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

insync fund managers

July 2021 Update

For Investors That Think

Insync delivered a strong positive return for the month outperforming the benchmark and maintaining the consistency of outperformance since inception. Whilst monthly, quarterly, or even yearly numbers are too short as useful success indicators, Insync's investment strategy has delivered strong investment returns across the vast majority of the investment cycle and time periods. The benefits of investing in the *most profitable companies* with long runways of growth, fuelled by Megatrend tailwinds is undeniably a useful inclusion to most portfolios.

Value stocks short-lived rally is now rapidly fading. Economic data depicts a general slowdown and the concerns around the risks of a 1970s style inflation breakout appears to be abating. This is a positive backdrop for the Insync portfolio of 28 highly profitable companies across 16 Megatrends. They are delivering consistently strong growth both in revenues and profits *irrespective* of what the economic cycle is doing. Again, a good argument for portfolio inclusion.

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Year	5 Years	10 Years	Since Incep#
Insync Global Quality Equity Portfolio ^	4.26%	13.20%	24.02%	28.64%	20.06%	20.53%	18.71%	18.00%	15.15%
Insync Global Capital Aware Fund*	4.23%	12.99%	22.46%	25.28%	20.67%	20.78%	17.50%	15.53%	12.90%
MSCI ACWI (ex AUS) NTR (AUD)~	2.88%	8.94%	18.66%	29.96%	15.89%	14.23%	14.67%	14.80%	12.23%
Global Quality Active Out-Performance	1.38%	4.26%	5.36%	-1.32%	4.17%	6.29%	4.04%	3.20%	2.92%
Global Capital Aware Active Out-Performance	1.35%	4.06%	3.80%	-4.68%	4.78%	6.54%	2.82%	0.72%	0.68%

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

Insync does not hold Chinese stocks. Here's why…

The fundamental principles of governance under communist governments are very different from democratic societies. This is an important factor.

You may have noted that the vast majority of popular global equity funds hold a few crowded China trades such as **Tencent** and **Alibaba**. We do not, and this is deliberate. Why is it useful for those tasked with portfolio construction to know this? Namely, for both risk management and fund blending aspects.

Investing in nations with political attributes such as China requires a holistic understanding of the political regime, its regulatory framework and how this has evolved over time.

We spend considerable effort in understanding the history of China particularly during the Mao Zedong era (1949-1976). There are strong parallels emerging in ideology between Xi Jinping and Mao Zedong. This is fundamental to understanding any investment case for holding a Chinese company.

Many investors wrongly assumed that political freedom would follow new economic freedoms in China. That its economic growth would be contingent upon the same foundations as in the West. China instead devised a hybrid economy and has adopted a distinct development model. It has been highly successful so far. One needs to understand how the Chinese Communist Party rules, and how the state works. Its cultural foundations and history generally, and specifically its history with the West requires understanding. Decisions it makes today and into the future within its businesses, and with those companies and nations outside its borders, are shaped accordingly by this.

Tencent – A no-brainer, or was it?

Tencent exemplifies many of the challenges facing investment in China. Yes, it is a wonderful company. It has a strong competitive advantage. It's highly profitable and possesses a long runway of growth with more than one Megatrend propelling it. Worldwide, there is no parallel comparison to Tencent Holdings.

Tencent's ecosystem spans gaming, ecommerce, music, cloud and artificial intelligence. The US$500 billion tech giant is a collective answer to Facebook, WhatsApp, Spotify, Apple Pay and others.

It met all our financial and management criteria.

Management have been outstanding and when listening to the numerous conference calls and analysing the numbers, it was clear that Tencent was being managed in line with some of the other wonderful investments we have in our portfolio. Valuations also looked attractive, thus Tencent ticked all the boxes.

Overall, our research had us very enthused and the China country specific risk factors were also within acceptable parameters. So, we invested in Tencent in 2018. However, we sold the stock 9 months later in 2019. This is highly unusual for us as we typically have a turnover ratio of around only 20%. Our average holding period is 5 years.

What caused this change in view, and one we have maintained ever since, was that the negative risk factors of Chinese investment accelerated sharply soon after without forewarning. They rose well above the positives. This has not changed today except for it to become significantly worse. Investors, however, are often good at self-deception and are adept at blocking out negative developments if they have a developed a positive view (it is called confirmation bias). This is something we, at Insync, are highly vigilant of in our decisions.

Joining the dots is key

Investing is not only about numbers and stories. To get a complete picture of the potential opportunity and risks involved, investors require a deeper understanding of how the world operates. This requires understanding a broad range of subjects to help join the dots. These subjects range from psychology to history to anthropology, politics, and economics. Insync devotes a large amount of effort to all this.

Dot one…a bit of history. One of the key ideologies of the Mao Zedong era (1949-1976) was that a revolution against capitalists should be won by violence and mass support. As chief of the Chinese Communist Party, he ushered in extreme state control of the economy.

Recognising the colossal damage his policies inflicted on the people, the leaders that followed over the next 35 years progressively pushed through market reforms. They emphasised economic development based on capitalistic principles. They promoted opening up the country for foreign investment and trade and establishing a thriving market-based economy.

This encouraged an explosion in long-held Chinese entrepreneurship (that was initially suffocated by communism). These entrepreneurs were remarkable visionaries driving innovation and building businesses at a gargantuan scale. This resulted in some of the most advantaged companies globally. They includes the likes of Alibaba and Tencent, both in under just 25 years! Again, acceleration of progress came to the fore.

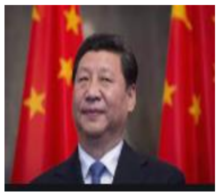
Western capital eager for growth and noting this acceleration rushed in. Huge excitement within the investment community ensued, rarely with anything but a positive lens applied. As a result, many funds now hold sizeable investment positions in both China overall and specifically in these two companies alone. The bigger the manager the more widespread this feature of their portfolio is by in large.

Source: FT.COM

Then came a new **leader with** old **ideas…**

Xi Jinping is the 5th man to rule the People's Republic of China. The first that was born after the revolution, in 1949. In researching him, even though his style was technocratic, it was progressively becoming clearer to Insync that he was rejecting decades of market economy reforms.

He was starting to reassert the power of the Communist Party and narrow controls within the economy as well as society. One crucial aspect was the redirecting of Chinese business focus inward.



Insync's considerable time spent researching the Mao era and strong parallels in ideology alerted us to Xi Jinping's likely style of similar increasing control.

Xi's influence on the big tech companies became clearer when it was announced in November 2018 that Jack Ma, co-founder of China's most valuable company, was officially confirmed as a member of the communist party. The lines between business and politics were starting to become increasingly hazy. A concerning trend of disappearing billionaire CEOs from public life began. As President, Xi Jinping led a campaign to ensure the Communist Party plays a leading role across *all* aspects of society.

Insync is a pragmatic investor. Our political views do not come into the decision-making process. The investment rationale for a buy or sell decision include how companies in China are likely to be regulated and controlled compared to other parts of the world.

The country is steeped in rich tradition, has the world's largest population and is a nation of incredibly hard-working people. However, these are not pre-requisites for a successful enduring investment environment alone. The significant downside risks were clear as events accelerated. Our discipline led us to **exiting our position in Tencent over 3 years ago.** We have held no Chinese stocks since then.

China is not an investable proposition today

China's latest five-year blueprint called for greater regulation of vast parts of the economy. It provided a sweeping framework for the broader crackdown on key industries such as technology, cybersecurity, food, medicine, education, and financial services.

The examples of its impact are many……

The acceleration of political controls and the significant investor losses of increasing control can be clearly observed. The scuppering of the **Ant Financial IPO** at the last minute, and the investigation into data security at **Didi Chuxing**, China's biggest ride-hailing company listed on the NYSE. This was only a month after its listing in June 21. A further example was banning *for-profit* tutoring in core school subjects. This led to a 70%+ fall in the share price of the leading player, **TAL Education**. No sector is safe and little warning is given.

As disciplined pragmatic investors we ask ourselves a simple question. Compared to other places to invest our client's capital, are these accelerating risks worth it? Can other good opportunities without these severe risks be found elsewhere?

When Amazon loses a $10b government contract, they can sue the government. Legal process is applied. But companies and investors can do little against the Chinese government. "What are we supposed to do? We can't fight the Communist party" — says one Ed-tech executive *(Financial Times).*

Being a great company with sound tailwinds is not enough. The environment for their investors must also be supportive.

The bottom line for our investors is that after the most recent actions by the Chinese government, China will be off limits to us for at least the next three to five years until it becomes clear how China will interact with foreign investors positively.

There are plenty of 'outstanding' investment opportunities outside of China without incurring these large risks. It means sometimes diverging from the popular view and from the herd. This is nothing new to us at Insync.

In terms of blending arguments, Insync is one of the few managers with this position on China. Insync's differentiated approach make us an ideal blending partner with the larger more popular funds in client portfolios. Additionally, this approach to China is another example of the focus that we place on risk management.

Megatrend in focus: Silver Economy

The ageing of the world population has been a well understood trend for over a decade but how does one successfully invest in this trend?

Broad trends are quite often easy to identify but what is much harder to do is identify specific industries and companies that are going to economically benefit from these trends and deliver compound annual returns for shareholders over the long term.

Genomics or heart disease? A key insight from Insync's work on the ageing population is the projected rate of growth in the 70-75 age bracket. This is the fastest growing five-year age bracket for all people over the age of 55 for the next 15 years and beyond. The proportion of people of this age that develop heart related issues are astronomical.

In 2017, of all deaths for people over the age 70, 43% were caused by cardiovascular disease. This is 2.6x the number of the next largest *cause of death* which is cancer. A major issue for this age cohort is that many patients are unable to undergo open heart surgery as the risks are too high for many.

The Heart – an age-old problem where the demand is accelerating

The heart is a highly focused organ. It has just one job to do, and it does it supremely well. It beats. Slightly more than once every second; that's 100,000 times a day and as many as three and a half billion times in a lifetime. It rhythmically pulses to push blood through your body and recycle it. And these aren't gentle thrusts, they are jolts powerful enough to send blood spurting up to three meters if the aorta is severed.

Advances in medical procedures for the heart has been one of the success stories of modern medicine. The death rate from heart disease has fallen from almost 600 per 100,000 in 1950 to only 168 per 100,000 today. As recently as 2000, it was 257.6 per 100,000. Yet it is still the leading cause of death. In the United States for example, more than 80 million people suffer from cardiovascular disease.

The cost to the US alone of treating heart disease has been put as high as US$300 billion a year. If left unchecked cardiovascular disease costs are projected to exceed US$1 trillion by 2035 according to the American Heart Association.

The combination of a rapidly ageing population and the escalating burden on healthcare systems allow companies that are treating heart disease to be significant economic beneficiaries. A market that is already very large today will become significantly larger and at a faster rate in the decades to come.

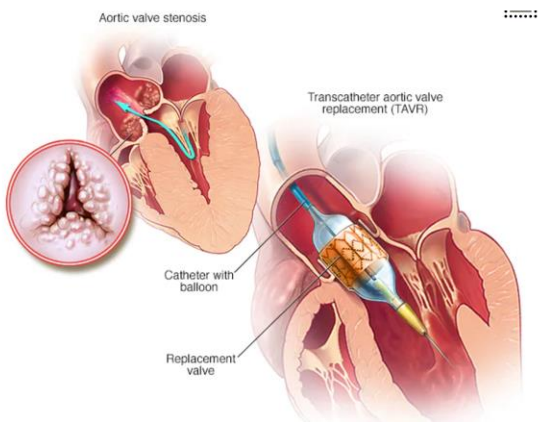
Innovation - one key that identifies winners

The key to bringing down the costs of expensive heart surgery is innovation. Companies that successfully innovate benefit from greater demand for their products and often achieve strong pricing power.

Insync has identified a successful innovator that is both highly profitable and a market leader in a procedure that is proving to be successful as a replacement for open heart surgery in the over 70s. Transcatheter Aortic Valve Replacement (TAVR) is a procedure to treat aortic stenosis (AS):

Aortic stenosis is a thickening, a stiffening, and a calcification of the aortic valve. So, the valve doesn't open appropriately

In a TAVR procedure, doctors insert a catheter in your leg or chest and guide it to your heart. A replacement valve is inserted through the catheter and guided to your heart. A balloon is expanded to press the valve into place. Some TAVR valves are self-expanding.



Source: https://www.mayoclinic.org/tests-procedures/transcatheter-aortic-valve-replacement/about/pac-20384698#dialogId50785633

In comparison to surgical procedures, TAVR has a higher survival rate (99%), lower rate of stroke, bleeding, and other complications.

General anaesthesia is not necessary in the procedure and most patients leave after just an overnight stay. This provides a significant cost saving as hospital surgery, anaesthesia and costs of stay are significant burdens to healthcare systems.

It takes time for the right company to appear.

Like many new and exciting technologies, it has taken time. Over 15 years in fact, for the market to start adopting TAVR to a level where the companies pioneering the technology become highly profitable and industry leaders.

Insync's record of successfully investing in Megatrends matches a combination of high and accelerating adoption rates, with a leading player beginning to dominate in one of its primary business sectors. This results in businesses which are both highly profitable and can grow sustainably at high levels over extended periods of time.

Insync's investment focus is on both Megatrends *and* **profitability**

Many healthcare and innovation investors have focused on genomics and gene editing. Afterall, it's emerging and exciting- the possibilities are immense.

Insync however considers this technology to still be in the 'hype phase' of its investment cycle. The pathway to identify future profitable winners is still highly uncertain and that adds significant risks to investors. Investing in the innovative treatment of the heart is a more assured way to grow your wealth (and health).

Not all innovation however leads to profitable growth in a company. Having the right methods to then assess which company, if any, can harvest a Megatrend and possesses the right financial and market position is equally as important. Simply holding a 'sector bet' across many stocks (e.g., with a passive ETF) in a sector such as healthcare presents additional and heightened risks, that Insync investors do not have to bear.

Manage the risk well with multiple Megatrends

Insync currently invests in 28 highly profitable companies across 16 Megatrends. Our Silver Economy Megatrend is just one of many non-technology-based Megatrends in the portfolio.

The benefits of investing in a diversified portfolio of technology and non-technology Megatrends is that it clearly delivers consistently strong returns with lower risk. This complements other investment styles in a portfolio of funds. Invest with Insync.

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July 2021 Statistical Monthly Update

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MSCI ACWI (ex AUS) NTR (AUD)~	2.88%	8.94%	18.66%	29.96%	15.89%	14.23%	14.67%	14.80%	12.23%

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

Risk Measures – Global Quality Equity Portfolio^

	1 Year	3 Years	5 Years
Standard Deviation	13.88%	14.75%	12.63%
Tracking Error	9.86%	7.59%	6.91%
Information Ratio	-0.13	0.83	0.62
Sharpe Ratio	2.05	1.34	1.41
Batting Average	50.00%	63.89%	58.33%

Risk Measures – Global Capital Aware Fund*

	1 Year	3 Years	5 Years
Standard Deviation	13.68%	13.51%	11.62%
Tracking Error	10.27%	8.70%	7.63%
Information Ratio	-0.45	0.75	0.37
Sharpe Ratio	1.84	1.48	1.41
Batting Average	50.00%	61.11%	53.33%

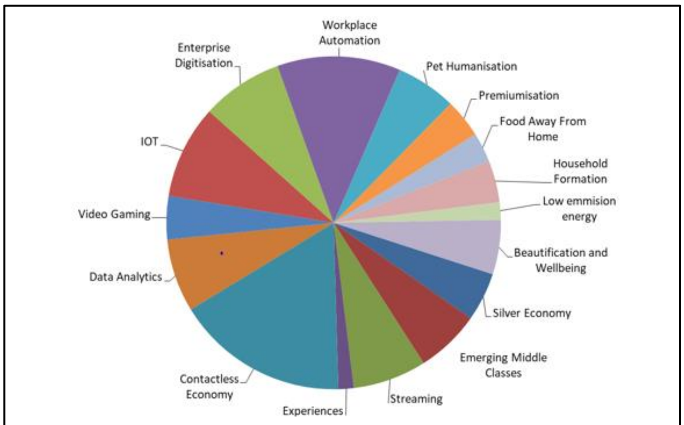
Capture Ratios – Global Quality Equity Portfolio^

	3 Years	Since Incep#
# Index Positive Months	24	91
# Index Negative Months	12	51
Up Market Capture	1.20	0.97
Down Market Capture	0.94	0.64
Capture Ratio	1.28	1.51

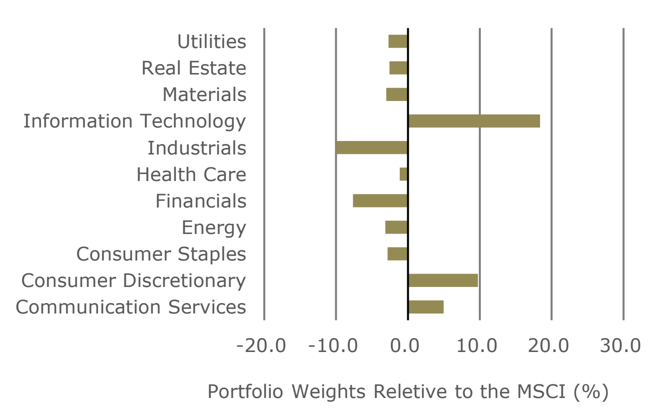
Capture Ratios– Global Capital Aware Fund*

	3 Years	Since Incep#
# Index Positive Months	24	91
# Index Negative Months	12	51
Up Market Capture	1.10	0.83
Down Market Capture	0.69	0.56
Capture Ratio	1.60	1.50

Megatrend Exposures



Portfolio Sector Weights vs MSCI



Top 10 Active Holdings

Stock	%
Domino's Pizza	4.8%
S&P Global	4.2%
Facebook	4.1%
Qualcomm	4.0%
Qorvo Inc	3.8%
Dollar General	3.8%
NVIDIA	3.7%
Apple	3.7%
Visa	3.6%
PayPal	3.5%

Key Portfolio Analytics

	Portfolio	Index
Forward PE	30.33	31.70
ROIC	65.53	13.57
Market Cap (USD avg)	532.09	45.46
Market Cap (USD median)	140.69	18.05
Std deviation (ex ante)	16.82	14.35
Net Debt to Equity	146.15	51.93
Total Debt to Ebitda	1.65	3.44

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