

# 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 31/12/2023	1 MTH	3 MTH	6 MTH	1 YR	2YR <sup>1</sup>	3YR <sup>2,1</sup>
Net returns (%) <sup>3</sup>	4.62%	5.51%	4.44%	6.66%	0.78%	4.59%

### Performance graph



A \$10,000 investment in Centuria Alphinity Sustainable Australian Shares Fund made at inception is worth \$12,214 as of 31 December 2023 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 <sup>4</sup>	0.97%
Suggested timeframe	5 years

- Periods greater than 1 year are expressed in annualised terms.
- Thomas Nielsen:
- Past performance is not a reliable indicator of future performance.
- Refer to PDS for fee breakdown.

For more information contact Centuria on **1300 50 50 50** or visit [lifegoals.centuria.com.au](https://lifegoals.centuria.com.au) to download the PDS.  
**Simple Flexible Versatile.**

## Fund Commentary

The Fund outperformed the market in the December quarter as oil prices retreated so; not owning gas producers Woodside Energy or Santos helped meaningfully. The best performers were specialist retailer Super Retail Group, building materials company James Hardie Industries, industrial property specialist Goodman Group, industrial services company Seven Group and hearing device company Cochlear. Main detractors were holdings in insurer QBE, pallet pooler Brambles Industries and supermarket operator Woolworths. Not owning iron ore miner Fortescue Metals also hurt.

Across the whole of 2023, the Fund made the most from global advertising platform Car Group (formerly known as Carsales.com), Goodman Group, Super Retail Group and health insurer Medibank Private, and not owning Woodside Energy. However, holdings in lithium producer Pilbara Minerals, affordable housing provider Lifestyle Communities and not owning Fortescue all detracted from returns.

### Market Outlook

Equity market movements in December were again dominated by bond yields, which continued November's declining trend as market hopes for an economic soft landing in the US increased. These were enhanced by further evidence of US inflation easing more quickly than previously expected and a change in tone from the US Federal Reserve Bank (Fed) about the possibility of rate cuts in 2024 as US economic growth eases, but does not go negative. The market, as is often the case, has run ahead and is now pricing in a significant number of US interest rate cuts in 2024, with a high likelihood the first will be as soon as March. Expectations for cuts are not as imminent here, as our inflation seems to be stuck at elevated levels, but the prospect of meaningful relief at some point next year is nevertheless also gradually seeping into our market's consciousness.

While the market is currently choosing to look over the valley of softer company earnings, focusing on this expected monetary easing instead and rotating towards cyclical exposures, we are not yet convinced that, when lower earnings are announced, they will be ignored by the market. Steep Fed cuts are only likely to take place if the economy were to slow substantially more than the market is expecting. In order for earnings leadership to rotate towards cyclical sectors on a sustained basis, we believe a synchronised upturn in earnings would be required. Historically, earnings leadership after a peak in bond yields has actually tended to favour defensive names, especially when the conclusion of the tightening cycle is happening in the run up to a Presidential election – as is the case in 2024. We do therefore caution against blindly following the 'soft landing' narrative and embracing this cyclical rotation without considering earnings. Our focus on earnings surprise remains a critical anchor to stock selection, as it is the only driver that will eventuate in sustained share price outperformance over time. Stocks surprising positively can be found in any type of markets and any type of company.

While Alphinity's approach is always bottom-up, we are still conscious of the macro. From a top-down sector perspective, as we exit 2023 we observe that, should the spot price of Iron Ore hold at current levels,

Iron Ore producers are likely to experience meaningful positive earnings revisions in 2024. Supportive growth measures in China, combined with minimal global supply growth, bodes well for this commodity. The rest of the Resource sector is not benefiting from the same positive spot prices revisions.

US housing-exposed stocks are likely to gain from a revival in activity as mortgage rates decline, as long as its economy does not fall into a severe recession, which we see as unlikely. We suspect that, despite very strong share price performances recently, the market may still be underappreciating this tailwind for companies like James Hardie.

Similarly, Consumer Discretionary names could also keep surprising positively. Earnings expectations in this sector has been subdued for quite some time as the market has been waiting for the impact of the last 13 interest hikes to flow through to lower spending. Valuations are in many cases stretched however, which requires discerning stock selection.

We are conscious that we must be nearing the end of the positive earnings revision cycle for personal and commercial insurers, yet earnings in this sector should still benefit from ongoing moderate premium price growth and margin expansion as claim escalation costs slows.

### Portfolio Outlook

While we can't ignore the broader macro backdrop, which after all has been having outsized impacts over the last couple of years, we've found that focussing on individual company outcomes and earnings drivers is the key to generating performance over time. While the portfolio remains fairly defensively biased, considering that earnings leadership has tended to reside in companies with resilient earnings and strong pricing power, we have made a few adjustments of late that has made the Fund a little more cyclical, following upgrades of certain companies' earnings.

Over the past month, we continued to add to Iron Ore miners, namely BHP and Rio Tinto, producing a sizeable overweight to that commodity. While we remain underweight Health Care, we have built an overweight position in CSL as we believe robust immunoglobulin demand, price increases and cost-out measures will support earnings. Phase 3 clinical results of CSL112, a drug designed to reduce the risk of recurrent cardiac events, is expected to be released early next year and has the potential to be another 'blockbuster' for the company. We increased further our holding of US housing-exposed James Hardie Industries, and also accounting software company Xero, noting the increasing evidence that the company is pulling both price and cost levers to lift future earnings.

These changes have been largely funded by taking some profit in prior strong performers such as Aristocrat, Car Group, Cochlear, and Woolworths; and by further reducing our bank exposure by going more underweight ANZ. As always, we will continue to closely monitor any changes in earnings leadership that might emerge in the new year, but for now we believe the portfolio is positioned well to perform as we enter 2024.

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

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