February 2021 Update

For Investors That Think

Insync funds marginally underperformed after fees in the month of February. The exuberant rotation to cyclicals in anticipation of their, *yet to be earned,* future prospects along with some sector frothiness, continued to dominate the investors' imagination. This impacted the very near-term numbers. Given the objectives of both funds, the important 5,10, and Since Inception results continue to outperform. Pleasingly so do the nearer term 1,2, and 3 year numbers, and by a large margin.

As we have observed before, a *quality defensive growth* approach to investing, like Insync's, produces a tendency to temporarily underperform when coming out of a recession (today) or when overly enthusiastic optimism takes hold (Trump's election 2016). Nothing has changed however to warrant a deviation from our proven path. Patience is key.

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Year	5 Years	10 Years	Since Incep#
Insync Global Capital Aware Fund*	0.40%	-3.38%	-3.57%	10.80%	18.87%	15.40%	13.23%	13.34%	11.45%
Insync Global Quality Equity Portfolio ^	0.79%	-2.82%	-2.04%	9.77%	18.12%	15.17%	14.78%	15.79%	13.68%
MSCI ACWI (ex AUS) NTR (AUD)~	1.39%	1.40%	7.90%	8.55%	11.61%	10.61%	12.45%	11.99%	11.16%
Global Capital Aware Active Out-Performance	-0.99%	-4.77%	-11.47%	2.25%	7.27%	4.79%	0.78%	1.35%	0.29%
Global Quality Active Out-Performance	-0.60%	-4.22%	-9.94%	1.22%	6.52%	4.56%	2.33%	3.80%	2.52%

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

50% undervalued

Our valuation models clearly show a large under-valuation of the stocks we hold by circa 50%. Further, our lead valuation indicators are flashing green for a shift in our investors' favour. This happened right after a 3–4 month decline in late 2016 when Trump was elected, leading to 3-4 YEARS out-performance. It is a poignant observation that our holdings are *delivering* sustainable growth and financial results that many of today's 'market darlings' are nowhere close to achieving.

Why we say this

Our approach invests in proven companies doing very well financially AND with long runways of growth. Markets end up valuing these businesses better than the market average over the longer run. It seems simple to live with, yet most investors try to beat markets in the short run too. This leads to long-run disappointment as those approaches require superb timing and switching between regions, sectors, industries and companies, and an amazing crystal ball!

We don't have the prescient crystal ball that many other managers assure their investors that they are in possession of. Happily, we do not need one as **our approach does NOT rely on the state of the economy, nor on the direction of markets**. We also do not focus on our own short term result up or down. This reduces many risks for our investors.

Case in Point: IDEXX (+400%)

To illustrate how our focus works so well in practice lets study our investment in **IDEXX Laboratories.** A global leader in diagnostics to the animal health industry. It is one of two stocks that form the majority of our investment with our **Pet Humanisation Megatrend**.

Source: www.idexx.com.au/en-au/about-idexx/

IDEXX reported a 45% increase in profits over six-months to 31st December 2020 compared to the prior corresponding period, and in the middle of a pandemic. Insync has held IDEXX for 4 years. Its price is up by 400% over this time. Patience rewarded.

This Megatrend is also supported by demographic forces where the Gen Z'ers are the first generation to treat pets like humans. Surveys show they spend a greater amount on pets than others, providing a high degree of confidence in the sustainability of the Megatrend.

Last month we spoke of how disruption events can boost the *acceleration* of a Megatrend. IDEXX is also a beneficiary of this phenomenon. By example, UK pet ownership during the pandemic has jumped by +3.2Mn extra pets (not including the swimming variety). 59% of these new owners were, Gen-Zers!

Using the right valuation tool

The gold standard for valuing stocks producing cash flow is **discounted cash flow analysis**. Pretty much everything else is a shortcut of this method.

Investing in highly profitable companies benefitting from Megatrend tailwinds requires a valuation approach that measures longer-term earnings and cash flows.

PE ratios can lead the investor astray: A PE ratio is a short term, somewhat lazy measure of valuation, typically looking less than 24 months. PEs fail to capture the longer-term predictable cash flows from quality companies with sustainable earnings growth. In fact, PE as a measure of generating outperformance is proven to fail in identifying longer term winners. It is a rear-view mirror extrapolation.

A key cause of this accounting standard not keeping up with the **Fourth Industrial Revolution** is that businesses are now generating sustainable long run earnings growth by investing far more in *intangibles* such as R&D, people, and branding. This is very different to the last 150 years. Intangibles are expensed in year-one and therefore compresses near-term earnings, making the PE ratio appear worse.

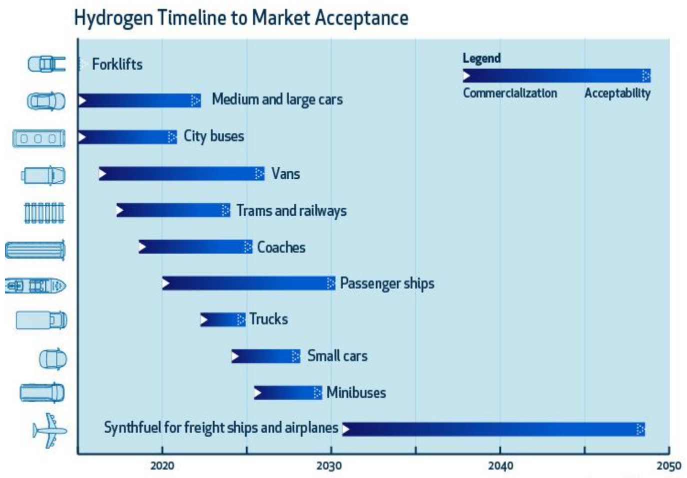
Most investors* still focus on this short-term measure. They make an arbitrary judgement as to what may or may not be the appropriate PE for a business. Many companies look expensive on this outdated measure and are therefore avoided. At Insync we hope the 'herd' continues to do so, because it provides us the opportunity to invest in some of the best businesses at a discount to their long-term valuation.

* Nearly 80% of investors surveyed by Bank of America Merrill Lynch use forward PE ratio as a factor when investing and it's the number one factor leading the charts for the last 14 years. However, low P/E stocks have underperformed the market since 2010.

Low Emission Energy: The Megatrend

A Megatrend is not a wistful thematic or visionary view of the future. It is about corroborating and studying masses of data over time to assess if a Megatrend is both sustainable *and* likely to generate economic value, for the *right* participants.

Invest in a trend too early and you can end up with an unprofitable business. Albeit one that may have the hype and story to light up the imagination; but to only end up severely disappointing its investors.



Source: McKinsey

A good example is the Hydrogen Economy. After decades of false starts, it is now arrived at the point at which hydrogen based fuel cells will increasingly play a significant role in the **"Low Emission Energy" Megatrend**. This trend is about to accelerate. Hydrogen fuel cells are already on the rise especially in transport and heavy industry.

Technology improvements have vastly exceeded predictions across most alternate power generation sources far faster than predicted. Production costs, especially when the cost of building power generation facilities is included, has seen non-carbon energy move ahead in leaps and bounds. Hydrogen is no longer a dream energy source. Technology and economic factors have conspired to carve out a realistic, expanding, and viable place in energy production.

A Megatrend is useless however without the right company to monetise the reward to investors. We have identified a highly profitable business that will be a major player in the *new energy* economy as it rapidly transforms energy globally.

Air Products: The Investment

Hydrogen fuel cells offer solutions for primary (baseload) power that can augment a power grid, operating 24/7 in ways that improves efficiency, reliability, and environmental impact. Fuel cells offer the unique advantage of compactness, competitive operating costs, and low emissions (when made with non-carbon energy inputs). Excess Solar and Wind generation can be used to create hydrogen. This, in turn can be stored for the purpose of generating fuel cell sourced electricity at night or when other non-carbon generation cannot.

Air Products (APD) is a global *profitable* industrial gas company listed in the USA. It is a leading supplier of hydrogen fuel production, logistics and carbon capture. APD is the global leader in the supply of liquified natural gas process technology and equipment. This is the current primary raw material used in hydrogen production.

There are very high barriers to entry for competitors (even for petroleum companies) due to the highly specialised nature of this industry. Intellectual property is garnered over many years and the US$100m's of capital required to build a plant poses a formidable barrier to entry. Barriers to entry, is something that Insync likes in its stock selection process.

Consolidation of industrial gas companies over the years has further reduced the number of participants. This reinforces the barriers to entry.

We anticipate the global uptake and subsequent demand to generate both *profitable and sustainable revenue* growth for Air (APD) for a minimum of 15 years.

Note: This illustrates why we do not try to manage for 1-12 month returns of our Funds when viewing this long runway to prosperity.

Air Products is also building the world's largest **Green hydrogen-based** ammonia plant. More to come.

Source: www.fuelsandlubes.com/air-products-build-worlds-largest-green-hydrogen-based-ammonia-plant/

APD is a main provider of hydrogen fuelling infrastructure and technology. It offers both liquid and compressed hydrogen gas in a variety of purities and in various modes of supply around the world.

They maintain an extensive network of pipelines, hydrogen manufacturing plants and filling facilities with global reach. Thus, it profits from distribution and transportation of hydrogen products as well as its creation.

Carbon Capture too! APD is also a major player in process technology designed to capture CO2 by-product resulting from fossil fuel conversion before it reaches the atmosphere. The CO2 sequestration technology effectively stores this gas where it is unlikely to escape once captured.

Companies are rapidly emerging like APD, that bring what was once a fringe and 'brownfields' investment sector into the mainstream. **Invest with Insync.**

Investors increasingly care about Carbon Footprints

Globally, there is increasing awareness of the impact our actions, products and services are having on our shared planet. For example, Bitcoin token creation. Especially loved by younger generations, it consumes the same amount of energy in a year that the entire nation of the Netherlands expends on everything. Tesla uses 'greenness' as a brand driver yet invests heavily in Bitcoin and encourages others to do so.

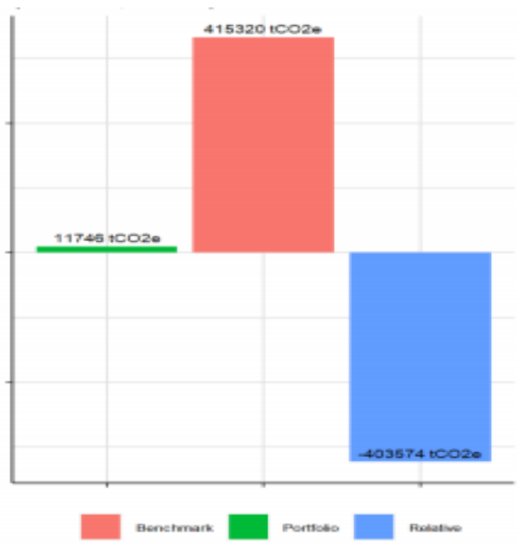
Climate Action 100+ is one of the largest investor-driven climate initiatives comprised of over 370 investors with more than $35 trillion in assets under management. This supports the view that investors are increasingly aware of carbon emissions and take it seriously with their investment decisions.

Very Low Relative Carbon Emissions in Insync's Global Equity Portfolios

When compared to the benchmark (MSCI All Country Word Index) Insync is **97.17% carbon efficient**. Insync's portfolio generates just 11,7467 tonnes of Carbon per A$5 billion investment. This compares with 415,320 tonnes of the MSCI ACWI index for the same amount invested.

This places Insync at the very top of fund manager rankings and well ahead of those global equity managers receiving high inflow support in Australasia today. We achieve this as an outcome (not a rule) of how we invest and from the principles we require of the businesses we invest in (such as strong governance). It does beg the question that if your client is concerned about climate change whether investing in a carbon-intensive index, or in an active equity manager with a high Carbon footprint, is the right solution?

Total Carbon Emissions: Insync Global Portfolio (**green**) vs MSCI ACWI nr (**red**)   <31/12/2020 – Tco2e>



Source: Foresight Analytics

MONEY MANAGEMENT
FUND MANAGER OF THE YEAR 2020
AUSTRALIA'S FIRST INDEPENDENT AND WHOLE OF MARKET AWARDS
WINNER
Emerging Manager

insync fund managers

February 2021 Monthly Update

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Risk Measures – Global Quality Portfolio^

	1 Year	3 Years	5 Years
Standard Deviation	16.05%	13.76%	12.22%
Tracking Error	9.18%	7.14%	6.44%
Information Ratio	0.13	0.68	0.39
Sharpe Ratio	0.59	1.05	1.12
Batting Average	58.33%	63.89%	56.67%

Risk Measures – Global Capital Aware Fund*

	1 Year	3 Years	5 Years
Standard Deviation	14.07%	12.43%	11.28%
Tracking Error	10.59%	8.28%	7.41%
Information Ratio	0.21	0.58	0.11
Sharpe Ratio	0.75	1.16	1.01
Batting Average	58.33%	58.33%	51.67%

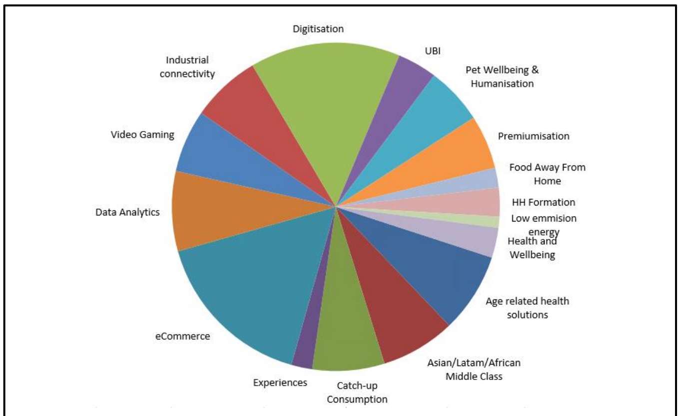
Capture Ratios – Global Quality Portfolio^

	3 Years	Since Incep#
# Index Positive Months	22	86
# Index Negative Months	14	51
Up Market Capture	1.14	0.95
Down Market Capture	0.86	0.64
Capture Ratio	1.32	1.48

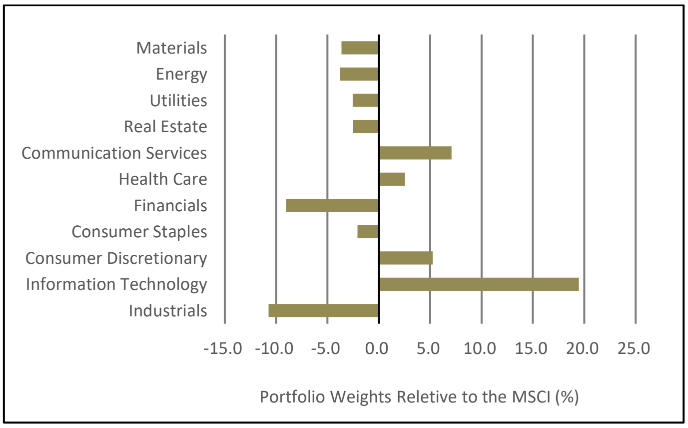
Capture Ratios– Global Capital Aware Fund*

	3 Years	Since Incep#
# Index Positive Months	22	86
# Index Negative Months	14	51
Up Market Capture	1.02	0.80
Down Market Capture	0.63	0.56
Capture Ratio	1.62	1.45

Megatrend Exposures



Portfolio Sector Weights vs MSCI



Top 10 Active Holdings

Stock	%
Walt Disney	5.0%
PayPal	4.8%
Nintendo	4.5%
Visa	4.1%
S&P Global	4.1%
Domino's Pizza	3.8%
Dollar General	3.8%
Qualcomm	3.7%
Microsoft	3.5%
Facebook	3.5%

Key Portfolio Analytics

	Portfolio	Index
Forward PE	32.03	27.04
ROIC	55.06	10.54
Market Cap (USD avg)	419.26	40.00
Market Cap (USD median)	133.95	14.53
Std deviation (ex ante)	14.68	14.81
Net Debt to Equity	47.52	65.60
Total Debt to Ebitda	2.16	4.31

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