May 2021 Update

For Investors That Think

The funds underperformed the benchmark for May. Investors last month returned towards speculative tendencies and the more economically sensitive cyclical sectors. These sectors do not meet Insync's strict quality stock or Megatrend criteria, and explains the *short-term* below index numbers. This see-sawing in markets towards cyclicals is a normal occurrence of the first 12-18 months emerging from a recession. As short-term market P/E ratios have already expanded to levels towards the top end of their historical range further P/E multiple expansions is unlikely. Therefore, future stock market returns will need to be driven by businesses with consistently strong *earnings growth*. This favours Insync's approach as at its core, consistently high earnings growth, is a key attribute of all stocks held. The portfolio remains significantly undervalued based on long-term cash flows of the companies held, and thus sets the stage for outperformance consistent with the longer-term history of the funds. In other words, patience will bear fruit.

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Year	5 Years	10 Years	Since Incep#
Insync Global Quality Equity Portfolio ^	-0.95%	7.67%	4.63%	12.57%	18.38%	16.15%	15.18%	16.08%	14.05%
Insync Global Capital Aware Fund*	-1.05%	6.81%	3.19%	8.54%	18.62%	16.58%	14.12%	13.62%	11.82%
MSCI ACWI (ex AUS) NTR (AUD)~	1.31%	8.83%	10.36%	21.50%	15.85%	13.07%	12.73%	13.26%	11.71%
Global Capital Aware Active Out-Performance	-2.36%	-2.03%	-7.17%	-12.96%	2.77%	3.51%	1.39%	0.36%	0.11%
Global Quality Active Out-Performance	-2.26%	-1.16%	-5.73%	-8.93%	2.54%	3.08%	2.45%	2.82%	2.34%

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

Is identifying a 'trend' enough?

If only it were that easy. Achieving *sustainable* compound investment returns with a high degree of confidence from a trend requires a few more things including:

- Estimating the total addressable market
- Assessing likely trend duration
- Pinpointing when best to invest
- Identifying the best positioned and most profitable companies in them
- Optimising the portfolio weight of a stock and the Megatrend based on acceptable risk and reward

Insync takes a systematic approach to all this, analysing significant amounts of data and applying filters to whittle down the 'cast of thousands' to a select few.

Thus, we have a high degree of confidence in both the sustainability of the Megatrend and the best positioned company within it. This is proven to deliver outsized returns.

Most stocks in a Megatrend will still *fail*

According to history, only 4% of companies listed in the index have driven all the returns in the share markets over the past 90 years. It therefore stands to reason that most stocks in a Megatrend will also fail to deliver.

A cautionary note if using thematic trend-based ETFs/index funds

Researchers have found that thematic ETFs, which invest in narrow trends such as the genomic revolution, robotics & automation, cyber-security, health technology, biotechnology, renewable energy on average underperform the stock market on a risk-adjusted basis by about 4 percentage points a year for at least five years following their launch.

Thematic ETFs hold stocks with salient characteristics such as:

- high past performance,
- huge media exposure, and
- significant positive sentiment

This makes marketing easier to retail and sentiment-driven investors, which is great for the issuer. After their launch however, most products perform poorly once the hype vanishes and capital goes elsewhere, delivering negative risk-adjusted returns.

This is not surprising as stocks selected in these ETFs are not based on fundamentals such as profitability, valuations, or rigorous assessment of their future sustainable earnings potential. Quite often the selection process is opaque. Many companies in these ETFs only have a sliver of their revenues generated from areas that have anything vaguely to do with the theme in question.

Companies utilised in these ETFs also tend to be significantly smaller, pricier, and less profitable than average. Traits that are associated with higher volatility.

For those considering this path, your asset allocation skills must expand into competent trend selection, weightings and trend timing. Rarely do we see an investor with 16 trends and suitable risk analysis.

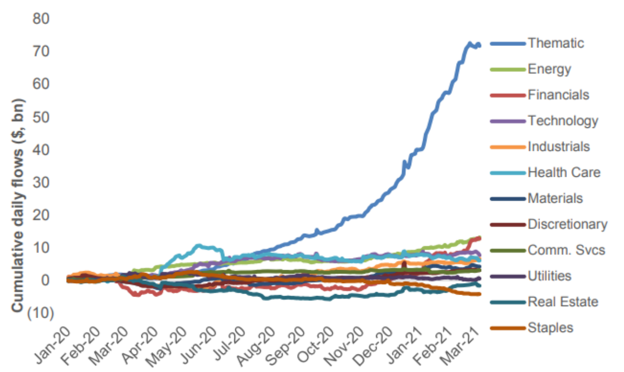
Concept + Hope is not ideal

Investors today are aggressively investing more on *concept and hope* rather than implementing a rigorous approach. As humans, it is very easy to get caught up in the concept of something good.

The internet bubble in 2000 showed that most companies failed in the early stages of a trend. It also wasn't clear at that time which were the winning companies. A lot of the internet stocks and funds launched back then performed poorly resulting in significant losses and the closure of many funds.

Unfortunately, history repeats itself, which can be seen below in the tidal wave of flows into thematic/trend funds.

Sector ETF flows since Jan 2020. Data as of Mar-5, 2021.

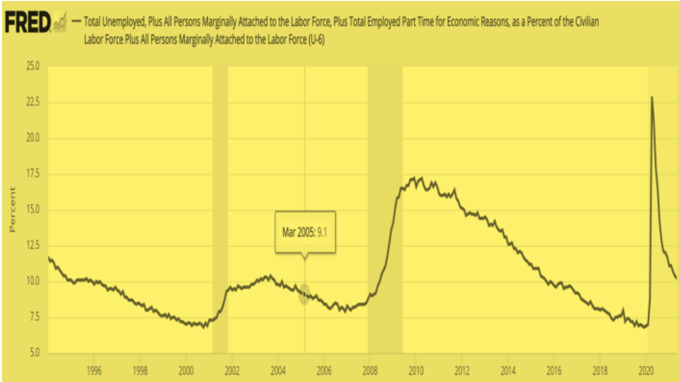


Source: FactSet, Goldman Sachs Global Investment Research

The 'reopening trade' is closing

We do not share the consensus view that we are moving into a much higher *structural inflation* environment. Our key reasoning is that there is a significant global unemployment issue. Until we get unemployment levels down to very low levels there is very little risk of wage inflation breaking out. **Jay Powell told the market that there is no evidence, in theory or practice, that will allow for any persistent inflation until the resource gap in the labour market closes.**

This next chart is the broadest measure of the employment rate in the USA. The U-6 (Unemployment) rate reveals the percentage of the labour force that is unemployed, underemployed, and discouraged from seeking jobs. It is considered by many economists to be the most revealing measure of a country's real unemployment situation.



Source: St Louis Fed

This chart means in the USA today, a pool of available labour is some *5 million* greater than it was pre pandemic. Until this pool of labour is *fully* employed wages growth is likely to remain subdued. This is also consistent with the post GFC period.

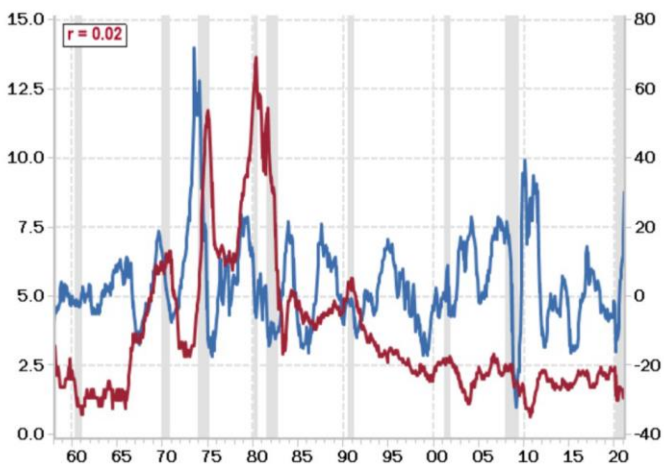
After a global disruption such as this one, there are bound to be choke points in the system re-booting. And this is where we see prices rising in very select areas, whilst a choke point remains. They are easily misinterpreted as systemic inflation.

A mismatch is appearing between market expectations for employment growth and inflation

Most market forecasters are not expecting the United States to go back to that degree of tightness in the jobs market pre Covid; yet they expect the fed funds rate and the inflation rate to rise to the levels of the last cycle, pre-pandemic.

What about commodity prices on inflation?

Some worry about the impact of commodities on inflation, but there is no identifiable relationship between the two. This can be seen in the chart below:



Source: Rosenberg research. **United States: Core CPI & CRB Commodity Price Index** (red line; core CPI; year-over-year percent change; LHS) (blue line; CRB index; year-over-year percent change; RHS)

MONEY MANAGEMENT
FUND MANAGER OF THE YEAR 2020
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WINNER
Emerging Manager

insync fund managers

Low or higher inflation presents no major challenge for Insync

Valuations of Insync's stock holdings are less sensitive to interest rates than generally assumed. This is because they are *growing their earnings* at a rapid pace *today* and *not* reliant on the prospect of profits well out into the future. Investing into stocks with significantly lower profitability or even unprofitable companies in the hyped-up trends will face a reconciliation in price.

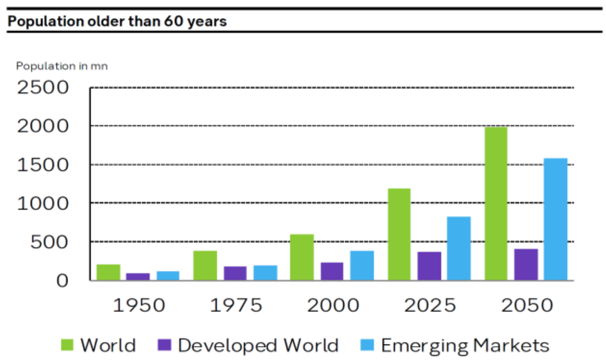
Silver Economy - Megatrend in Focus

This Megatrend is accelerating despite most nations trying and slow it. For Insync investors this is good news.

In the next 10 years the world will experience a number of unprecedented demographic shifts. Each component resulting in winning and losing companies.

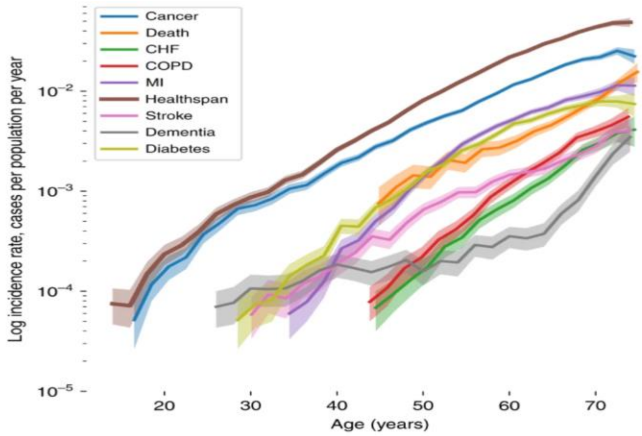
Insync incorporates demographic data into our analysis to understand where the significant demand shifts are taking place. Examples include the housing sector, specific consumer brands, social media platforms and healthcare products and services. This is an example of why a Megatrend is more than just picking a trend.

Whilst most investors are aware of the ageing population; the rate at which this is occurring is accelerating. Today, there are more than **46 million older adults aged 65+** in the USA. By 2050, that number is expected to reach near 90 million (This is occurring in all developed nations including China). Between 2020 and 2030 alone, when the last of the baby boom cohort reaches age 65, the number of older US adults is projected to increase by almost 18 million. This means by 2030, 1 in 5 Americans is projected to be 65 years old and over.



Source: United Nations

Chronic disease with age. One negative consequence of a rapidly ageing population is that incidence of chronic diseases surge. The older you get the higher the likelihood of developing one. This next chart shows this correlation (e.g. cancer, stroke, dementia)



Source: Nature.com

One of the leading chronic diseases of older people, that has proven to be difficult to treat, is Dementia. It affects memory, orientation, comprehension, thinking, learning capacity, language, and judgement. It can be overwhelming, not only for the people who have it, but also for their carers and families. Worldwide, around 50 million people have dementia, with nearly 10 million new cases every year. Alzheimer's disease (AD) is the most common form of dementia and may contribute to 60-70% of cases.

As its prevalence rises and accelerates with the aging "baby boomer" population, so do the costs of care associated with it. By example, the total cost of care for the treatment of AD in 2020 just in the United States is estimated to be **US$305 billion.** This is projected to increase to **US$1 trillion+** by 2050. The demand for innovative products and solutions to treat chronic diseases such as AD is enormous and accelerating, whilst the burden on the healthcare system reaches unsustainable levels.

Insync have two companies in the portfolio that are targeting treatment of two chronic diseases that form part of the Silver Economy Megatrend: Alzheimer's disease and chronic heart conditions. Both businesses are highly innovative and *profitable* businesses. They are leaders in their fields and are poised to deliver outsized returns. This is because of the acceleration in demand for their products and services from the rapidly accelerating over 65s population.

Analysing demographic data sets is one of many tools that are incorporated into the Insync investment process. We call demographic change a '**Super Driver'**, and identifying the Megatrends and the company beneficiaries of Super Drivers such as demographics can deliver significant investment returns for the investor on a multi-year basis, independent of economic and interest rate cycles.

This exemplifies why we do not manage the month-to-month results, as we pursue results far more meaningful and enduring with less risk.

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May 2021 Statistical Monthly Update

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Risk Measures – Global Quality Equity Portfolio^

	1 Year	3 Years	5 Years
Standard Deviation	11.37%	13.98%	12.13%
Tracking Error	8.05%	7.35%	6.59%
Information Ratio	-1.11	0.47	0.41
Sharpe Ratio	1.09	1.12	1.18
Batting Average	41.67%	61.11%	56.67%

Risk Measures – Global Capital Aware Fund*

	1 Year	3 Years	5 Years
Standard Deviation	10.94%	12.68%	11.01%
Tracking Error	8.31%	8.54%	7.39%
Information Ratio	-1.56	0.41	0.19
Sharpe Ratio	0.76	1.24	1.18
Batting Average	41.67%	58.33%	51.67%

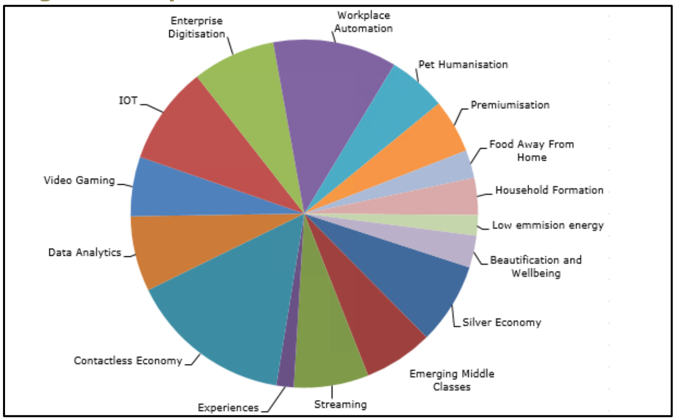
Capture Ratios – Global Quality Equity Portfolio^

	3 Years	Since Incep#
# Index Positive Months	24	89
# Index Negative Months	12	51
Up Market Capture	1.11	0.94
Down Market Capture	0.94	0.64
Capture Ratio	1.18	1.47

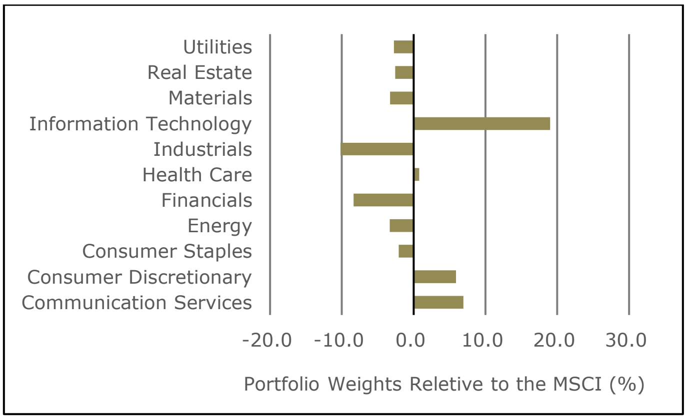
Capture Ratios– Global Capital Aware Fund*

	3 Years	Since Incep#
# Index Positive Months	24	89
# Index Negative Months	12	51
Up Market Capture	0.99	0.80
Down Market Capture	0.69	0.56
Capture Ratio	1.44	1.44

Megatrend Exposures



Portfolio Sector Weights vs MSCI



Top 10 Active Holdings

Stock	%
Facebook	4.4%
Domino's Pizza	4.3%
PayPal	4.3%
Nintendo	4.2%
S&P Global	4.2%
Qorvo Inc	4.1%
Qualcomm	4.0%
Walt Disney	4.0%
Visa	3.8%
NVIDIA	3.7%

Key Portfolio Analytics

	Portfolio	Index
Forward PE	28.77	32.00
ROIC	62.80	11.96
Market Cap (USD avg)	450.02	42.77
Market Cap (USD median)	143.60	17.50
Std deviation (ex ante)	14.68	14.81
Net Debt to Equity	81.29	61.75
Total Debt to Ebitda	1.95	3.69

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