

October Monthly Update: Demographics, Beauty and Value

The last few weeks of the month witnessed stronger performance from the Value and more economically sensitive sectors, versus the companies we typically invest in. This is the usual market 'exuberant reaction' driven mainly by the latest hopes of a vaccine, optimism of a huge fiscal stimulus in the US following a democratic win and what was then a possible democratic easy sweep. A sawtooth pattern emerges in cyclicals at times such as this as we have explained in previous editions, where they surge above the market for a short period. Thus, we underperformed in the month but easily maintained excess performance across all other time periods.

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	10 Years	Since Incep#
Insync Global Capital Aware Fund*	-3.01%	3.59%	10.08%	21.28%	21.66%	17.63%	12.03%	13.21%	11.90%
Insync Global Quality Equity Portfolio ^	-3.14%	3.71%	11.38%	15.95%	19.90%	17.32%	13.28%	15.66%	14.10%
MSCI ACWI (ex AUS) NTR (AUD)~	-0.46%	2.36%	5.89%	3.19%	9.28%	8.76%	8.50%	11.69%	10.69%
Global Capital Aware Active Out-Performance	-2.55%	1.23%	4.19%	18.09%	12.38%	8.87%	3.53%	1.52%	1.21%
Global Quality Active Out-Performance	-2.68%	1.35%	5.49%	12.76%	10.62%	8.56%	4.79%	3.97%	3.41%

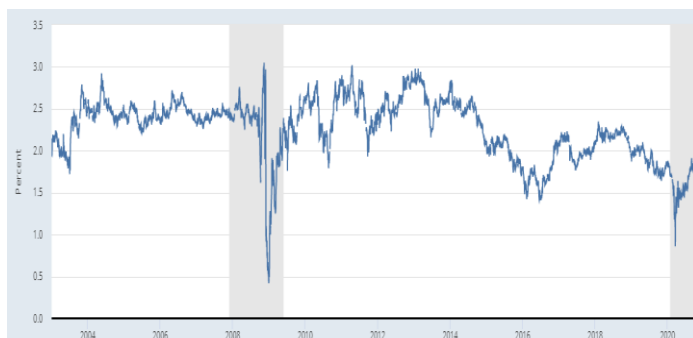
Source: Insync Funds Management - Past Performance is not a reliable indicator of future performance. *Represents net of fees and costs performance, assumes all distributions reinvested. ^Returns prior to July 2018 represent the underlying Insync Global portfolio (including cash) inclusive of a 0.98%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

The world has changed.

Insync's strategy of investing in 30 super profitable businesses, across 16 global megatrends with little sensitivity to global GDP, continues to deliver consistent outperformance.

Value facing demographic headwinds. A notable feature of the current investment cycle from the lows of the GFC has been the severe underperformance of the 'Value' factor. The world economy just cannot escape its low-growth, low-inflation rut. This remains as a significant headwind for Value driven stocks. The emergence of Millennials and Gen-Zers (*see later*) is playing a greater role in shaping the future but is also counterbalanced by an ageing population. This tends to produce a deflationary impact. There is a strong relationship between a rising old age dependency ratio and low inflation.

Technology creates significant deflationary headwinds. Whilst there is growing optimism on a reflation trade, the 5-year inflation expectations continue to remain low.



Inflation's damp fuse. This is not surprising as aggressive central bank policies to drive up growth and inflation over the past 10 years, have largely failed. Whilst a more aggressive fiscal policy may well increase growth in Goods and Services inflation in the short term, the secular deflationary drivers of an ageing population and technology are likely to remain dominant.

Is Factor & Style based investing still valid?

Recently I had an interesting conversation with my daughter. She felt that most of the school curriculum was suitable for jobs in the *old world* but has not prepared her for the world we are moving into. Studying computer design at university was something she had not considered doing previously. It is enabling her to find a path forward in terms of developing a skill-set better suited for a fast changing and volatile world. Her generation understands better than my generation, that the *old rules* and processes no longer apply.

Historically, different parts of the investment cycle typically favour different investment styles and therefore advisors typically blend different management styles. In this highly disruptive world, the investment industry is not immune. Style blending needs careful examination and an open mind moving forward.

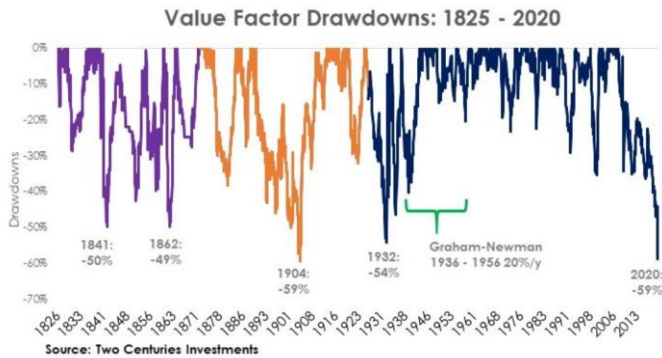
Blaming bubbles? Many asset consultants, researchers and some of our well-known peers cite bubble-like conditions as the reason why some style-based investing and factor tilts are not working.

We agree that there is a group of stocks which seem to have bubble-like valuations based on ridiculously high sales multiples (*they do not trade on multiples of profit as they are still loss-making or only making a tiny profit*). However, although popular, these are in the minority. There are many stocks that have strongly risen in price for sound reasons but are lazily lumped with the bubble stocks. Our process uncovers who is in which.

Fundamental structural changes have occurred in the economy and across business models. We believe many investment decision-makers do not fully appreciate this. In turn this is negatively impacting many investment styles and factor-based approaches, leading to poor blending and manager selections.

A lot of *old-world* analysis has been absorbed into conventional wisdom through various studies and back-testing, with no regard for the real-world changes that are occurring in front of our noses and when looking ahead. Insync looks forward, rather than to the past.

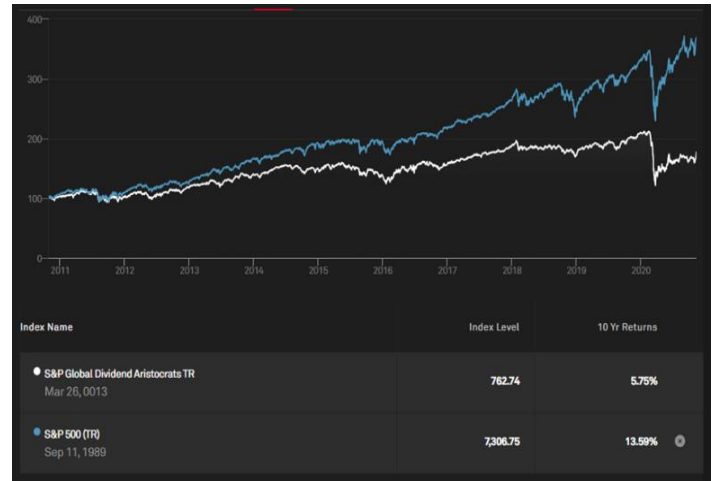
Whilst the Value style has severely underperformed on several occasions over the past 200 years, the last 10 years has been one of the worst. The major sectors that are well represented within the value style include banks and energy companies. It seems clear that these businesses have been severely disrupted, and it is hard to construct a great positive *long-term* future for these industries based on their current business models.



Is a dividend bias still worthy? Another strategy indoctrinated into mainstream thinking is generating outperformance by investing in businesses with stable and growing dividends (e.g. S&P Global Dividends Aristocrat index). One would have expected this strategy to be highly successful in a very low interest rate environment. Yet, the chart below shows this strategy has not performed for a long period of time. Worse, the magnitude of underperformance is accelerating.

The reason is that stable and steady growth businesses that were the foundations of a so called 'blue chip' dividend portfolio are being increasingly disrupted and have suddenly become unstable. Thus, they struggle to maintain their dividend streams; local banks are a good example.

S&P Global Dividend Aristocrats Index versus S&P 500 Index



Source: S&P

"Insanity is doing the same thing over and over again and expecting different results."

Our new normal is a highly disruptive environment as it is forcing the next generation of workers to acquire new skills to be relevant (like my daughter's choice). Investors also need to spend more time reviewing how they pick and blend managers and which styles and factors are going to be more successful in a fast-changing world. Hoping for some sort of elastic rebound back to the way things were, is a dangerous wish.

We see these tailwind drivers of strategic change, such as the acceleration of disruption, as both permanent and profound. They are not a cyclical part of a 'phase'.

It requires significantly more work, more than just using some simple blending tools. By doing so, strong investment performance can be generated. Some people scream at the river to change its course and others simply swim with its flow.

Megatrend focus: Gen-Z & Millennials

The rise of the Millennial & Gen-Z consumer may well be the most profound demographic shift in history. Yet with daily news on crises, technology and politics, a longer-term trend like generational change is easily overlooked.

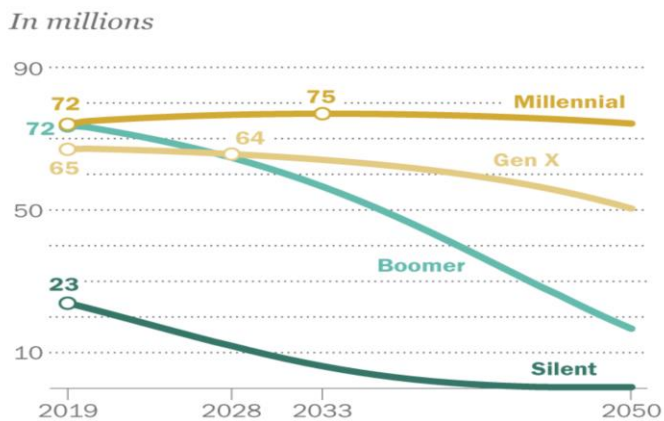
Demographic change moves quietly and slowly but surely. Its why it gets overlooked compared to these other attention-getters. Media outlets overestimate and oversimplify demographic change inside 5 years and *underestimates* its impact over the longer term.

In just 8 years' time there will be as many X-Gener's as Baby Boomers. The difference in values, habits, and consumption between them are immense. Millennials by then will be larger in number than either. In turn they also differ to X-Gener's in values and consumption.

X-Gen Rules Ok...but not for long. Millennials are already reshaping demand and the type of goods and services that are growing faster as a result. Baby Boomers wrongly assume that trends driven by their generation will continue to dominate. We observe that almost all our peers do not place much thought or figure into their calculations just how much demographics is changing the world.

At Insync we do! Just another practical way to introduce blended difference into an investment portfolio.

Projected population by generation



Note: Millennials refer to the population ages 23-38 years as of 2019
 Source: Pew Research Center

Insync strongly believes that Millennials and Gen-Zers will continue to transform the global economy in the decades to come. Companies that cater successfully to their desire of experience, authenticity and wellbeing are likely to deliver long streaks of growth and investor returns.

The changing industry of 'beauty' is one manifestation of this demographic tailwind. A fast-growing industry with highly profitable companies that benefit from this significant demographic shift globally.



The difference is skin deep. A key to younger generations' beauty preferences is indeed skin deep. When asked in a survey whether they'd rather spend their money on skincare or makeup, 56.9 percent voted in favor of the former. Gen-Z and Millennials have skin on the mind even where makeup is concerned.

The majority actively look for makeup products that are protective of their skin as much as they are fashionable. Housing ingredients such as aloe and SPF rates highly for them as skincare is all about the "self-care."

Self-Care is the new beauty trend. In fact, much of skincare's expansion is thanks in part to the growing popularity of self-care, a lifestyle that promotes health via emotional and mental wellbeing. Pandemics may slightly interrupt a Megatrend but rarely change it much over time. This is one example where the companies well positioned on social media and on-line are overcoming the lack of footfall into city centres. Adaption in action.

Stock update: Estee Lauder

Estee Lauder has been a holding in our portfolio for 4 years. It is a principal beneficiary of the Gen-Z & Millennials Megatrend (amongst other Megatrends).

Covid-19 has not changed the long-term growth opportunity in the beauty industry providing a level of resilience. They are particularly well positioned in skin care which is a high margin business; one that helps it deliver very high levels of profitability. This year has seen its skin care products even being used by astronauts in space.

Since the lockdown, consumers have been shopping more online (especially those in the 50+ age cohort) and skincare routines are broadening. Also, with the millennial generation getting older and make-up serving as a recruitment tool for skin care, we believe the accelerating growth trend in prestige skin care is here to stay.

As skin care requires more research and development than other beauty products, customers tend to remain loyal to larger brands they know and trust. This stock and its management team continues to fulfill our expectations.



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Risk Measures – Global Quality Portfolio^

	1 Year	3 Years	5 Years
Standard Deviation	16.62%	13.51%	12.23%
Tracking Error	6.97%	6.42%	6.04%
Information Ratio	1.83	1.33	0.79
Sharpe Ratio	0.93	1.20	0.97
Batting Average	75.00%	69.44%	58.33%

Risk Measures – Global Capital Aware Fund*

	1 Year	3 Years	5 Years
Standard Deviation	14.26%	12.20%	11.32%
Tracking Error	8.24%	7.39%	7.04%
Information Ratio	2.19	1.20	0.50
Sharpe Ratio	1.46	1.36	0.94
Batting Average	75.00%	61.11%	53.33%

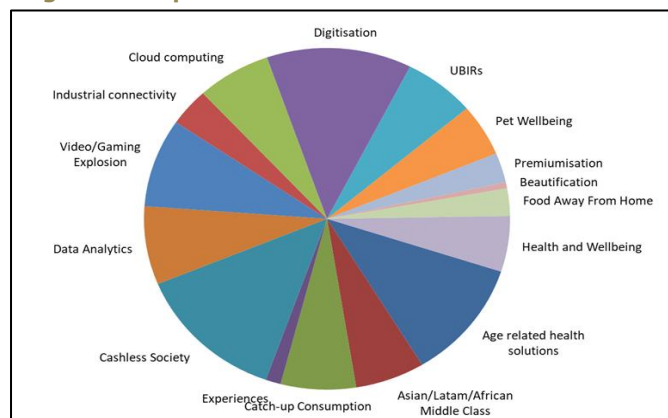
Capture Ratios – Global Quality Portfolio^

	3 Years	Since Incep#
# Index Positive Months	21	83
# Index Negative Months	15	50
Up Market Capture	1.28	0.98
Down Market Capture	0.81	0.64
Capture Ratio	1.58	1.52

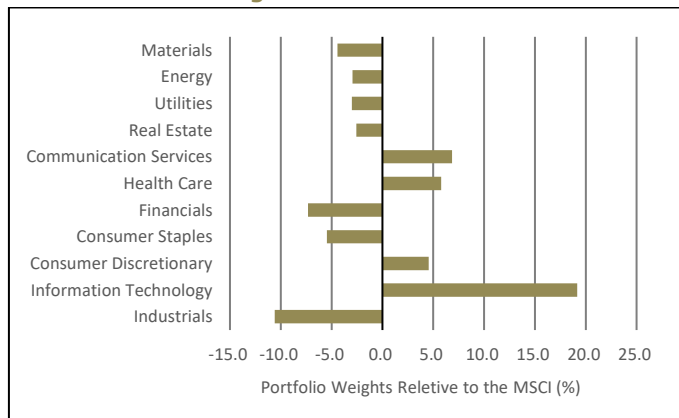
Capture Ratios – Global Capital Aware Fund*

	3 Years	Since Incep#
# Index Positive Months	21	83
# Index Negative Months	15	50
Up Market Capture	1.18	0.84
Down Market Capture	0.60	0.56
Capture Ratio	1.95	1.51

Megatrend Exposures



Portfolio Sector Weights vs MSCI



Top 10 Active Holdings

Stock	%
Dollar General	5.3%
Domino's Pizza	5.1%
Nintendo	4.7%
Facebook	4.4%
Paypal	4.3%
Qualcomm	4.3%
S&P Global	4.0%
Visa	4.0%
Microsoft	3.8%
Adobe	3.6%

Key Portfolio Analytics

	Portfolio	Index
Forward PE	26.33	30.85
ROIC	57.68	11.16
Market Cap (USD avg)	341.25	18.79
Market Cap (USD median)	131.74	5.36
Std deviation (ex ante)	14.39	14.19
Net Debt to Equity	30.84	56.89
Total Debt to Ebitda	2.25	4.50

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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