insync fund managers

April 2022 Update

For Investors That Think

As March's conditions and fears spill into April (including the Ukraine war), it should come as no surprise that Insync funds underperformed the benchmark for the 4 weeks of April. Markets tend to wrong-foot many investors, regardless of investment style, with 2022 becoming a year of extremes. Central banks are dealing with the prospect of stagflation, an environment that bankers do not have experience in, as this last occurred in the early 70's. Investors trading with a short-term time horizon have rushed into **expensive defensive plays boosting their price further** such as utilities, consumer staples and energy. They're attempting a 'momentum play'. To succeed, their timing will need to be impeccable at both ends. Later on, we will explain by example why this is contradictory to common sense and how you can avoid this risk. History consistently shows that investing on the basis of the short term economic outlook leads to poor outcomes. In 2021 the consensus was that 22' will be a period of reasonable economic growth and low inflation. That narrative changed quickly to a year where inflation is rising and concerns over recession looms. It is very likely that consensus will be wrong again.

Insync's focus is always on longer term outcomes. Thus, we invest only in businesses that have the capacity to generate **sustainable earnings growth through the cycle and over multiple cycles**. Whilst recent fund returns have been disappointing, the businesses in our portfolio continue to deliver strong growth in their revenues and their profits despite the current market backdrop. The consistently longer term strong share price rises of highly profitable growth companies like these, over many decades, supports this approach to investing. In last month's edition we showed how stock prices over time tracks to this result. For now, the Insync portfolio is trading at a discount well in excess of 50% of our proprietary based DCF methodology.

As an investor this is worth reflecting upon: after the pull back in the markets of some of the most profitable secular growth companies in our portfolio that typically trade on higher P/Es, they are now perversely trading on much lower P/Es, as markets presently ignore their superior financial metrics and earnings power! This will not continue beyond the short term as we explain later on. We strongly believe that for long-term investors, quality growth stocks are now available at bargain prices.

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	10 Years	Since Incep#
Insync Global Quality Equity Portfolio ^	-5.90%	-16.37%	-15.85%	-6.37%	6.90%	9.00%	11.82%	13.58%	12.12%
Insync Global Capital Aware Fund*	-5.19%	-16.56%	-15.92%	-7.25%	4.54%	8.97%	11.50%	11.66%	10.34%
MSCI ACWI (ex AUS) NTR (AUD)~	-2.83%	-9.55%	-6.82%	2.62%	12.54%	9.06%	10.63%	13.56%	10.93%
Global Quality Active Out-Performance	-3.07%	-6.82%	-9.03%	-8.99%	-5.64%	-0.06%	1.19%	0.02%	1.19%
Global Capital Aware Active Out-Performance	-2.36%	-7.01%	-9.10%	-9.87%	-8.00%	-0.09%	0.87%	-1.89%	-0.58%

Source: Insync Funds Management - Past Performance is not a reliable indicator of future performance. *Represents net of fees and costs performance, assumes all distributions reinvested. ^Returns prior to July 2018 represent the underlying Insync Global portfolio (including cash) inclusive of a 0.98% p.a. MER. ~ MSCI All Country World ex-Australia Net Total Return Index in Australian Dollars. # Inception date 9/10/2009

Short-Lived Disconnects (reality V price)

Investors have flocked into defensive sectors to hide in the short-term. Fears of markets falling further has resulted in **quality growth** stocks becoming attractively valued. In times of volatility, investors are presented with an outstanding opportunity to invest in these enduring businesses.

***Quality growth** means a business with very high return returns on invested capital, a high reinvestment rate, and with each dollar reinvested into the business it generates a high incremental rate of return. This is what delivers sustainable compound earnings growth when coupled with megatrends as tail winds whatever the economic situation.*

Here is a *real* example today of investors losing sight of business realities versus current prices.

	ROIC (%)	Last 5 Yrs Revenue Growth (% pa)	Next 1 yr P/E Ratio
Company A	52	23.3	17x
Company B	18	-2.1	25x

Company A - A well-known technology company. It's recently been aggressively sold down. Yet it's continuing to be one of the most profitable global businesses, with over 90% market share and compounding revenues at 20+% p.a. for the past 5 years. Despite this investors are attributing a low price to earnings ratio to the business.

Company B – The leading soft drinks company. One which investors have flocked to for safety in the current market clime. Its significantly less profitable than Company A. Revenue growth has been negative over the past 5 years with total revenues today sitting at -19% below 10 years ago in 2012. Despite poor operating performance with no revenue growth for 10 years and no prospects of such, investors are attributing a high price to earnings ratio to the business. **Which would you own?**

ESG issues with Company B.

Coming under mounting pressure from governments and campaigners globally for the amount of sugar in their products, some countries are introducing a tax on sugar. Selling coloured water with sugar is not what it used to be in the consumer's eyes.

Additionally, they sell more than **100 billion plastic bottles** every year. This equates to 200,000 bottles a minute. Of these, the unrecoverable majority ends up in the environment and even in the air we breathe.

Company B was ranked the **world's No. 1 plastic polluter** by Break Free From Plastic in its annual audit, after its beverage bottles were the most frequently found discarded on beaches, rivers, parks and other litter sites in 51 of 55 nations surveyed.

Without tail winds and facing headwinds like this, its future does not seem assured in delivering out-sized financial results.

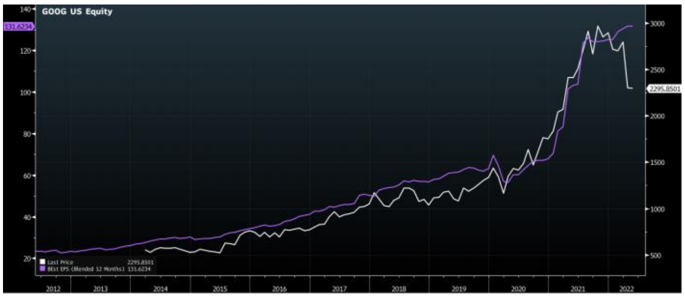
A quirk of markets today that is worth knowing

For now, most investors have flocked to industries and businesses that resemble Company B. Go figure? Interestingly many of the sectors that capital is pouring into since February – and pushing up their prices will likely suffer far more financially than those like Company A and its industry; especially if the dire economic forecasts for the years ahead come true. Again, go figure?

By now you would have worked out that **Company A** is **Alphabet** and **Company B** is **Coca-Cola**. Clearly there is today a temporary disconnect between fundamentals and share prices! Over the long term the share price of a company follows its earnings growth. Broad indiscriminate market corrections often provide investors a once in a cycle opportunity to invest in the most profitable companies such as Alphabet. This will set them up nicely to achieve strong returns in the future.

How price follows earnings once again

Alphabet – 10 year share price and EPS chart



Coca Cola - 10 year share price and EPS chart

Whilst short term volatility may persist, Insync's concentrated portfolio of quality stocks across 16 global megatrends is well positioned to perform strongly over the long term. Why? The consistent strong earnings growth these companies are set to deliver should result in much higher share prices over time once markets adjust after the initial shift- as they always do.

Whilst headlines and prices across all tech stocks have been hit hard, only some deserved it. Markets don't care initially; they just treat all growth stocks the same, quality or not. Only after this period is over the market separates the wheat from the chaff. This table highlights examples of those probably deserving of such a negative move. It depicts their price declines from their all-time recent highs. None of these companies exhibit the financial abilities we at Insync require.

Company	Current value of 10'000$ invested	Difference
PELOTON	871 USD	-91%
robinhood	1'118 USD	-89%
affirm	1'166 USD	-88%
Lemonade	1'597 USD	-84%
DRAFT KINGS	1'702 USD	-83%
TELADOC.	1'751 USD	-82%
Roku	1'788 USD	-82%
BEYOND MEAT	1'944 USD	-81%
DocuSign	2'180 USD	-78%
coinbase	2'264 USD	-77%
zoom	2'272 USD	-77%
NETFLIX	2'469 USD	-75%

April 2022 Statistical Monthly Update

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	10 Years	Since Incep#
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Risk Measures – Global Quality Equity Portfolio^

	1 Year	3 Years	5 Years
Standard Deviation	20.45%	16.34%	14.65%
Tracking Error	10.71%	8.94%	7.71%
Information Ratio	-0.83	0.00	0.23
Sharpe Ratio	-0.32	0.53	0.79
Batting Average	33.33%	52.78%	55.00%

Risk Measures – Global Capital Aware Fund*

	1 Year	3 Years	5 Years
Standard Deviation	20.23%	15.48%	13.74%
Tracking Error	10.49%	9.71%	8.28%
Information Ratio	-0.93	-0.01	0.11
Sharpe Ratio	-0.36	0.55	0.78
Batting Average	33.33%	52.78%	50.00%

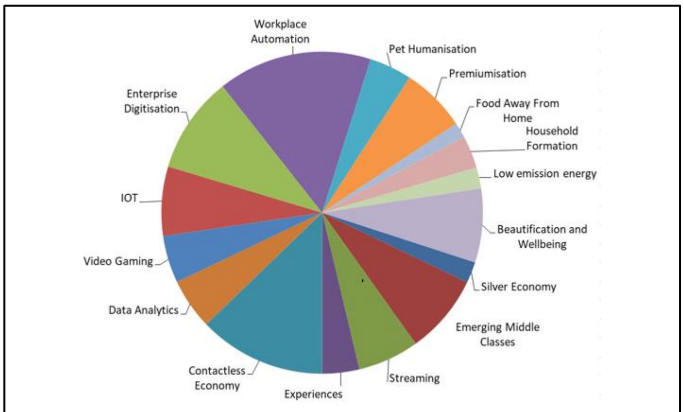
Capture Ratios – Global Quality Equity Portfolio^

	3 Years	Since Incep#
# Index Positive Months	22	95
# Index Negative Months	14	56
Up Market Capture	1.21	0.98
Down Market Capture	1.35	0.82
Capture Ratio	0.89	1.20

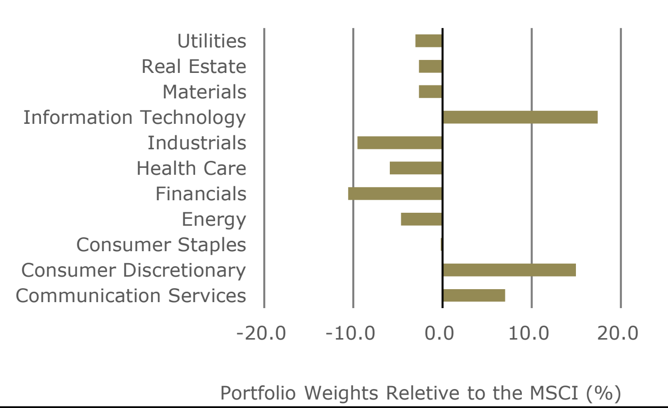
Capture Ratios– Global Capital Aware Fund*

	3 Years	Since Incep#
# Index Positive Months	22	95
# Index Negative Months	14	56
Up Market Capture	1.11	0.85
Down Market Capture	1.19	0.74
Capture Ratio	0.93	1.14

Megatrend Exposures



Portfolio Sector Weights vs MSCI



Top 10 Active Holdings

Stock	%
Qualcomm	4.5%
Apple	3.7%
Rightmove	3.5%
Nintendo	3.3%
LVMH	3.3%
KLA Corp.	3.3%
Visa	3.1%
S&P Global	3.1%
Lululemon	2.9%
Microsoft	2.9%

Key Portfolio Analytics

	Portfolio	Index
Forward PE	21.52	15.59
ROIC	67.87	15.41
Market Cap (USD Bln avg)	501.16	42.70
Market Cap (USD Bln median)	155.46	16.03
Std deviation (ex ante)	17.73	14.54
Interest Cover	217.43	67.79
Total Debt to Ebitda	1.53	3.16

Key Fund Information

	Insync Global Quality Fund^	Insync Global Capital Aware Fund*
Portfolio Managers	Monik Kotecha and John Lobb	
Inception Date	1 July 2018	7 October 2009
Management Fee	0.98%p.a. of the NAV	1.3%p.a. of the NAV
Performance Fee	Nil	Nil
Buy/Sell Spread	0.20% / 0.20%	0.20% / 0.20%
Distribution Frequency	Annually	Annually
APIR Code	ETL5510AU	SLT0041AU
Trustee	Equity Trustees Limited	Equity Trustees Limited