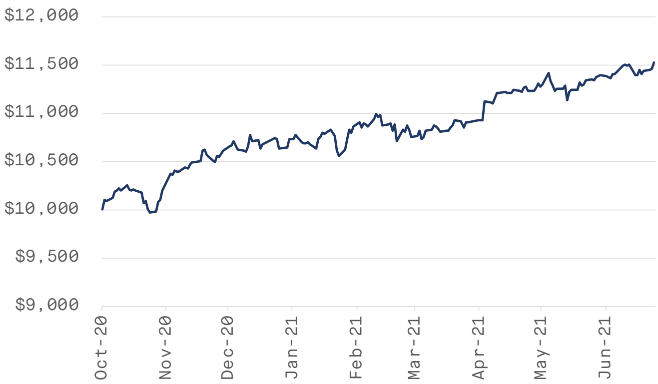
Australian Equities	90-100%
Cash	0-10%

Performance Returns

Returns to 30/6/2021	1 mth	3 mth	6 mth	1 yr	2yr
Net Returns (%)	1.55	5.69	8.38	N/A	N/A

Past performance is not a reliable indicator of future performance.

Performance Graph



A $10,000 investment in Centuria Alphinity Sustainable Australian Shares Fund made at inception is worth $11,526 as of 30 June 2021 after all fees and taxes paid within the Investment Option.

Key Features

APIR Code	OVS9577AU
Minimum Initial Investment	$500
Minimum Additional Investment Plan	$100
Minimum Switching Amount	$500
Minimum Balance	$500
Contribution Fee	Nil
Annual Management Fee	0.97%
Suggested Timeframe	5 years

For more information contact Centuria on 1300 50 50 50 or visit lifegoals.centuria.com.au to download the PDS. Simple Flexible Versatile.

Fund Commentary

The Fund outperformed the market nicely over the June quarter. It benefitted most from tech exposure Megaport, mineral sands producer Iluka, waste management company Cleanaway, iron ore miner Fortescue Metals, industrial property developer Goodman Group. Not owning gas producer Woodside Petroleum also helped. The largest detractors from performance were light-weight car parts maker Carbon Revolution, horticulture company Costa Group, airline Qantas, held back by more lockdowns, and hospital operator Ramsay Healthcare. Not owning gaming machine maker Aristocrat Leisure also detracted from returns.

Market Outlook

So was that it? Have bond yields already peaked? While many commentators – ourselves included – expected the yield of longer-dated bonds to rise as the reduction of monetary stimulus through the bond market (a.k.a. tapering) approached, the exact opposite has happened in the last month or so. When Jerome Powell, Chair of the US Federal Reserve Bank (Fed), said it is now "talking about talking about" tapering market participants sent bond yields lower, and "growth" stocks, which tend to benefit from less abundant earnings growth and lower interest rates, higher. The market's view now is that the Fed will rein in economic growth and inflation before more drastic action is required down the track.

We suspect the last word might not yet have been said about inflation, as there are now more companies talking about having pricing power (i.e. being able to pass higher input costs on to the selling price of their product) than at any time in the last decade or so. An increase in the supply of bonds as the US Government looks to fund its ever-increasing budget deficit and roll over existing debts might be another reason for bond yields to reverse course.

Not much has changed from a domestic corporate earnings perspective. Earnings growth expectations have been further revised upwards for both the financial year just finished (FY21) and the one just started (FY22). FY21 earnings growth, which will be confirmed in the upcoming August reporting season, is likely to come in at well over 20%, a very strong outcome even when compared to the weak FY20. However, the bulk of the earnings growth can be explained by a rebound in Bank earnings, following overly pessimistic bad debt assumptions in the past, and strong commodity prices. More recent positive earnings growth revisions have been even more concentrated in the Resource and Energy sectors. And while many Resource stocks are trading at low earnings multiples, sell-side analysts' commodity price assumptions are starting to catch up to spot prices which limits the potential for further upgrades – at least for the remainder of the year.

In summary, while we cannot rule out a return to some sort of Goldilocks scenario, in which economic growth is solid but not so high as to trigger interest rate increases, it is increasingly difficult to find areas of the market for which earnings are either not already looking close to as good as they can get or, for companies whose earnings are yet to recover, share prices that are not already factoring in a lot of positive future earnings news.

Portfolio Outlook

With most of the positive earnings growth surprise potential still concentrated in Resource companies, we retain a solid exposure to the sector. Within that however, we have further skewed the positions towards diversified miners as we see in them the greatest potential for further earnings upgrades in addition to healthy dividend payments in coming months. Copper miner Oz Minerals has been a favourite company of ours and management has hardly put a foot wrong over the last several years. However, with consensus copper price expectations now close to the spot price (which is up 60% over the last 12 months) and the company's growth projects largely reflected in the share price, which has doubled in the same period, we have reduced our position somewhat.

While we are skeptical about bond yields staying at current levels, and as a result continue to be underweight Technology, which is the most expensive sector in the market, we have continued to diversify the portfolio by adding more structural growth companies in the past few months. Recently we added ResMed, which has been in the portfolio before but a lack of earnings upgrades kept us out until recently. ResMed has had some challenges with the lagged impact on demand for its sleep apnea products due to a decline in sleep diagnostics during Covid. Testing is now recovering and a significant global product recall by its major global competitor, coinciding with ResMed's launch of its new S11 airflow generator, is also providing the company with an opportunity for a step-change in market share globally.

The upcoming August reporting season will, as always, be an important test of the investment theses for many portfolio holdings. The portfolio achieved a strong score card in the February interim reporting season and, while share prices, earnings expectations and the economic environment have continued to evolve since then, we believe – supported by recent management commentary – that most of the companies that did well in February will also report solid numbers in August.

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