MONEY MANAGEMENT FUND MANAGER OF THE YEAR 2020

AUSTRALIA'S FIRST INDEPENDENT AND WHOLE OF MARKET AWARDS

WINNER Emerging Manager

insync fund managers

March 2021 Update

For Investors That Think

Fund Commentary

The funds posted positive net returns in March. Continued strong performance of *cyclical* stocks propelled the MSCI benchmark further ahead of the funds overall. Past editions have provided insight as to why this is occurring. We continue to see no compelling reason to alter course as this typical and short-lived phenomenon is consistent with past economic periods when coming out of a recession. Overly optimistic price outcomes that result drive these types of stocks far higher than others. It happened in 2009/10 emerging from the GFC and again in 20016/17 when Trump was elected with heightened expectations of economic growth.

All of the prior rallies in cyclical stocks over the past 10 years had one thing in common. They were very sharp increases and relatively short in duration, but the overly high valuations then disappeared rather quickly. 'Timing' the outperformance in these economically sensitive sectors is very difficult, and though tempting, it is not an enduring way of generating sustainable outperformance.

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	10 Years	Since Incep#
Insync Global Capital Aware Fund*	2.39%	-1.00%	-1.54%	18.64%	19.12%	16.59%	14.72%	13.67%	11.59%
Insync Global Quality Equity Portfolio ^	2.95%	-0.01%	0.51%	22.69%	18.58%	16.58%	15.92%	16.16%	13.85%
MSCI ACWI (ex AUS) NTR (AUD)~	4.40%	5.97%	12.74%	24.04%	13.23%	12.39%	13.51%	12.66%	11.49%
Global Capital Aware Active Out-Performance	**-2.01%**	**-6.97%**	**-14.27%**	**-5.40%**	**5.89%**	**4.19%**	**1.21%**	**1.01%**	**0.10%**
Global Quality Active Out-Performance	**-1.45%**	**-5.97%**	**-12.22%**	**-1.36%**	**5.35%**	**4.19%**	**2.41%**	**3.49%**	**2.36%**

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

History rhymes but doesn't exactly repeat

It may be tempting to conclude that today is simply another 'style shift' away from one style to another. After all, different styles tend to perform well during different parts of the cycle.

What is different this time is that both the outperformance of unprofitable and high revenue growth companies *and* the economically sensitive companies, such as energy and financials, are occurring at the *same time*.

The rapid pace of the market recovery has been driven by record low interest rates and aggressive fiscal stimulus generating speculative behaviour in concept stocks. This is what is behind the recovery in Value sectors. Typically these sectors outperform in the early part of the cycle, and the speculative phase appears in the latter part of the cycle, not concurrently.

This can be seen in the next chart given the rising gradients since the March 2020 lows:

- **Cyclical stocks** have outperformed defensive companies (light blue line).
- **Low quality stocks** have outperformed high quality companies (green line)
- **Small caps** have outperformed large caps (dark blue line).

Exhibit 1: Leadership is changing as we move from early to mid cycle

Source: Bloomberg, Morgan Stanley Research. Note: The index above represents an equal notional pair trade of going long a group of higher beta cyclicals from the Discretionary, Energy, Industrials, Materials, and Technology sectors vs short a group of stocks from more defensive sectors –Health Care, Consumer Staples, Telco Services, an Utilities. The long and short sides are rebalanced to equal notional amounts at the start of each day.

Importantly there are no forces present that would necessitate a re-think as to how we invest, what stocks we hold, nor the positive and enduring outlook for Quality Growth investments for the time frame our investors' holdings are purposed for. Having thoroughly reviewed matters, our convictions remain.

Insync's portfolio is 50% undervalued

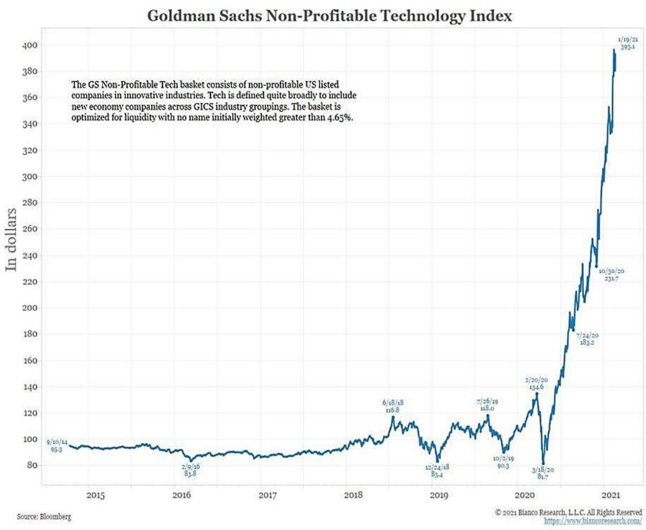
Today the portfolio of companies is 50% undervalued, based on our Discounted Cashflow (DCF) valuation methodology, and provides a great opportunity to buy some of the best businesses with a more certain future outlook than many of the cyclical or speculative companies investors are currently chasing.
Insync invests in the most profitable businesses, with rock solid balance sheets, high cash flow generation and sustainable growth prospects underpinned by global megatrends. Empirical research and the fund performance demonstrate that it is an approach that delivers the best results over many investment cycles with lower risk, in other words a far more **durable** portfolio.

Don't believe the hype

2020 was a year of the hype. The hype this time is very similar to the tech bubble in 1999/2000 and the US railway boom of the 1840s. Both had investors running into schemes surrounding new technology. Temptation is always present. To invest in something because it is going up in price (even when its business financials are not) is a readily acknowledged phenomenon intellectually, yet sometimes hard to resist in reality.

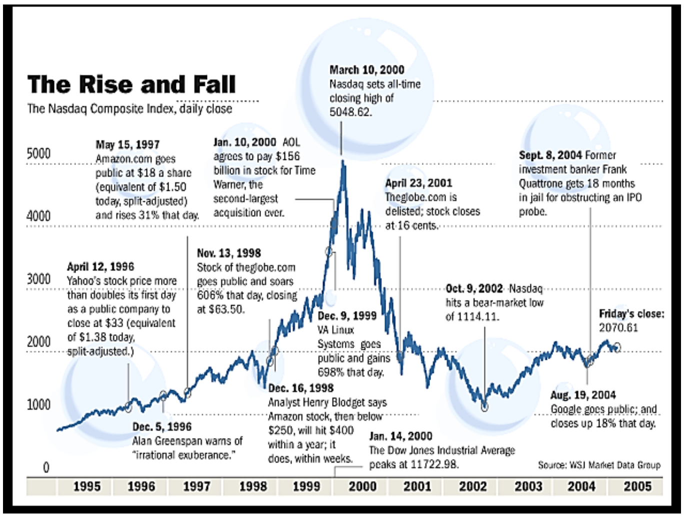
Hype spotting!

When a stock, asset class, or fund has gone parabolic, or seen its trend quickly steepen, these are typically strong signals of extreme exuberance. Significant losses are an almost certain result.



Today these Hype stories are found in electric vehicles, rockets, battery storage, climate change technologies and pure hydrogen companies. Let's not forget Bio-tech with genomics and the revolutionary CRISPR technologies. It is one thing to witness their growth and technological acceptance, and another thing to see the businesses involved performing well today.

The companies exposed to these trends often vow to "change the world", have crazy-high valuations and mostly are wildly unprofitable, and usually backed by Wall Street and VCs. IPOs are back at record levels and new vehicles such as SPACs are being created to lull investors into this hype.



Source: flatworldbusiness.wordpress.com

Innovations don't create hype, people do.

People inflate expectations, over promise on results, and confuse hype with the real potential that progress has to offer.

It is once the hype period is over, where it becomes harder to raise capital as investors lose interest (chiefly because they have lost significant money), that a lot of unprofitable companies exit their industry. This presents the best opportunities.

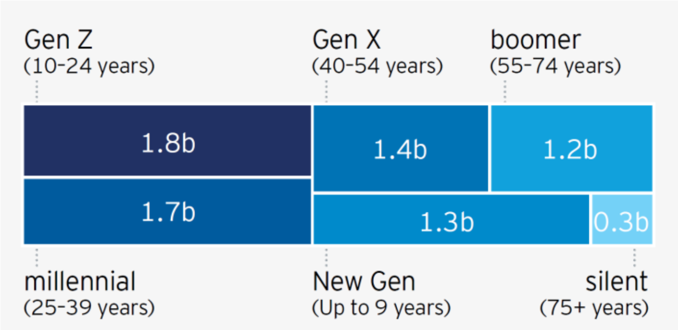
Insync is excited about many of these technologies, but as the internet bubble showed, it can take a long time before we truly see the mainstream impact of breakthrough technologies in a meaningful way. This happened well over 10 years after the bubble burst in March 2000.

Businesses must deliver high levels of profitability, not just revenue growth. This is key to achieving consistent compound wealth for investors.

Understanding where you are on a Megatrend cycle helps you to understand if you are in the 'hype' stage or not. Our disciplined investment process waits for the fallout from the hype stage. It then becomes clearer as to the size and duration of the trend, and the businesses that will be the profitable, and thus sustained winners.

Watch out for Zoomers – They are awesome!

Understanding socio-demographic shifts are important to understanding the future winners and avoiding the losers, especially as we experience the biggest generational shifts in this lifetime. The next decade, for example, will be shaped by the maturation of Generation-Z, colloquially known as 'Zoomers', the largest generational cohort in history!

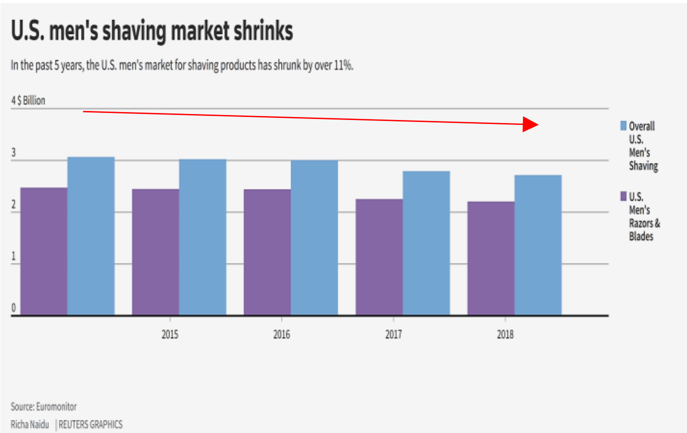


Socio-demographic shift is a **Super-Driver.** Investing with Super-Drivers is hard to do because it is too broad to identify who are its economic winners. However, understanding the values and consumer choices each of the generational cohort make, helps identify specific Megatrends and their best residing companies.

There are a ton of industries selling products to Zoomers, yet they don't care as much about these products as the generations before them. Think cars, motor bikes, razor-blades and alcohol for example.

Zoomers disrupt a massive global brand

Proctor & Gamble owns the Gillette brand, one of the biggest brands to Gen-Xers. It's also one of the most dominant consumer franchises in history. P&G has blamed its large write-down of the Gillette brand on 'lower shaving frequency' of the younger generation. According to Euromonitor the US men's razor and blades market fell to $US2.2 billion in 2018 from $US2.4 billion in 2015.

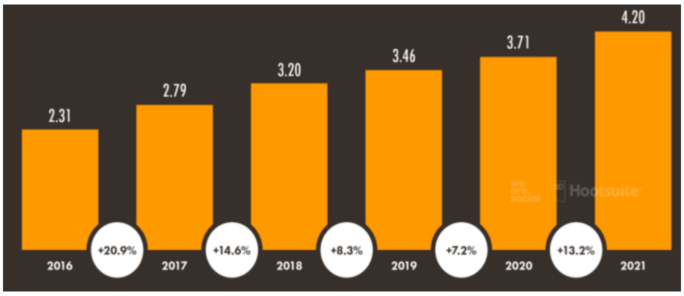


Source: brandt.com.au

Zoomers provide Facebook's tailwind

One of the defining features of Zoomers is that they are the first truly mobile AND electronically socially native generation. A survey by **GlobalWeb Index** shows that Gen-Z spends 2 hours 52 minutes on social media. Despite using multiple platforms, 75% use Instagram as a key platform. **Instagram**, owned by Facebook, operates as the platform to express lifestyles and interests as well as to create shared inspirations. Zoomers also use Facebook for sharing with larger networks of friends as well as family.

Global social media users have almost doubled since 2016, with 1 billion new users added in the past 3 years alone.



Source: Kepios

This provides Insync with continued confidence in our investment in **Facebook** (owner of **Instagram**, **Messenger** and **WhatsApp** platforms).

Facebook is often lobbed into the cohort of over-hyped tech stocks. This is a grave error of classification. It is a highly profitable and sustainable business that continues to grow strongly, despite the perceptions of increased competition and regulation.

The data on Gen-Zers social media habits continues to show that the company has strong tailwinds to deliver sustainable profitable growth in the years ahead.

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Risk Measures – Global Quality Portfolio^

	1 Year	3 Years	5 Years
Standard Deviation	12.95%	13.74%	12.15%
Tracking Error	9.28%	7.21%	6.42%
Information Ratio	-0.15	0.62	0.41
Sharpe Ratio	1.73	1.16	1.22
Batting Average	50.00%	63.89%	56.67%

Risk Measures – Global Capital Aware Fund*

	1 Year	3 Years	5 Years
Standard Deviation	12.86%	12.40%	11.04%
Tracking Error	9.79%	8.39%	7.27%
Information Ratio	-0.55	0.50	0.17
Sharpe Ratio	1.43	1.27	1.22
Batting Average	50.00%	58.33%	51.67%

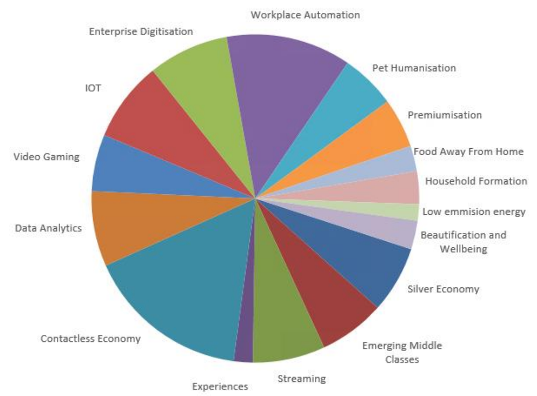
Capture Ratios – Global Quality Portfolio^

	3 Years	Since Incep#
# Index Positive Months	23	87
# Index Negative Months	13	51
Up Market Capture	1.11	0.94
Down Market Capture	0.85	0.64
Capture Ratio	1.30	1.47

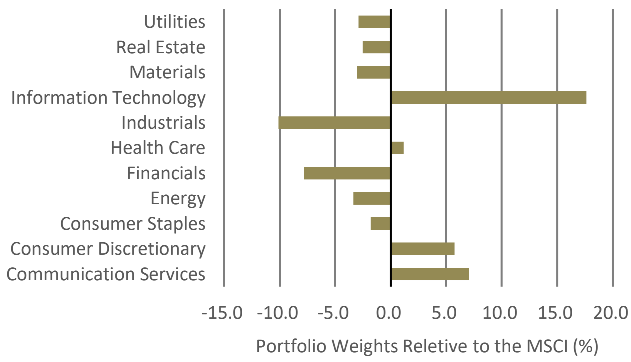
Capture Ratios– Global Capital Aware Fund*

	3 Years	Since Incep#
# Index Positive Months	23	87
# Index Negative Months	13	51
Up Market Capture	0.98	0.80
Down Market Capture	0.62	0.56
Capture Ratio	1.60	1.44

Megatrend Exposures



Portfolio Sector Weights vs MSCI



Top 10 Active Holdings

Stock	%
PayPal	4.6%
Walt Disney	4.4%
Nintendo	4.2%
S&P Global	4.2%
Domino's Pizza	4.1%
Dollar General	3.9%
Facebook	3.9%
Visa	3.9%
Qualcomm	3.6%
Microsoft	3.5%

Key Portfolio Analytics

	Portfolio	Index
Forward PE	30.54	31.17
ROIC	55.87	10.71
Market Cap (USD avg)	434.32	40.90
Market Cap (USD median)	138.52	16.30
Std deviation (ex ante)	14.68	14.81
Net Debt to Equity	52.11	55.81
Total Debt to Ebitda	2.03	4.06

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