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

December 2020 Quarterly Update

	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	10 Years	Since Incep#
Insync Global Capital Aware Fund*	-0.07%	-0.54%	7.68%	19.72%	26.07%	18.45%	13.62%	13.81%	11.96%
Insync Global Quality Equity Portfolio ^	0.05%	0.52%	9.77%	15.43%	25.85%	18.40%	14.94%	16.40%	14.22%
MSCI ACWI (ex AUS) NTR (AUD)~	-0.10%	6.39%	10.61%	6.04%	15.99%	10.65%	11.00%	12.40%	11.18%
Global Capital Aware Active Out-Performance	**0.03%**	**-6.93%**	**-2.92%**	**13.68%**	**10.08%**	**7.79%**	**2.62%**	**1.41%**	**0.78%**
Global Quality Active Out-Performance	**0.15%**	**-5.61%**	**-0.83%**	**9.39%**	**9.87%**	**7.75%**	**3.94%**	**4.00%**	**3.03%**

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

Quarterly Commentary

We are pleased to report strong outperformance of both the funds in 2020 which is consistent with Insync's 10 year plus history.

This quarter witnessed a typical *rotation* into neglected industry sectors (e.g. banks, energy & cyclicals) on the news of COVID-19 vaccines. This held back our quarterly numbers. Despite the impact on markets by neglected stocks' meteoric rise, our funds remained largely flat. Neglected sectors outperformance is primarily due to exuberant expectations of much higher growth (from vaccines) and inflation views for the near term. Over reaction to events like this is typical and temporary.

There are major headwinds to a sustained and significant increase in inflation beyond the sub 2% range it has occupied for most of the last decade. Also, many neglected sectors are encountering significant disruption risks, which we believe many investors have lost sight of. Thus, they present significant additional investor risk in attempting to catch the 'reflation' trade.

Resilience Matters

Megatrends have proved resilient to the Covid-19 fallout. In fact, the crisis has *accelerated* many existing long-term trends:

- move to e-commerce.
- uptake of contactless payments
- expansion of cloud-based services
- collision of biological science technology
- transition from carbon energy to electric.

These are all fundamental – and permanent – shifts that were stimulated by the coronavirus crisis. Such resilience has not come as a surprise to us. Megatrends are generally not determined by short-term or periodic shocks, even if these are significant in nature, such as Covid-19.

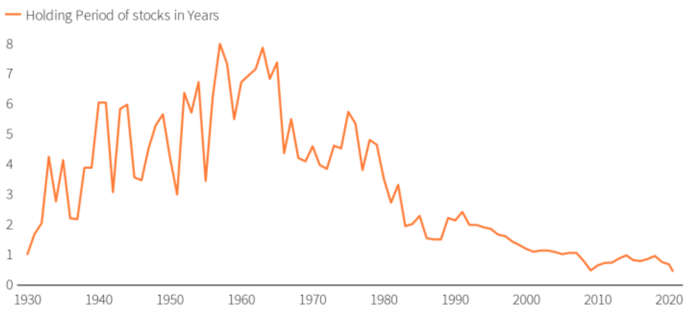
Preparing for the future entails more than just tactically adjusting to short term market developments (e.g. V or K-shaped recovery in 2021). It requires a vision of how the longer-term future is unfolding and building an investment portfolio through clear-cut positioning choices. This is what Insync is doing with your money by investing in 30 stocks across 16 global Megatrends.

Positioning Choices. "It's all about the long-term so we don't have to trade."

The benefit of Insync's focus on long-term Megatrends holding a *low turnover stock portfolio* of their most profitable beneficiaries, is reflected in the fact that only a small fraction of stocks account for the majority of market returns since 1926.

Our low 20% stock turnover average for 10 years means the average company holding period is 5 years. This contrasts with many of our peers and delivers a significantly higher probability of achieving our investment outcomes than resorting to much riskier 'trading' of our peers. This is reflected by the falling industry average holding period of less than 1 year.

Shrinking times



Source: NYSE, Refinitiv

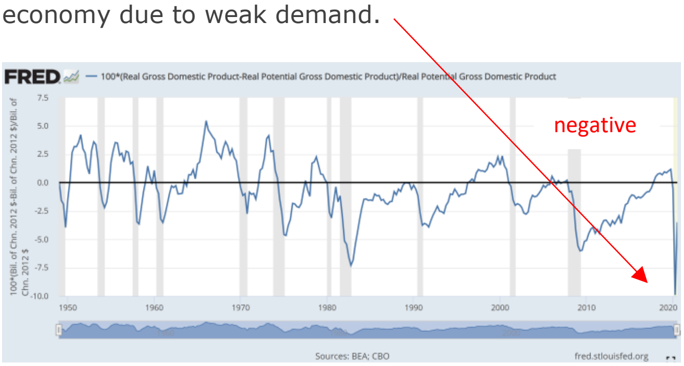
Secular Headwinds To Inflation & Growth

Part of the rotation into cyclicals, the 'reflation' trade, has been driven by a greater consensus around a pick-up in growth and inflation. Insync's believes that it is **premature to worry that the low-inflation regime of past decades will end anytime soon**. However, the eventual excessive rise of inflation is a tail risk that needs monitoring. Whilst a pick-up in growth and inflation is normal when coming out of a recession, this does not mean we are now necessarily moving into a high inflation environment. There are structural factors that need to be overcome first.

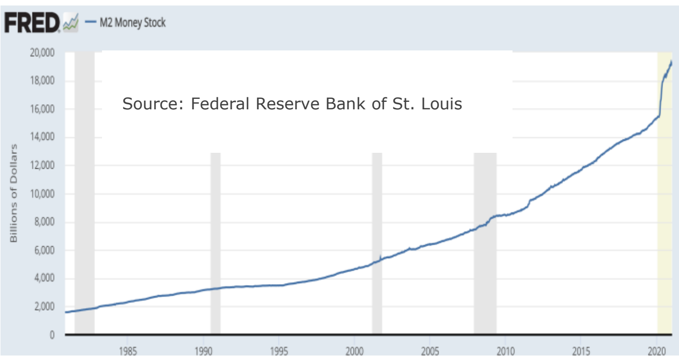
Inflation /reflation trades - It's about supply and also demand. After a decade of proven industry forecasting futility, our sense is that the Fed will wait to see a major outbreak of inflation before raising rates. Other central banks will likely take the same approach.

The reasoning is because there are significant headwinds to much higher inflation the market is not accounting for;

1.The output gap; measures unused labor and industrial capacity. Its large and negative everywhere but China. A *positive* output gap occurs when actual output is more than full-capacity output. A *negative* output gap occurs when actual output is less than what an economy could produce at full capacity. A negative gap means that there is spare capacity, or slack, in the economy due to weak demand.



2. Rapid growth in money supply has <u>not</u> resulted in rapidly rising inflation. Rapid growth in money supply can lead to high levels of inflation because there is too much money available to buy the same amount of goods and services produced in the economy.



3. This is because the velocity of money has fallen significantly. *Velocity of money* measures the rate at which money is exchanged in an economy; being the number of times that money moves from one entity to another. If for some reason money velocity declines rapidly during an expansionary monetary policy period, it can <u>offset the increase</u> in money supply, even leading to deflation, not inflation.

Unless central banks can find a way to encourage banks to lend more aggressively, the *velocity of money* will remain a headwind to the 'reflation' trade.

Insync remains focused on the long-term goal, not the short-term 'reflation' trade. This means sometimes we will under-perform. We refrain from boosting the short-term result by trading. This is important for our investors as only a small fraction of stocks is likely to account for the majority of market returns going forward, should it follow the historical pattern dating back to 1926.

cities-today.com

Megatrend in Focus: 5G – Enabling the 4th Industrial Revolution

The 1st Industrial Revolution was about coal, water, and steam, bringing with it the steam engine and innovations that enabled the large-scale manufacturing of goods and products. Its impact on civilisation was immense.

The 4th Industrial Revolution is no different. The World Economic Forum phrased it as one of "cyber-physical systems" – that is, the merging of the capabilities of both human and machine. This is the era of artificial intelligence, genome editing, biometrics, renewable energy, 3D printing, autonomous vehicles, ushering in the age of smart cities, smart energy and the Internet of Things. The advent of 5th-generation (5G) wireless technology is at its core.

5G powers 100x the devices at 100x the speed at just 1/10th the energy.

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5G's speed, data volume and low lag time allows millions of connected devices to continuously communicate with each other and adjust their responses in real time. This explodes the boundaries of what can be achieved in almost any industry. **Devices using 5G is forecast to grow to US$668 billion** globally in 2026 from US$5.5 billion this year.

At an immediate household level, 5G significantly improves things such as downloading a full-length HD movie to your phone in just seconds; or really cool things such as greater realism in VR, AR and extended reality (XR). Lighter devices providing a more immersive entertainment experience is another example.

Profound impacts of 5G are in advancing societies by improving safety and sustainability. Examples include:

- **Smarter electricity grids** for greatly reduced carbon emissions
- **Connected vehicles** sharing data to prevent road collisions.
- **Faster, more efficient deployment of emergency services** to accidents
- **Connected sensors detecting** and warning of natural disasters much earlier.
- **Emergency responses by Drones** becoming a key tool to accelerate and support responses.
- **Remote expertise with specialists** smoothly consulting/diagnosing patients without travel and overcoming isolation whilst expanding choice and lowering costs.

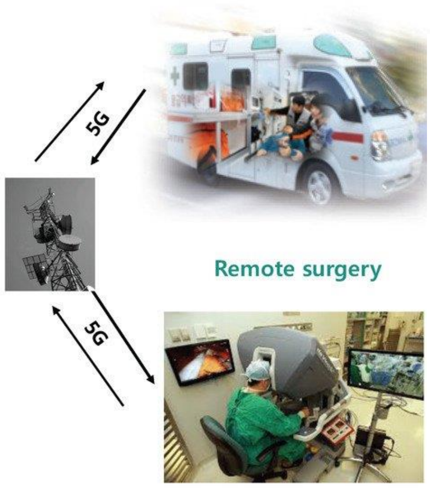
Case Study - Better Emergency Support in a 5G Smart City (provided by Digi International)

During the pandemic, many hospitals became overwhelmed due to Covid-19. In some cases, hospitals had to turn away patients for lack of ICU space. Being unable to admit a patient to an ICU promptly endangers patients and disrupts normal hospital routines.

Some cities have started to experiment with smart cities technologies to support better healthcare. In a smart city, after an ambulance picks up a patient who needs urgent care, a nearby hospital would be informed automatically about the patient's condition and the estimated arrival time.

That information enables the hospital's emergency team to quickly get ready. If there is no ICU bed available, the ambulance would have been warned, and the system automatically re-routes the ambulance to the next available hospital without stopping. If electronic health records (EHR) are installed, the hospital would know the patient's condition before arrival and have the right medical setup ready. By knowing information in advance about any allergies to medicines or materials, the medical team can prepare with less last-minute scrambling.

Furthermore, in a smart city the ambulance is guided through traffic using Computer Aided Dispatch (CAD) and Advanced Vehicle Location (AVL). Smart traffic lights – today controlled with 4G LTE adaptive traffic control and ultimately controlled by 5G – will automatically be synchronized allowing the ambulance to pass while stopping other traffic, saving time and increasing safety.



Imagine….

When time is crucial, a patient in an ambulance may now undergo life-saving surgery whilst still in the ambulance.

This is something that is otherwise un-doable until now.

Insync's approach to investing in the 5G Megatrend

We have been monitoring the development of 5G for several years. Whilst the emergence of the technology has been well understood for several years, and television has bombarded us with 5G commercials for a while now, Insync invested when it became clear that the trend is **clear, large, durable**.

One where highly profitable companies exist, are well positioned, and will benefit from the Megatrend. 2020 was a watershed year for Insync to participate in the 5G Megatrend. Knowing when to get in, via what way, and finally into which company(s) is important for returns.

5G will further positively impact many of our existing companies driven by other Megatrends already. Think of 5G in this context as a further enabler or accelerant.

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Risk Measures – Global Quality Portfolio^

	1 Year	3 Years	5 Years
Standard Deviation	16.42%	13.49%	12.12%
Tracking Error	8.16%	6.75%	6.25%
Information Ratio	1.15	1.16	0.65
Sharpe Ratio	0.91	1.30	1.13
Batting Average	75.00%	69.44%	58.33%

Risk Measures – Global Capital Aware Fund*

	1 Year	3 Years	5 Years
Standard Deviation	13.88%	12.12%	11.15%
Tracking Error	9.98%	7.89%	7.34%
Information Ratio	1.37	0.99	0.36
Sharpe Ratio	1.39	1.44	1.10
Batting Average	75.00%	63.89%	53.33%

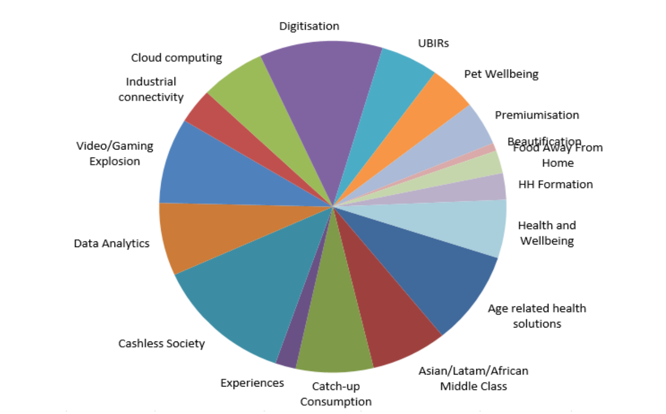
Capture Ratios – Global Quality Portfolio^

	3 Years	Since Incep#
# Index Positive Months	21	84
# Index Negative Months	15	51
Up Market Capture	1.23	0.97
Down Market Capture	0.80	0.64
Capture Ratio	1.54	1.51

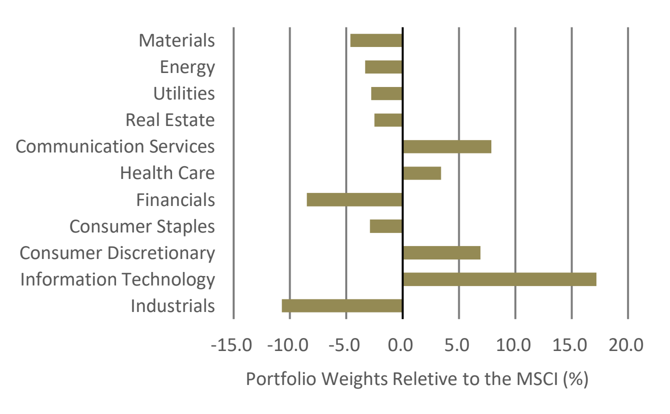
Capture Ratios– Global Capital Aware Fund*

	3 Years	Since Incep#
# Index Positive Months	21	84
# Index Negative Months	15	51
Up Market Capture	1.11	0.82
Down Market Capture	0.58	0.56
Capture Ratio	1.91	1.48

Megatrend Exposures



Portfolio Sector Weights vs MSCI



Top 10 Active Holdings

Stock	%
Nintendo	4.9%
Walt Disney	4.6%
Domino's Pizza	4.3%
PayPal	4.3%
Dollar General	4.2%
Qualcomm	4.2%
Visa	4.1%
S&P Global	4.0%
Facebook	3.6%
Nvidia	3.3%

Key Portfolio Analytics

	Portfolio	Index
Forward PE	33.36	41.20
ROIC	58.68	10.83
Market Cap (USD avg)	365.52	39.19
Market Cap (USD median)	116.77	14.17
Std deviation (ex ante)	15.53	14.28
Net Debt to Equity	74.84	69.93
Total Debt to Ebitda	2.24	4.53

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