30 September 2024 – Factsheet

Centuria Lifegoals

Alphinity Sustainable Australian Shares Fund

Centuria

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.

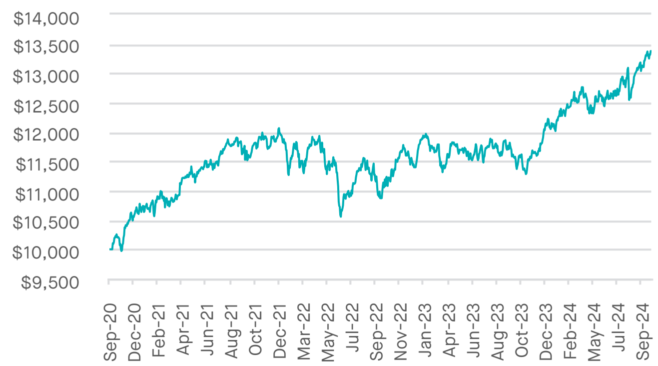
Target allocation

Australian equities	90-100%
Cash	0-10%

Performance returns

RETURNS TO 30/09/2024	1 MTH	3 MTH	6 MTH	1 YR	2YR[1]	3YR[2,1]
Net returns (%)[3]	1.83%	5.26%	4.81%	15.55%	10.93%	4.49%

Performance graph



A $10,000 investment in Centuria Alphinity Sustainable Australian Shares Fund made at inception is worth $13,378 as of 30 September 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

The Fund performed in line with the strong market over the September quarter. The biggest contributors to returns were pallet pooler Brambles Industries, IT company Technology One, finance platform Hub24, and sleep apnoea device maker Resmed; not owning Woodside Energy also helped. The main detractors were hearing device maker Cochlear, global insurer QBE, and not owning IT company WiseTech.

Market Outlook

After months, even years, of anticipation two major economic events occurred within days of each other in September, sparking a strong rally and sharp rotation in equity markets. The US Fed finally started to lower short term interest rates with a hefty 50bp cut, immediately kicking off speculation about just how soon and large the next cuts will be. Perhaps more surprisingly, China announced a comprehensive and coordinated monetary stimulus package aimed at halting the falling property market and support asset prices. Maybe not the 'bazooka' that might ultimately be required, but a double barrelled shotgun nonetheless. At the very least it showed meaningful concern from the government and an intent to make an impact, with the potential for more to come over the next few months.

The impact of both these events was a quick rotation out of previously outperforming stocks (sell banks, growth, defensives) into what were underperforming stocks (buy commodities, value, small caps). The general market view so far is that lower US rates is good for its economy (soft landing and a new cycle) and by extension the world; while China's stimulus will be good for commodity prices, and by implication Australia, so it was "risk on" and time to buy some cyclicals, for now at least.

While we wouldn't want to stand in front of a tsunami, as rotations like these can take on a momentum of their own, we do have some reservations. China's stimulus to date, and the prospect of more if needed, could well halt the deterioration in its property market and stop the negative news of falling prices. Injecting liquidity might also lift consumer sentiment in general. However, will it actually make people buy new houses and therefore increase the quantity of Iron Ore China requires? We doubt it. China is, after all, trying to address its problems by reducing the oversupply of property and steel, not increase it. Excess steel from China is currently being exported to increasingly upset neighbours, raising the risk of import tariffs. While a more stable China is better for commodity prices than a weakening one, we argue there would need to be a material increase in economic activity – especially construction activity – across the board in order to increase demand for Iron Ore. Having said that, increased liquidity is a welcome tailwind for commodities, especially if it drives demand for lower-priced discretionary items such as cars and white goods, which flows into demand for base metals.

The US economic outlook is still open to some interpretation. Clearly it has been slowing in parts, and the "neutral" interest rate is well below current levels, hence the oversized rate cut in a non-crisis time to start the cycle. At least we now know the Fed will act decisively if the data requires it. So the soft landing (no recession) camp probably has the upper hand, but that isn't to say things aren't still a bit soft. There still seems some discrepancy between what the equity market is pricing in (i.e. happy days) and the bond market (more concerning days). It is ironic that, if the equity market is right, it might be disappointed with where interest rate cuts stop, but if the bond market is right, the equity market might be disappointed with the outcome.

At least the US has inflation under control, a level of rates that justifies a cut and a central bank willing to defend growth. We appear to be still some time away from rate cuts or inflation coming back sustainably within the target band, although there are increasing signs that growth is now slowing. Earnings downgrades are accelerating in Australia, not decreasing. Maybe with commodity prices lifting we will get some respite in some parts of that sector? Otherwise, outside banks and a handful of defensive sectors, it is not great news for earnings. Yet we are unlikely to get any interest rate relief anytime soon as it seems our Reserve Bank prefers inflation targeting over unemployment targeting. However, as was pointed out to us recently, the worst predictor of the interest rate direction in Australia over time has been the RBA, so never say never! An early start to rate cutting here would likely be taken well by the market unless it was caused by economic retraction.

Geopolitics should also not be underestimated. The US election is in November. It is true that, on average, the US share market tends to rise in the year after an election regardless of which side wins, but has the difference in potential outcomes ever been this wide? We remain cautious but, as with interest rate cuts, maybe we just need to get past the result so the market can focus back on fundamentals. In addition, as we write the Middle East is becoming increasingly unstable, potentially threatening oil supplies. This uncertainty in itself will no doubt bring more market volatility.

So while we see strong US rate cuts and Chinese stimulus as clear positives for both sentiment and underlying economic stability, and therefore justifies some rotation/covering, there remain enough questions as to not go "all in" on a strong cyclical recovery everywhere. As usual, we will let company earnings guide us, but at present we continue to see more risks than opportunities in the possible outcomes. Higher commodity prices might help, or at least diminish the downgrades, and that would be helpful for a sector we can see some value in. More broadly, we worry about the overall market multiple and the extent of positive outcomes that are being priced in. We know Banks are expensive, yet it is one of the few sectors to be seeing earnings upgrades right now, so it is hard to become too bearish. Industrials have also been expensive for some time, but that hasn't stopped them from performing. Has the outlook really improved so much that we should expect even more market upside? That is hard to say definitively, considering what we currently know, so some caution needs to remain.

Portfolio Outlook

While we retain a broadly neutrally-positioned portfolio, it has tended to be slightly less cyclical than average given earnings weakness in the more cyclical sectors year-to-date. We have responded to the changing events in September and valuation discrepancies by adding to cyclicals through some commodities, at the same time continuing our measured profit-taking in Banks after such a big run this year. While we don't yet see material earnings risks for Banks, it is clear that loan arrears are starting to lift and the economy slowing at the same time as valuations have become extreme. More importantly in the near term, if the world is going to be better economically with US rate cuts and an improvement in China, then commodities will become more attractive and capital will flow from Banks to Resource companies given the valuation differential. We are now moderately underweight Banks.

Outside those two mega sectors, we see the key drivers being primarily stock-specific. We remain overweight Insurance, although less so than earlier in the year given lower bond yields and the maturing cycle, but we continue to anticipate earnings upside from margin expansion as a result of higher premium rates and lower claims costs. While a little underweight Consumer Discretionary, we do retain selective exposure to offshore and domestic consumers. We also retain a decent weighting to growth through Healthcare and individual Technology names in which we can see earnings upside, and falling interest rates will likely help valuations as well. Energy remains a difficult sector to call: the Oil price has been weak, despite everything that's been thrown at it from geopolitics to potentially better growth in China, but it still can't be dismissed. A neutral approach appears prudent for this sector at this stage.

We remain disciplined around quality. While a rapid rotation such as we've seen can test that discipline in the short term, as low quality companies often rally a lot initially just because they are perceived to be "cheap" we find that, over time, quality earnings provide far more sustainable performance and generate less volatile returns.

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

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