

Alphinity Concentrated Australian Share Fund

MONTHLY REPORT – APRIL 2025



Libation Day

Market comment

It was enough to drive us all to drink! Although Liberation Day sounds like it should be a schlocky American movie, it was actually the new US President’s apparent endeavour to liberate his citizens – and much of the world’s as well – from their wealth. The initial fall in the US market was the sharpest since the early days of Covid back in 2020. Trump had his hands on the levers back then too: he and many other governments placed their economies into induced comas in order to stave off the wave of infections and prevent millions of deaths from a disease for which there was not yet a vaccine. This time the cause was much less noble, merely retribution for decades of the rest of the world “ripping us off”. This is a fundamental misunderstanding of the way trade works and allowed him to showcase his unique blend of bullying and incompetence.

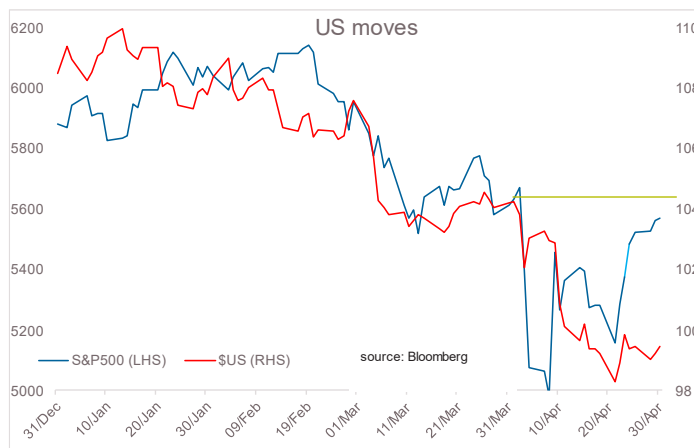
US shares were down more than 10% at their worst in early April. At one stage it achieved an unusual trifecta: falling share prices, falling bond prices (rising yields) and a falling \$US. The usual “safe haven” muscle memory (i.e. in times of great uncertainty, buy US bonds) did not to apply but that was not all that surprising, considering the problem was the US itself. US markets recognised the chilling effect imposing swingeing tariffs on every other country would have on global economic activity, and then threatening to remove the head of the independent US central bank didn’t help. It was only the reversal of both that caused the US market to turn around and finish fairly flat in local currency (~3% lower in \$A terms) for the month.

Bonds also largely recovered by month end but the \$US itself remained under the pump, having now fallen by ~10% since Trump’s ascension. Our market (ASX300 including dividends) did quite well in April all things considered, rising 3.6%, and most other markets did well too as their quality of not being the US appealed to asset allocators. Canadian shares were flat and Mexico’s market was actually very strong, rising 9%. Chinese markets, the focus of the trade war, suffered, falling between 4% (Shanghai) and 6% (Hong Kong).

Notwithstanding the recovery in the equity market during the month, it would be naïve to expect that the turbulence is now over. The US has placed in severe doubt the basis on which world trade has been conducted for decades and the ramifications will likely take many months – maybe even years – to fully play out.

As April progressed it became clear that, rather than the tariff strategy being a principled, reasoned response aimed at rectifying intractable trade imbalances, it was just an opportunistic negotiating tactic, the Art of the Deal in practice. But it was not well executed: within days of the initial announcement, with markets crumbling, the US walked-back the worst of the imposts leaving most countries – other than China – with a baseline tariff of 10%. While this is still multiples of pre-Trump levels, it is a lot less scary for many countries than the initial announcement.

Not for Australia though. We can’t reasonably be accused of ripping the US off considering the large trade deficits we’ve had with the US year after year for decades, but still Trump’s team chose to hit our paltry exports with a 10% impost. This is not only inconsistent with our free trade agreement, it goes against the rationale for the tariffs in the first place. 10% will not trouble us too much; even the 25% on steel and aluminium isn’t that big a deal. The biggest losers will be US hamburger eaters, including Trump himself, whose Big Macs will either become more expensive or poorer quality without all our inexpensive, high quality, (relatively) healthy grass-fed beef. More concerningly for us is the impact on our major trading partners. The one that matters most is China, which was punished with an enormous tariff. China is a big buyer of our commodities so a meaningful economic impact there could also cause one for us. Offsetting that, partially or wholly, will be China’s stimulus response which is yet to be seen.



Performance*	1 Month %	Quarter %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception [^] % p.a.
Fund return (net)	3.0	-3.4	13.8	7.7	12.3	8.7	9.9
S&P/ASX200 Acc. Index	3.6	-3.7	9.8	7.2	12.1	7.7	8.7

* Returns are calculated after fees have been deducted, assuming reinvestment of distributions. No allowance is made for tax. Past performance is not a reliable indicator of future performance. Source: Fidante Partners Limited, 30 April 2025.

[^] The Fund changed investment manager and investment methodology on 12 July 2010, at which time Alphinity Investment Management commenced managing the Fund and started the transitioning of the portfolios to a structure consistent with Alphinity’s investment views. The transition was completed on 31 August 2010. The inception date for the returns for the Fund is 1 September 2010. For performance relating to previous periods, please contact the Fidante Partners Investor Services team on 1300721637 during Sydney business hours.

Equity market movements in the aftermath of the tariff announcement were bad enough but it was the really the bond market that made Trump partially reverse course on tariffs and walk-back his threats on the independence of the Federal Reserve Bank (the Fed). Unlike Senators, or Judges, or CEOs, or world leaders or plutocrats, markets are made up of millions of individual decision makers around the world who can't be effectively bullied. They (we) make decisions on the best use of capital based on experience – the balance of risks and reward – rather than what all the billionaires in the White House think the outcomes should be. The US Government needs to refinance around \$US7 trillion worth of maturing bonds this year. They were mostly issued in the 2-3% range so refinancing at 4.5% would be quite a blow to the US budget. The US already spends more than \$1 trillion each year on interest, a seventh of total government spending and more than the entire US defence budget.

The US tariffs won't just add a little friction to the world's trading system, if left as initially announced they would throw a big enough spanner into the works to stop it altogether. And while the objective is to bring industry back to the US, the lead times required for that to happen are so great that it is likely to be well beyond Trump's reign even if he did run for another term. Given the policy uncertainty companies will be reluctant to make such big investment decisions with long short paybacks. Even though Trump's administration has only just started, the chaos, his subsequent fall in popularity and the senate elections happening in 2026 all point to the risk that his ability to make hugely disruptive changes like these might have a limited duration. Hence the rush from Day 1.

Commodity prices were mostly lower, reflecting the likely drag on global growth. Likely slow economic activity sent the price of oil lower (-20% in \$A) while the bulk commodities we export were also hit, Iron Ore falling a further 3.5% and Thermal Coal (used to produce electricity) down 7.5%. Base metals were all softer, ranging from Lead (-3%) to Tin (-17%). Pretty much the only thing that went up was Gold (+4%), the last remaining safe haven now that US bonds are not! And the little \$A battler was 2.5% stronger against the \$US but little changed on a trade-weighted basis.

It is not easy managing equity portfolios in conditions such as these, when fundamentals mean little and pronouncements with potentially far-reaching possible consequences are made on a nightly basis, often only to be reversed soon after. Making wholesale portfolio changes which seem sensible one day could look quite stupid the next. So we are remaining cautious, looking for sustained changes in earnings leadership before adjusting the portfolio by anything more than an increment. Were these market ructions a one month wonder? Only time will tell.

One thing Trump has been good for is incumbency. There were many elections around the world in 2024 and most resulted changes to the existing regime, the US included. So far this year there have been just two significant contested elections, in Canada and Australia, and both re-elected the centre-left incumbents. (Singapore also re-elected the incumbent but it always does). Besieged long-term Canadian PM Justin Trudeau resigned earlier in the year and was replaced with a non-politician, highly-respected former central banker Mark Carney. He immediately called an election which he won: being anti-Trump paid off nicely for him. It worked extremely well here too, as the reality of Trump and his perceived similarities with Albo's opponent weighed on Dutton's appeal.

Portfolio comment

The Fund lagged the market in April. The biggest contributors were electronics retailer JB Hi Fi and supermarket operator Coles, although not owning gas producer Woodside Energy or investment bank Macquarie Group also helped. On the detracting side were positions in tariff-impacted glove maker Ansell, diversified miner South32, packaging company Amcor and gas producer Santos, while our underweight big bank CBA also cost a little.

Market outlook

The amount of uncertainty since "Liberation Day" has been staggering. An attempt to reverse the benefits of decades of globalisation by applying overnight, on almost every country (Lesotho didn't escape; Russia and North Korea did), varying levels of broad-based tariffs on the import of goods to reduce the US trade deficit and drive importers to set up manufacturing plants in the US. This is a significant policy shift which, if implemented, will send economic shock-waves around the world and dislocate the current flow of goods. The announcement fuelled fears of 1970s-style stagflation: slowing economic growth and at the same time as rising inflation. China was ultimately hit with a 145% tariff – effectively a trade embargo – after it kept retaliating. Surprisingly, despite this entire episode, the US and Australian equity markets have largely recovered to the level they were before the announcement, on the hope that the worst is behind and that better deals will be made from now on.

We are left scratching our heads, yet again! How can the US – and our – market be back to pretty much the same levels they were before the imposition of tariffs around the world? Even making tariffs 10% for all countries and 60% for China represents a significant uplift from the prior state, increasing US inflation and reducing both global and US growth. And with the US President seemingly calling all the shots and demonstrating a willingness to radically change his mind by the minute, shouldn't the market multiple be discounted to reflect this higher uncertainty and volatility?

In fact, the result of global uncertainty and higher tariffs on China is already starting to show, not only through confidence surveys but also in hard economic data and trade flows. In the recent US first quarter reporting season, companies generally beat on earnings but downgraded expectations for the future, as the impact of higher import costs and lower demand will harm revenues and margins. Capex intentions were also lowered, and there has also been a ~40% reduction in forward orders for Chinese container exports to the US in April. Trump is pressuring the Federal Reserve Bank (Fed) to cut interest rates to cushion the impact, but the Fed has a dual mandate: to keep inflation low and employment high. Its decision might become simpler if the downturn starts to increase unemployment but, until then, we expect the Fed to maintain a cautious stance and maintain its independence.

Top five active overweight positions as at 30 Apr 2025	Index weight %	Active weight %
Westpac Banking Corporation	4.6	3.7
Rio Tinto Limited	1.8	3.5
Newmont Corp	0.4	3.2
Medibank Pvt Ltd	0.5	3.1
QBE Insurance Group Limited	1.3	2.9
Asset allocation as at 30 April 2025	%	Range %
Securities	99.0	90-100
Cash	1.0	0-10

Trade deals could provide some relief but will still result in higher import costs than before so-called Liberation Day. US onshoring is unlikely to happen quickly given the long lead-times required to approve and build factories, not to mention the unreliability of the decisions made by the administration. It is likely that we are only at the beginning of a structural change in US Trade policy, a change that which will negatively impact US and possibly global earnings. This makes us question the optimism with which the market finished the month: structural shifts tend to take time to play out and to be properly reflected in market and company valuations.

At this point Australia feels relatively sheltered from the chaos. The tariff rate applied to Australia is modest and, in any case, some of our exports to the US are commodities which can be diverted elsewhere, minimising the impact on our economy. The low \$A keeps our exports competitive, we might even benefit from cheaper goods diverted here from the US which could further moderate inflation and give the Reserve Bank room for another interest rate cut or two. Our recent meetings with consumer-exposed companies suggest that while shoppers remain value-conscious, rising real incomes are starting to provide the first glimmers of relief. Australia will not be completely insulated though: almost half of our listed companies' earnings come from outside Australia. What happens in the US, and the way in which dynamics between the US and China unfold, will impact Australian earnings to some degree.

In such a volatile situation, where radical changes can be made by the tweet of one man, it is critical not to try and guess what the multiple of a stock or of the market should be, but rather to focus on earnings, especially relative to market expectations. Alphinity's focus on earnings, quality and valuation provides us with the best ammunition to navigate this terrain, to protect as best we can your savings and to find growth opportunities. We have done it for more than 15 years now; may the power of earnings leadership remain with us!

Portfolio outlook

We have been expressing caution since the middle of last year about our equity market rallying along with the US despite earnings here continuing to be revised downwards. This is still the case: the market multiple is back to an elevated level of 18x, well above long term average of around 16x. Of concern is that, at this stage, we can't observe any sector moving into a meaningful positive revisions territory. We await with great anticipation many companies providing operational updates and outlooks in May.

We entered April with a balanced portfolio with a defensive skew. We further increased this skew during the month by adding a little to Banks, Telecoms, Utilities and Gold while trimming further the Resource and Health Care sectors. Our positions and changes are driven by fundamental views, stock-

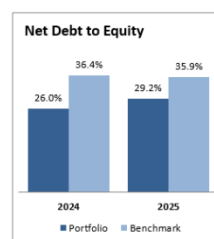
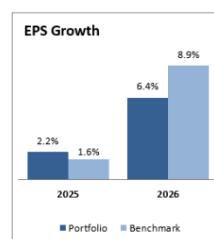
by-stock analysis based on expected earnings surprises. More recently, not disappointing has become the new beat!

From a sector perspective, we still have a small under-weight position in Banks. While global uncertainty has directed funds towards Australia, being perceived as a regional safe haven, this has also meant a large flow into banks, and Commonwealth (CBA) in particular. It has also helped CBA to become the sixth-biggest bank in the world and by far the most expensive, trading at an earnings multiple of 27x despite a flat earnings profile. We are underweight CBA. While the other major banks trade at less frothy valuations they face the same flat earnings growth profile with some recent potential pressure on margins emerging. RBA cuts would likely add to that.

Insurance remains our largest sector exposure. It remains in an upgrade cycle as underwriters sit in the sweet spot of margin expansion thanks to premiums still growing but claim costs declining. We do believe however, after several years of strong performance, that the largest part of the upside for the sector has now been captured as premium growth slows. Resources, another large part of the market, remains under pressure with commodity price expectations continuing to be revised downwards as global growth concerns accentuate; and April production quarterly reports triggered more downgrades. The only exception is Gold, offering a geopolitical safe haven and diversification from the \$US. We are underweight the Resource sector but pay significant attention to any response from China. At this stage we believe it will be reactive and not commodity intensive.

We are underweight Consumer stocks after having further reduced exposure to the US consumer and holding very select domestic exposure. It is however a sector, along with Property, that could benefit from lower interest rates. The trick is to find companies with acceptable valuations that will deliver positive earnings surprises. We believe we have found some. Technology, Healthcare and Telecoms sectors also offer opportunities with idiosyncratic earnings upside stories not affected by tariffs.

Overall, the Fund still has appealing characteristics: cheaper than the market but with higher near-term earnings growth and lower gearing which should position it well for further outperformance. We maintain a laser focus on earnings, quality and valuation. In a market which is swinging between growth and value, euphoria and fear, our focus on earnings provides a degree of stability throughout the market's volatility.



BTW

Share markets have had a rough trot so far this year. Things were actually pretty good until mid February; all the falls have happened since then. Up to the end of March the year-to-date fall in our market was fairly modest, around 3%, but the fall picked up pace in April when it became clear that not only were the people now at the controls of the world's largest economy financially innumerate, they were economically illiterate as well. Only humiliating backdowns during the month saved us from something worse, but it would be optimistic to say that the worst is now past us. We defer to the economics teacher in *Ferris Bueller's Day Off* in the early 1980s to [explain](#) the consequences of the last time high tariffs were thought to be a good idea, and even Smoot-Hawley in the 1930s weren't as bad as Trump's.

Everyone by now knows the funny side to the tariffs. Norfolk Island – which last time we looked is a territory of Australia and doesn't have any export industry at all to export to the US – received a 29% tariff, much higher than the rest of Australia. A couple of our other islands, inhabited only by seals and penguins, also got one but only 10%. And why was Tasmania not singled out?! Then there's the instance of British Indian Ocean Territory, an island near Mauritius, which was hit with 10%; its only occupants are the 4000 soldiers at the Diego Garcia US military base. Bloody freeloaders!

The geniuses behind the plan released a formula, complete with the requisite Greek letters, to explain how the final numbers were calculated. It looked appropriately mathy and precise:

$$\Delta\tau_i = \frac{x_i - m_i}{\epsilon * \varphi * m_i}$$

When you look more deeply into it, however, this is simply the country's trade surplus with the US divided by that country's imports of goods from the US. The two symbols to the left of the denominator (epsilon representing price elasticity of import demand and phi being the elasticity of import prices) were seemingly randomly given the values of 4 and 0.25 respectively with no explanation – when multiplied you get 1. Simple! Turns out this formula (without the ϵ and φ) is also the way several AI engines apparently suggest to equalise trade. So we could have, for the first time, the trade policy of the world's largest (for now) economy being determined by AI. We all thought AI would end the world by triggering a nuclear war, turns out it is actually doing it by blowing up the global economy!

Another formula was provided by Elon Musk who, at the height of the tariff controversy, said (on Twitter of course) that the architect of the tariff policy, Trump's chief trade advisor Peter Navarro, was "dumber than a sack of bricks" and suffered from a "the ego/brains>1 problem". While this seems like a nasty slur of someone with a Harvard PhD, it was supported by the fact that Navarro had written an economics book which apparently extensively quoted a fictional economist, Ron Vara, which is just an anagram of his own surname. That doesn't seem terribly smart.

The focus of the US was only on physical goods: services, of which the world buys immense amounts from the US (Google, Meta, Netflix, Disney, McKinsey, Microsoft, Apple and so on), were ignored in the trade imbalance calculation. It would have made a difference too: the US government's own stats show that in 2023, the most recent year for which data is available, the US exported more than a trillion dollars of services to other countries while importing \$750 billion, a \$270 billion surplus. This goes some way to covering its total trade deficit of \$770 billion that year. However it did not suit the "ripping us off" narrative so was ignored.

So, where does Australia fit into all of this? According to [UN Comtrade](#) data, in 2024 we sold ~\$A20 billion of goods to the US and imported more than \$A50 billion worth. Our exports consisted of meat (>\$A6 billion worth); Gold (~\$3 billion); pharmaceutical/medical products (~\$2 billion) and machinery (~\$2 billion). Metals, such as steel and aluminium, were less than \$1 billion. There were many smaller categories but these are the biggest. An irony of the US complaining about Australia's relatively scant exports is that a fair proportion of them are actually made by US companies. For instance, our biggest aluminium producer is US company Alcoa. Our biggest gold producer is US company Newmont. One of our biggest meat exporters is a joint venture between a local family and US agri company Cargill. Who benefits from that, Australia or the US? The benefit to Australia from exporting those goods is largely the economic activity involved in producing them, with the profit already heading back to the US.

The problem is, Trump thinks of himself as a business genius. He wrote the book on making deals (albeit with the help of a ghost-writer) and everything he does is a deal, there seem to be few principles involved. He has immense confidence in his own insights, instincts and abilities but is also highly susceptible to flattery. In his first term he was surrounded by people who pushed back on the sillier of his plans. This time he is surrounded by boosters and acolytes who have been afraid to push back – at least not until the market was down so much people started to get "yippy". It would be funny if it wasn't so serious. The world has enough problems already with intractable wars, massive debts and, now that the US is turning back from its old role of global policeman, a burgeoning arms race with renewed interest in controlling nuclear warheads by a whole bunch of parties who really shouldn't have them.

What is hardest to understand is how we got to this point. Why does the US think it's a good idea to implement hundred year old thinking in setting its economic policy and risk its hard-won place in the world as reserve currency, with all the benefits that brings? Do their children to aspire to jobs making sneakers and iPhones, being paid a pittance? Or for those sneakers and iPhones to cost what they would with US labour rates? Towards the end of the month there was a huge amount of back-peddalling from various parties in Washington DC, the President in particular who eventually realised he'd gone too far. Sack Jerome Powell, the Fed Governor? Never said it. Tariffs on China? Just kidding, really it will be "only" 60% or something less than that – let's do a deal and see what transpires. The loss of prestige for the United States from this whole process is sad to see.

Travellers' Tales

Monique ventured into the lion's den in April, travelling to the epicentre of global financial turmoil immediately after so-called Liberation Day. She saw companies and real estate brokers focused on data centres and industrial property in New York; then went on to Washington DC (seen here being held well back so she can't storm the Capitol) for a few days, speaking with lobbyists, former presidential staffers and current members of Congress. From there she travelled to Houston to meet with energy and engineering companies.



It was an incredibly exciting time to be on the ground and talking to people with expertise and insights into US government policy, ranging from tariff negotiations to tax bills and Energy policy. The consensus view on Capitol Hill was that tariffs would come down from Liberation Day levels, which has subsequently happened to some extent, and some suggested that trade agreements (other than with China) might even end up being better than what was in place prior to the negotiations. There was more caution about China however, with some apprehension that the US could be underestimating its tolerance for economic pain which might complicate the negotiation process.

Much has been discussed recently about Trump's dream of bringing manufacturing back to the US but most she talked to didn't believe it would happen on a large scale. Economic realities do not currently support such a shift, and companies remain cautious about investing heavily when executive orders could be reversed within a few years, or even days. The ideal scenario for the US is that tax relief would more than offset the impact of higher tariffs: that may well still be the case but its still far too early to call given the lack of clarity on both tariffs and taxes. The size of the US national debt is a problem, and concerns around this tempered the more bullish view that tax relief will save the day. Any tax relief at this stage is limited to just extending the existing tax arrangements which are set to expire at the end of the year, but there still needs to be more than \$US4.5 trillion of spending cuts over the next ten years just to fund it. Elon has been looking for ways to cut costs through DOGE, but thus far the real saving have been minimal and hefty cuts will be needed elsewhere to achieve that.

While Monique didn't manage to secure an audience at the White House she did wander past and wave. Her trip has provided us with some valuable on-the-ground insights into the evolving landscape of tariffs, tax policy, and energy strategy under the new administration. The tariff situation remains fluid across borders and volatility is likely to persist for some time. As a result, a focus on quality and earnings certainty will be even more critical moving forward, and any portfolio adjustments will be made gradually and with caution.



Meanwhile, global equity PM Chris went to China and Hong Kong to get a feel for the current state of the Chinese consumer, visiting consumer companies like Louis Vuitton, Nike, and Starbucks, and some beauty companies, including L'Oréal. He was surprised by how quiet Shanghai was. It wasn't that there was a lack of activity, rather due to the huge number of almost silent electric vehicles on the roads. It's strange to think that Sydney felt to him substantially louder than Shanghai. EVs are everywhere: cars, buses, motorbikes, E-bikes and scooters. Some of the cars there have subscription plans allowing you to just swap out your entire car battery rather than charging it, and it takes just a couple of minutes to switch. So much more convenient than waiting for the battery to re-charge and as fast as filling up with petrol.

Other than EVs and quiet roads, Chris came away with the view that Chinese consumers are currently exhibiting a cautious "wait and see" attitude towards spending, despite the fact that the overall financial health of most is reasonably stable, and very high saving rates. The reluctance to spend stems from cyclical economic factors compounded by structural issues like demographic pressures and the expectation to support elderly family members, not to mention concerns around the trade war with the US.

A notable shift in consumer preference is an emphasis on value for money, prioritising quality and innovation over brand prestige, leading some to believe that traditional brand loyalty is declining. Encouragingly, there are some signs of stabilisation with the second derivative of key economic indicators showing potential improvement, including mall traffic, housing prices in top-tier cities, and a decrease in property inventory. Independent data suggests year-to-date sales performance is better than initial expectations, albeit with significant variation across brands and luxury tiers.

Premium luxury is still in decline while the ultra-luxury segment is relatively stable, with fashion and leather goods outperforming jewellery and watches. This is largely inline with consensus forecasts for Chinese luxury spending for 2025. It appears that Louis Vuitton at least is still worth queuing for, according to these shoppers in Shanghai anyway. China analysts anticipate that most consumer companies will be heavily reliant on a significant second-half earnings rebound considering the weak first quarter just delivered.



Here is Chris proudly wearing his new Chinese tracksuit outside a German sportswear powerhouse Adidas store. As with other sporting goods companies like Nike, and European luxury brands like Louis Vuitton Moët Hennessy, China makes up a large portion of its business.



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