30 June 2022 – 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

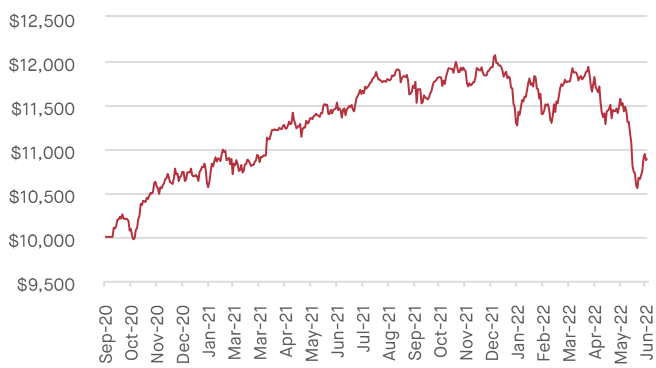
Australian equities	90-100%
Cash	0-10%

Performance returns

RETURNS TO 30/06/2022	1 MTH	3 MTH	6 MTH	1 YR
Net returns (%)[1]	-5.33%	-8.32%	-9.51%	-5.96%

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 $10,883 as of 30 June 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 in the June quarter. Our strongest contributors were health insurer Medibank Private, global insurer QBE and insurance broker Steadfast, while not owning financial services company Block Inc (Afterpay) continues to be a boon. On the negative side however was not owning BHP for much of the period, and not owning Woodside Energy at all.

For the financial year, the biggest contributor was Block, followed by QBE, Lynas Rare Earths, health exposure Virtus and Macquarie Group. The main negatives were BHP and Woodside, although building materials maker James Hardie Industries and CPAP maker Resmed also hurt.

Market Outlook

Following the June sell-off, the Australian equity market is now trading at a relatively low 13x 12 month forward aggregate earnings estimates, and about a 5% dividend yield. This compares to a historical average around 14x and a dividend yield in the 4-4.5% range. At a high level this would suggest that downside from here is limited, but while there appears to now be some buffer from a valuation perspective, our enthusiasm is tempered by how the market multiple is composed. Resource companies are still trading at single digit multiples but the rest of the market, while down considerably from peak levels, is still a little above historical averages. And there remains earnings risk across both.

A range-trading market seems a reasonable outcome in these circumstances, with either a significant downward reset of aggregate consensus earnings estimates in the upcoming reporting season, or a clear change in the Reserve Bank's policy signalling. Even a return to neutral rhetoric, rather than full reversal to easing, would probably be sufficient for a more sustained improvement in the equity market outlook.

From a sector or style perspective the picture has become more mixed. As mentioned, some commodity price expectations in the market are now looking quite stretched. While the effect of China's stimulus efforts are starting to become more tangible, a slowdown in the rest of the world has put pressure on base metals such as copper and aluminium in particular, increasing the risk of reduced earnings estimates in parts of the Resource sector. Energy prices, while hard to predict at the best of times, continue to trade ahead of consensus estimates. With at least some elements from the situation in Europe behind those high prices, earnings risk in Energy remains to the upside, in our view.

"Growth" companies might get some support from increased earnings risk in some of the more cyclical parts of the market, but valuations and ongoing interest rate rises might still cap the upside to that part of the market. The upcoming August reporting season will, as always, provide valuable insights into company performance and current trading but the relatively recent change in economic growth expectations might mean companies will give less helpful guidance about future earnings than is usually the case.

All up, notwithstanding the recent falls we are only a little more comfortable with the Australian equity market now than we were earlier in the year. We do see some opportunities, but risks remain from pressures building in the domestic economy as a result of higher inflation, rising interest rates and tighter monetary conditions.

Portfolio Outlook

The Fund seeks to obtain higher-than-consensus positive earnings revisions, although this has been hampered this year as most of the positive revisions have been occurring in Energy and Resource companies. While we have been exposed to the resources that can help to address Sustainable Development, not investing in oil or gas-producing companies has been an impediment to positive earnings revisions for the portfolio as a whole, and the highly uncertain macro environment is also providing ongoing challenges.

As we head into yet another full-year reporting season in August, a reasonably defensive overall positioning appears to be appropriate as the Australian economy continues to slow in the second half of 2022. Having said that, with so many factors at play and a fairly significant de-rating of the market having already occurred, we would caution against becoming too pessimistic at this point. While macro forces are hard to resist, individual company circumstances can often be powerful enough to provide a strong reversionary force once the macro has subsided. We remain confident in the ability of our investment process to keep identifying companies that can deliver ahead of expectations even in the current environment, just as it has in others. They are the companies we expect will outperform.

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

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