

March witnessed the third month of the fear-based swing to stocks perceived as short-term winners from the Ukraine invasion and Covid related supply chain issues. Think: materials and economically sensitive stocks. These same events also precipitated a knee-jerk move away from stocks viewed as 'growth' related at the same time. The ensuing impact on inflation from both of the above events added to fear-based motivations.

Insync's short term performance has thus been temporarily negatively impacted as a result. However, we remain unchanged in both our approach, and the type of businesses we invest in - for very good reasons.

Consider this: Most stocks receiving current price lifts (commodities, energy & banking) tend to possess various combinations of low PEs, a history of business underperformance, low returns on invested capital, high Credit Default Swap prices, low sales growth, and lesser margin control. Few successful fund managers have enriched investors built around these factors. In the last few months these stocks outperformed by a large margin those that are; highly profitable, with strong margins and price control, long run earnings growth, lower debt, and not as reliant on macro factors (like inflation). It's interesting to note that many leading "value-managers", have also posted negative returns. Banking, industrial cyclicals, and housing related stocks generally trade on low P/E ratios, yet they too had their prices weaken recently. This is principally due to the 'supply side' commodity price shock at a time when macro-economic growth is weakening. This is not the environment for a rising tide to lifting all value stocks.

In our minds, this swing represents the same but opposing side of the unjustifiable prices that many tech/disruption stocks enjoyed until recently. Neither group are worthy of serious, risk aware and longer-term investment. It's why we invest in companies that can sustainably deliver strong above average Earnings Growth. Their stock prices tend to always follow (Barr the odd event-based, short-lived exception like the one we are experiencing now).

Insync is an investor in quality businesses. We are not stock price punters. As such quality businesses whose recent stock prices fell present a rare opportunity. Further on are examples proving why Earnings Growth is key for success, not market price drivers; and we share one recent addition to the portfolio (actually it's a business we've held before).

| | 1 Month | 3 Months | 6 Months | 1 Year | 2 Years | 3 Years | 5 Years | 10 Years | Since Incep# |
|---|---------|----------|----------|--------|---------|---------|---------|----------|--------------|
| Insync Global Quality Equity Portfolio ^ | -2.15% | -17.29% | -9.16% | 5.06% | 13.53% | 13.89% | 14.43% | 14.30% | 12.76% |
| Insync Global Capital Aware Fund* | -2.76% | -17.93% | -10.32% | 3.14% | 10.62% | 13.54% | 13.84% | 12.25% | 10.89% |
| MSCI ACWI (ex AUS) NTR (AUD)~ | -1.44% | -8.59% | -3.05% | 8.68% | 16.11% | 11.69% | 12.07% | 13.68% | 11.26% |
| Global Quality Equity Active Out-Performance | -0.71% | -8.70% | -6.11% | -3.61% | -2.57% | 2.20% | 2.36% | 0.61% | 1.50% |
| Global Capital Aware Active Out-Performance | -1.32% | -9.34% | -7.28% | -5.54% | -5.49% | 1.84% | 1.77% | -1.43% | -0.37% |

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

Are the businesses enjoying stock price rises today also the winners of tomorrow?

Lately we are all experiencing one tectonic event after the next. Foundations of the political and economic framework that have dominated much of the world since the 1980s are now being challenged; the impacts on globalisation, the questioning of the USD central role, and previously deeply embedded structural relationships in the energy markets to name a few.

Regular readers of our newsletter know that our approach is far less dependent than our peers are on these issues, including inflation and interest rates. The jury is still out on whether inflation will be a temporary or a longer-term phenomenon.

Covid and the tragic invasion of Ukraine have created significant commodity, energy, and labour mobility pressures. Companies that:

- **can raise prices** are clearly better placed than those that do not.
- **enjoy high margins** and operating leverage are better protected than low margin businesses with high marginal costs and no pricing power.
- **possess high incremental return on capital** may be able to not just defend their profitability but actually see it expand!

These are the required factors for a business to continue delivering healthy returns in *real terms* and are thus the same attributes Insync seeks.

Most companies are not able to do this. Those companies possessing the most levers to pull going into an inflationary period are also the most likely to protect and even thrive for their investors. There will likely be tougher times ahead, quality growth investors should find themselves better positioned than most to weather the storm and come out substantially ahead.

Why earnings power is crucial

A shy, humble investor living on a suburban street in a small mid-western US city is often cited for his quips.

"In the short-term markets are a voting machine. In the long-term it's a weighing machine"

Over shorter periods sentiment in markets can shift wildly depending on the narrative of the day. This is driven by perceptions of investors trying to gauge where we are in the economic cycle, the path of inflation and interest rates, the impact of a geopolitical crisis, and what style of investing will be best equipped for the future. These are impossible to predict with any degree of certainty or to do so consistently.

The one thing that is more certain over time is that in the long-term, share prices follow the consistent growth in the earnings of a business.

We know that the most profitable companies remain profitable even ten years later fuelled by the enduring, large megatrends.

Megatrends are so predictable you can set your watch by them. This is whether it is the rising importance of the Gen Z'ers, the acceleration in the number of people aged 70+, GDP+ growth in spending on skin and beauty, or the insatiable desire to spend on experiences. A portfolio of the most profitable companies tied to megatrends provides consistency in earnings leading to strong stock price returns. They are also mostly impervious to interest rate settings, the state of the economy or current commodity prices.

3 portfolio examples of why Earnings Growth is good for investors

The evidence shows it all. Here are 3 companies in our portfolio. The *coloured line* in each graph is the path of earnings over the past 10 years. The *white line* is the share price performance.

Observe the strong correlation between the earnings growth and share price performance. From time to time the two lines deviate based on an 'event', as is the case now. Obviously, present prices present an outstanding opportunity to invest.

Ex 1: Adobe – Enterprise Digitisation Megatrend. Long term share price has followed the growth in earnings at Adobe



Ex 2: Lululemon – Wellbeing Megatrend Long term share price has followed the growth in earnings at Lululemon.



Ex 3: Domino's Pizza Inc (US) - Food Away from Home Megatrend. Long term share price has followed the growth in earnings at Domino's Pizza.



These highly profitable businesses benefitting from Insync's identified megatrends have become even more attractive due to recent price falls. This is because their ongoing and established earnings power remains intact. Such excellent buying opportunities do not often present themselves.

The 'coiled Spring' phenomenon we have spoken of in previous issues with these companies continues to gain energy. (See **February 2022** issue)

Why on earth would Experiences thrive with the gloom around today?

Put simply-Pent-up demand. Pre-Covid expenditure on experiences had been consistently growing ahead of GDP and its sub-segment, *travel*, was one of the fastest growing. Most megatrends within Insync's portfolio tend to have low sensitivity to economic cycles but the one sub-segment that suffered temporarily was travel.

The extent of the fall in travel was unprecedented. Worldwide a staggering 1 billion fewer international arrivals in 2020 than in 2019. This compares with the 4% decline recorded during the 2009 global economic crisis (GFC).

The Vacationer, an online publication found that 25% of respondents say they intend to 'revenge travel', likely spending more money than ever before after being stripped of the opportunity to vacation over the last two years.

There has been a lack of visibility on how leisure travel was going to emerge after governments implemented onerous travel restrictions. This was compounded by the shift to working from home with online meetings reducing the need for face-to-face meetings. What we do know is that humans desire to travel is hardwired into all of our DNAs. As travel restrictions have started to ease consumers appear to be making up for lost time.

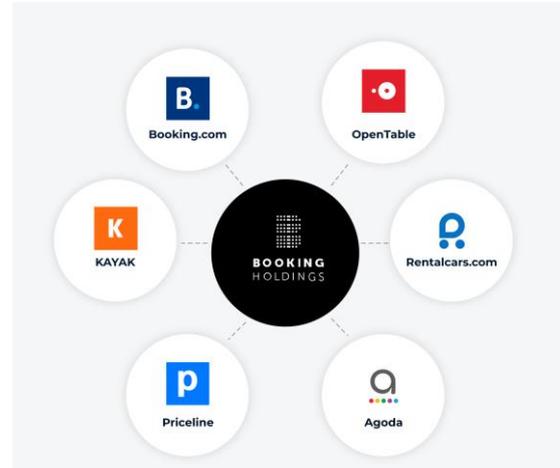
Airlines in the US last month reported domestic flight bookings surpassing pre-pandemic levels! US travellers spent \$6.6 billion on flights in February, 6% higher than February 2019. **Airlines for America**, a leading US industry advocacy group noted that travellers have been eager to book tickets as COVID restrictions lifted.

This provides a good indicator for the rest of the world. Our families and friends are all planning new adventures and reunions too. Interestingly, rising jet fuel prices, which have put upward pressure on ticket prices, has so far not deterred travellers who are willing to spend more. **Emirates** recently added a fuel surcharge and saw booking rise!

A number of surveys are painting similar stories. **TripAdvisor**, found that 45% of Americans are planning to travel this March and April, including 68% of Gen Z travellers. This number will climb higher as the summer season rapidly approaches, as 68% of all American adults will vacation this summer (**The Vacationer**). No wonder hotels around the United States are nearing or have already surpassed pre-pandemic occupancy. *Just try finding a decent, moderately priced hotel room in Sydney, as two of our team have recently experienced.*

The megatrend of Experiences is accelerating. Finding the right businesses benefitting from the trend is equally important for the consistent earnings growth we seek. It's why Cruise lines, airlines and hotels, whilst obvious picks, don't meet the quality criteria we insist upon.

A very profitable way to invest in the Experience Megatrend is via online travel agencies (OTA).



Recently we reinvested into **Booking Holdings** after the over-blown pull back in its share price and the Covid event subsiding. It generates prodigious amounts of cash because of their scale and superior margins versus its competitors. As well as delivering a commanding competitive position they also help it in protecting against inflation. Bookings recently overtook Marriott, the largest hotel group, in gross volume booked in 2012, and today stands 70% bigger.

Companies with superior business models and balance sheets tend to come through a crisis strengthening their competitive position. Booking Holdings is a prime example. The structural reduction in business travel has made hotels reliant upon OTAs once again to fill-up their rooms. This has been evidenced by recent data showing strong market share gains, in excess of pre-COVID levels. Second is the shutdown of Google's "Book on Google" product, removing the biggest perennial risk to the OTA investment case. The fact that the most powerful online search engine is shutting down this service is testament to the powerful position that Booking Holdings occupy.



Travelweekly-asia.com

Long term, travel looks set to continue to grow ahead of GDP as populations age, emerging market middle classes expand, and discretionary spend shifts more from "things" to "experiences.". Booking Holdings will be a major beneficiary compounding earnings for many years with its share price likely to follow the consistent growth in earnings.

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Risk Measures – Global Quality Equity Portfolio^

| | 1 Year | 3 Years | 5 Years |
|------------------------|---------------|---------------|---------------|
| Standard Deviation | 20.30% | 16.25% | 14.44% |
| Tracking Error | 10.83% | 8.90% | 7.60% |
| Information Ratio | -0.33 | 0.25 | 0.39 |
| Sharpe Ratio | 0.25 | 0.83 | 0.98 |
| Batting Average | 41.67% | 55.56% | 56.67% |

Risk Measures – Global Capital Aware Fund*

| | 1 Year | 3 Years | 5 Years |
|------------------------|---------------|---------------|---------------|
| Standard Deviation | 20.31% | 15.49% | 13.58% |
| Tracking Error | 10.79% | 9.73% | 8.23% |
| Information Ratio | -0.51 | 0.19 | 0.22 |
| Sharpe Ratio | 0.15 | 0.85 | 0.96 |
| Batting Average | 41.67% | 55.56% | 51.67% |

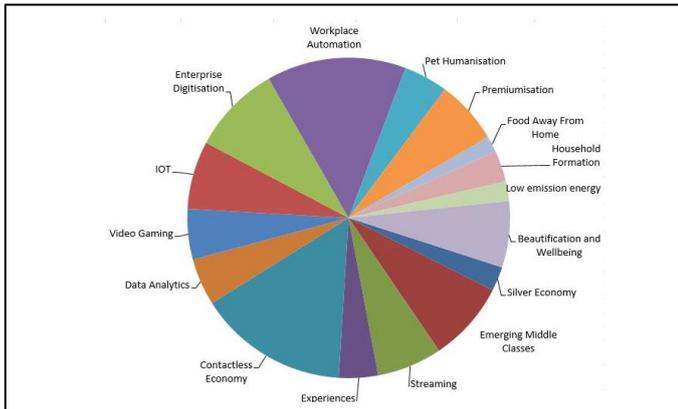
Capture Ratios – Global Quality Equity Portfolio^

| | 3 Years | Since Incep# |
|----------------------------|-------------|--------------|
| # Index Positive Months | 23 | 95 |
| # Index Negative Months | 13 | 55 |
| Up Market Capture | 1.24 | 0.98 |
| Down Market Capture | 1.28 | 0.79 |
| Capture Ratio | 0.96 | 1.25 |

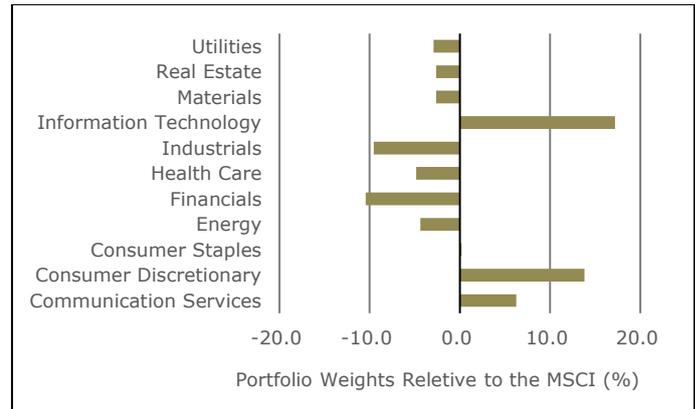
Capture Ratios– Global Capital Aware Fund*

| | 3 Years | Since Incep# |
|----------------------------|-------------|--------------|
| # Index Positive Months | 23 | 95 |
| # Index Negative Months | 13 | 55 |
| Up Market Capture | 1.14 | 0.85 |
| Down Market Capture | 1.13 | 0.72 |
| Capture Ratio | 1.01 | 1.18 |

Megatrend Exposures



Portfolio Sector Weights vs MSCI



Top 10 Active Holdings

| Stock | % |
|------------|------|
| Apple | 3.8% |
| Qualcomm | 3.8% |
| Nintendo | 3.6% |
| S&P Global | 3.2% |
| LVMH | 3.2% |
| Visa | 3.1% |
| Lululemon | 3.0% |
| KLA Corp. | 2.9% |
| Microsoft | 2.8% |
| Adobe | 2.8% |

Key Portfolio Analytics

| | Portfolio | Index |
|-----------------------------|-----------|-------|
| Forward PE | 24.25 | 16.60 |
| ROIC | 65.92 | 15.28 |
| Market Cap (USD Bln avg) | 548.70 | 43.80 |
| Market Cap (USD Bln median) | 155.02 | 16.56 |
| Std deviation (ex ante) | 17.73 | 14.54 |
| Interest Cover | 210.29 | 66.72 |
| Total Debt to Ebitda | 1.56 | 3.26 |

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 |

Disclaimer

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