31 March 2024 – 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.

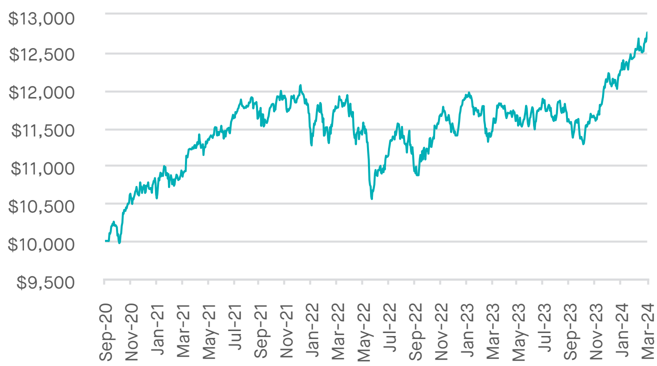
Target allocation

Australian equities	90-100%
Cash	0-10%

Performance returns

RETURNS TO 31/03/2024	1 MTH	3 MTH	6 MTH	1 YR	2YR[1]	3YR[2,1]
Net returns (%)[3]	2.15%	4.50%	10.25%	9.80%	3.70%	5.25%

Performance graph



A $10,000 investment in Centuria Alphinity Sustainable Australian Shares Fund made at inception is worth $12,763 as of 31 March 2024 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[4]	0.97%
Suggested timeframe	5 years

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

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

Having made a number of changes to the portfolio during and coming out of reporting season earlier in the year, we made few further changes to the overall portfolio in the last month. We remain largely balanced, with a slight defensive skew. Insurance remains our biggest sector overweight, driven by individual bottom-up stock stories rather than a particular view on the sector. The underlying premium pricing thematic continues to be supportive, as does a moderation in claims cost inflation. Higher short term bond yields and strong markets are supportive of potential upgrades to come.

While we have reduced exposure to Iron Ore , we remain slightly overweight for the moment, subject to our findings about the Chinese economy. Overall, we remain underweight the commodities sector largely through underweights in Lithium and Gold. We remain a little underweight Banks on valuation grounds. However we do see some potential for further upgrades with margin pressures relieving a bit this year, volumes holding up and a resilient economy combining to give scope for a provision release at some point. With valuations at current levels we suspect the market would have little tolerance for any earnings misses.

As has been the case for a while, material rate cuts leading to a large cyclical rally is likely the biggest thematic risk in the portfolio, although we see this as unlikely in the near term. We focus on bottom-up stock picking to identify undervalued, quality companies which are likely to surprise positively earnings wise. In a high multiple world, earnings delivery will be paramount. We believe our proven investment philosophy and process positions us well to keep capturing alpha generating opportunities.

Market Outlook

The March quarter saw equity markets remain strong and longer-term bond yields trade in a reasonably narrow band despite ongoing speculation around inflation, economic growth and central Bank action/inaction. Market confidence has been supported by a strong underlying economy in a US election year that might see further fiscal support, coupled with the prospect for interest rate cuts. Should the economy hold up better than expected these cuts might be delayed, however if the economy deteriorates, the cuts will come earlier. The optimal scenario, of course, is that the economy remains firm, inflation falls, and interest rates are cut swiftly. Either way the market appears to have the Fed's backing. Nether the prospect of an interest rate rise nor stagflation appear to be in the market's current thinking.

Inflation, however, is proving a little stickier than expected although still largely on track to move gradually towards central banks long-term targets. On balance, there is a building argument for short-term interest rates to stay higher for a little longer. There is now only a couple of interest rate cuts expected in the US this year, down from seven a few months ago. That is not to say central bank won't start cutting rates sometime this year, which is what they have been signalling, complicated by the timing of US elections, but maybe the urgency or scale of near term rate cuts has reduced. An "insurance cut" or two isn't out of the question, but it would likely be accompanied by rhetoric designed to discourage extrapolation of the rate cut trend.

Overall, our economy continues to hold up well and this appears to be a key reason, along with the largely US-based "AI" driven thematic, that equity markets have continued to push forward. Strong economies with falling cost pressures tend to lead to decent earnings outcomes, and earnings is ultimately the key equity market driver over time. The major bank sector in Australia is a case in point. While market commentators scramble to explain the strength of bank share prices this year, despite stretched valuations, the underlying reality is they have had better earnings outcomes and upgrades because the economy has turned out better than expected. The issue the market overall is facing is that the strong run has largely all come about through multiple expansion, and not yet because of better than-expected earnings outcomes. We now need positive earnings surprises to lift the market materially from here, all else being equal. Of course, all else is never equal! Earnings appear to have stabilised/troughed: over the last three months there have been reasonably persistent low single digit downgrades globally, with the US standing out by recording flattish earnings revisions. In Australia, earnings downgrades actually turned a touch positive the last three months – but only a touch.

The outlook for China is an important driver for the Australian resources sector. So far, the economic recovery post the Chinese New Year has underwhelmed due to a soft construction bounce. The iron ore price, a significant exposure for Australia, will be dictated by whether a recovery will take place: so far the 30% fall in iron ore price this year infers earnings downgrades for producers should we not see an activity bounce. We are travelling to China in April to find out more on the ground. Meanwhile, a global economic recovery coupled with significant energy transition investments and low supply growth are proving significant tailwinds for base metals, copper and aluminium in particular. Of note, gold has been incredibly strong reaching record levels despite real yields barely moving and the $US actually strengthening. This rise appears to be largely driven by central bank buying and retail purchasing, both largely out of China. Increasing geopolitical tension is again lifting the oil price, which is a headwind to the inflation recovery.

In conclusion, without a valuation boost from lower bond yields, the market increasingly needs better earnings which itself requires ongoing recovery in the economy. A more likely outcome for the moment we believe is a resilient (but not strong) economy with pockets of weaknesses and sticky but gradually falling inflation, accompanied at some point this year by small rate cuts. That seems to equate to a market which is fairly well priced at the moment: the opportunities seem to be more within the market than in the market overall. Having largely already priced in a soft landing, we wouldn't be surprised to see a bit of market consolidation around current levels until more certainty exists around the direction and scope of rate movements and the direction of earnings this year.

Portfolio Outlook

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

Contact Information

Sean Cole

Relationship Manager
Email: sean.cole@centuria.com.au

Jeremy Drake

Distribution Manager
Email: jeremy.drake@centuria.com.au

Matthew Roberts

Distribution Manager
Email: matthew.roberts@centuria.com.au

Paul Wilson

Relationship Manager
Email: paul.wilson@centuria.com.au

Centuria Investor Services | 1300 50 50 50 | enquiries@centuria.com.au | **centuria.com.au**