31 December 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 31/12/2024	1 MTH	3 MTH	6 MTH	1 YR	2YR[1]	3YR[2,1]
Net returns (%)[3]	-2.32%	0.63%	5.93%	10.21%	8.42%	3.83%

Performance graph

A $10,000 investment in Centuria Alphinity Sustainable Australian Shares Fund made at inception is worth $13,462 as of 31 December 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.

Fund Commentary

The Fund outperformed market pleasingly over both the December quarter and the whole year. The biggest contributors to returns were IT company Technology One, airline Qantas, finance platform Hub24, insurer QBE, and accounting platform Xero; the main detractors were Super Retail Group and not owning gaming machine maker Aristocrat Leisure. Over the year to December, tech service provider Technology One, data centre player Goodman Group, financial platform Hub24, insurer Suncorp, pallet pooler Brambles, and accounting platform Xero all contributed strongly, as did not owning Fortescue Metals or Woodside Energy; detractors for the year were miners Rio Tinto and BHP, affordable accommodation provider Lifestyle Communities and not owning gaming machine maker Aristocrat Leisure.

Market Outlook

We should probably expect more subdued returns and higher volatility in 2025 than we experienced in 2024, given current valuations and the clouded macro outlook with economic indicators that can rapidly shift for better or worse. What is clear is that we are starting the year off a high bar, with the market having already rallied hard on expectations of multiple interest rate cuts as inflation declined, a better economic outcome than feared and expectations of pro-business and pro-growth policies under a Trump sweep. This euphoria, mainly anchored around the US, spread to our market, propelling the ASX300 to an elevated PE – around 19x – which, in order to be justified, either requires underlying earnings to catch up or for conditions to improve to the extent that future earnings growth looks better than it currently does. While expected earnings growth of only 1 or 2% for the whole market appears conservative and quite achievable, it is from a base that was continuously revised downwards throughout 2024 as macro uncertainties, higher interest rates and cost of living pressures impacted on companies' prospects.

While the level of hope is high, divergent macro scenario outcomes still abound. In the US, will Trump's "Make America Great Again" program, which likely includes tax cuts, increased fiscal spending, lower administrative burden and the acceleration of projects, lead to a lift of earnings? Or will immigration cuts and higher import tariffs keep the inflation genie out of the bottle requiring a more hawkish Fed, abating the propensity to spend? The equity market seems to think Trump will lead to economic growth for the US yet the bond market appears more circumspect, concerned it will lead to higher inflation, higher rates or more US government debt. The lift in bond yields since his nomination has highlighted the increased inflationary and deficit risks. Which is right? It will likely depend on one's time horizon but also on the sequence, pace and extent to which each lever gets pulled, and the flow-on to underlying earnings growth which, apart from the high-flying large technology stocks, has so far been quite muted.

Are we entering a new stage of international trade tariff wars that will sap global growth, or will deals and compromises be found? The response from China will be particularly relevant to Australia. Will president Xi cut a deal with Trump whereby tariff increases are partially replaced by promises of increased investments in the US, or will the rhetoric between these two giants escalate? How will this affect the type of measures China will unleash domestically to support its economy and address its deflation challenge? The response from China will be particularly relevant to Australia. Our view is that China is very determined to implement measures to lift the confidence of its consumers and their propensity to deploy their savings. While the bulk of these measures will be revealed at the March National Party Congress, more will be kept in the tank depending on how its negotiations with the US play out. Regardless, a meaningful infrastructure boost is unlikely so commodities are in for a volatile ride. Tariffs and the strong $US are clear headwinds, but counter measures may provide some relief.

Here too the dynamics are complex, with a tightly-contested election imminent, ongoing cost-of-living pressures and clouds over how the US-China dynamic will unfold. While the timing and extent of interest rate cuts is uncertain given our resilient labour market, it will provide some cushion/ growth tailwind when exercised by the Reserve Bank, as will the record Federal government spending over the next few years.

While our market valuation is elevated, its composition is challenging with Bank valuations trading at record highs despite scant earnings growth over the next couple of years. While the Bank trade began to run out of a bit of puff into the end of the year, there is the potential for a more material rotation away from banks after such a strong run, although the timing and trigger points are harder to call: a constructive China-US resolution supporting Resources as an alternative, or rate cuts supporting the Consumer and Property sectors? It is unclear, but in order for the rotation to happen in a sustainable manner, an underlying earnings leadership shift needs to take place as the Bank outperformance in 2024 was ultimately underpinned by their almost lone role in driving earnings upgrades for much of the year.

The market is starting the year with high expectations but there are significant unknowns that will progressively play out through the year. While the market speculates on economic outcomes, volatility is likely to lift. For any market or sector shift to take place in a sustained manner, it needs to be underpinned by earnings and this is where the strength of Alphinity's investment process comes through: not trying to forecast macro and/or multiple shifts but focusing on what we can measure and assess bottom-up through our on-the-ground research: company earnings.

Portfolio Outlook

While the portfolio was well positioned through 2024 to generate robust alpha for our clients, vigilance is required as we enter 2025. The market appears expensive and values are not well supported by underlying earnings growth. All sectors other than Banks, Insurance, Property and Utilities have been experiencing negative earnings revisions for several months and, while we expect that the macro outcomes described above will trigger the next earnings leadership shift, we suspect this could take time to play out. Thus we are maintaining a fairly balanced, defensive portfolio skew given the wide range of possible outcomes. Stretched valuations also means that we have to back our positions with larger than usual conviction in the earnings surprise investment case, as we have found that companies that disappoint are generally punished by both multiple and earnings compressions: these are the growth traps we aim to avoid.

We retain a positive outlook on the Insurance sector but have taken some profits as we believe we are nearing the end of the premium rate increases cycle. Underwriters will still benefit from margin expansion thanks to lower claims cost inflation but top line growth is certainly slowing. We have exited Steadfast, an insurance broker mainly exposed to that top line, and have trimmed our other insurance exposures.

We have continued to trim Bank exposure to be a moderate underweight. The share prices of Banks have been supported by their positive relative earnings revisions, albeit they remain close to zero absolute growth so their performance has actually been mostly from multiple expansion. We may be close to a growth valuation trap in the Bank sector and see better opportunities elsewhere, but are timing our trimming carefully in light of their positive earnings momentum relative to the rest of the market.

We remain underweight the Australian consumer, both staple and discretionary, due to the ongoing cost of living pressure favouring promotions and down-trading. We recently exited our long-standing and highly successful holding in CAR Group, operator of carsales.com, due to its strong share price which led to little upside to valuation, another change reflecting discipline. We will remain vigilant through 2025 for any sign of the consumer turning around, which might be driven by the commencement of a rate cutting cycle or by extra fiscal stimulus from the government, depending on the election outcome.

We maintain an underweight to Resources as costs continue to disappoint and commodity price expectations remain too high, putting more pressure on earnings. The strong $US and threats of trade wars are not helping either. We have been selective in our commodities exposure, preferring base metals over lithium and bulk producers at this stage. Given the significant performance lag of these sectors and their relatively undemanding valuation, we are keeping a very close eye on market expectations and demand/supply fundamentals in order to identify any earnings turning points.

Earnings continue to look reasonably robust in Tech, as they do in the subsectors of Healthcare that we have added to recently. We hold idiosyncratic over-weight exposures across both sectors. This is also the case across sectors such as Industrials and Materials, where we have selectively added further to positions in those sectors which have more earnings upgrade potential. As always, we will adjust the positions in the Fund based on valuations and our conviction of future earnings surprises, a process that has proven to be successful over time.

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

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