31 March 2022 – Factsheet

# Centuria Lifegoals

Centuria

## 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

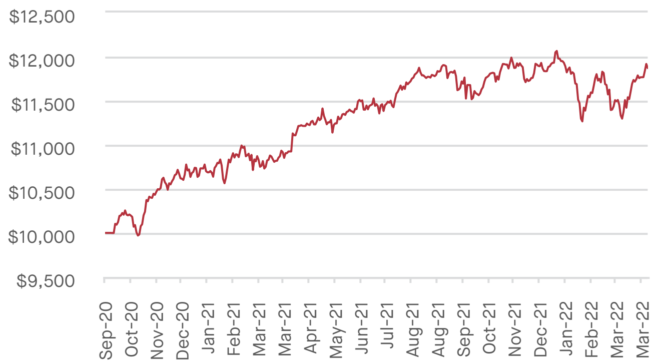
| | |
|---|---|
| Australian equities | 90-100% |
| Cash | 0-10% |

### Performance returns

| RETURNS TO 31/03/2022 | 1 MTH | 3 MTH | 6 MTH | 1 YR |
|---|---|---|---|---|
| Net returns (%)[1] | 3.80% | -1.30% | 1.23% | 8.41% |

1. 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 $11,870 as of 31 March 2022 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**[1] | 0.97% |
| **Suggested timeframe** | 5 years |

1. Refer to PDS for fee breakdown.

## Fund Commentary

The Fund underperformed the market across the March quarter, during which a number of large companies the Fund is unable to invest in performed very well, most notably resource companies South 32 and BHP and gas producers Woodside Petroleum and Santos. The largest positive contributors to returns were its holdings in diversified resource company Rio Tinto, metal recycler Sims Group and not owning tech company Xero or gaming machine maker Aristocrat Leisure. US building exposures James Hardie and Reliance Worldwide, local affordable housing group Lifestyle Communities and pathologists Sonic Healthcare all detracted from returns.

**Market outlook**

Our market's world beating performance in the March Quarter, and particularly in the month of March, is largely explained by our heavy skew to Energy and Resources, and Banks which stand to benefit from higher interest rates, at least until the market starts to worry about higher bad debts. However, that these factors can combine with a rally in longer-duration growth stocks, as happened in March, for an extended period of time seems unlikely.

After some uncertainty around whether the US Federal Reserve and other central banks would moderate the pace of interest rate hikes due to the potential economic outfall from the war in the Ukraine, they are now doubling down in their efforts to contain the high inflation they are seeing today, and appear willing to risk a potentially greater slowdown down the track. Of course they can always change their mind but for now it looks pretty clear that interest rates are going up and liquidity stimulus is being reined in.

While gradual and pre-emptive lifts in interest rates have in the past been manageable for equity markets, the late starting point this time and the rather aggressive pace being articulated, at least in the US, might end up being more problematic. Higher rates initially will likely have a bigger negative impact on higher-valued growth stocks than on those companies driving and benefitting from high inflation, namely Resource and Energy stocks.

However, the effect of those higher interest rates on economic growth will need to be monitored closely, especially as the developing Covid situation in China will make it more difficult for its government to implement its economic stimulus plans.

While inflation and wage pressures in Australia aren't as alarming as overseas this might be more a matter of time rather than a structural difference that makes us less vulnerable. Having said that we do still have a very high savings ratio and an enterprise bargaining system to keep wage increases under control, and this may make the inflationary pressure more manageable. However, some hangover from the last two years of excess liquidity and spending party appears unavoidable – certainly for the economy but maybe also for the equity market.

**Portfolio Outlook**

The quarter was a difficult one for the Fund. Not only did we have no exposure to Energy and limited exposure to Resources, we also didn't get the rebound in some of the more expensively-valued long duration stocks. As discussed in the previous section, we expect that the headwind from higher rates is not over for the latter group of companies. The chart below shows just how meaningful the increase in real US rates has been in recent months, and it may have further to go before it has run its course.

Of course, the performance of individual companies is not just about inflation and interest rates, even though it has felt a bit like that in recent times. This is especially the case as several companies with strong earnings momentum and recent earnings upgrades have been impacted more than usual by investors pondering the impact of interest rates across industries and sectors, in Australia and overseas. These are valuable debates to have, and monitoring changes in earnings leadership between companies and sectors is a key part of the Alphinity investment process.

However, current trading conditions and the assessment of company managements' ability to navigate external challenges are, in our experience, at least as important as broader macro assumptions. Overall, the fund remains well exposed to companyies with both short term and medium term earnings upgrade potential, in our view, including some which have not yet been rewarded for their positive leverage to higher interest rates

Dislaimer: this commentary has been directly sourced from the Alphinity quarterly factsheet available on their website.

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