Warakirri Ethical Australian Equities Quarterly Fund Profile

30 June 2020

Warakirri ASSET MANAGEMENT

INVESTMENT OVERVIEW

The Warakirri Ethical Australian Equities Fund offers investors with access to a diverse selection of between 25 to 40 high-quality Australian shares, managed by one of Australia's specialist equity management teams. The underlying investment manager, Northcape Capital seeks to invest in sustainable, high quality companies with attractive valuations listed on the Australian Securities Exchange (ASX), whilst ensuring the portfolio is compliant with the Warakirri Ethical Overlay:

- **Positive Overlay:** Investment in companies that operate sustainable businesses that exhibit sound practices across: Environmental, Social and Governance.
- **Negative Overlay:** Warakirri excludes investment in companies that have significant businesses in the following industries: Gaming Products/Services, Tobacco Products, Alcoholic Beverages, Military Applications, Obesity and Thermal Coal & Coal Seam Gas Extraction.

PERFORMANCE SUMMARY – NET OF FEES

Performance Period	1 month	3 months	FYTD	1 Year	3 Years (p.a)	5 Years (p.a)	10 Years (p.a)	Since Inception (p.a)*
Before-Tax								
Fund	+2.6%	+17.2%	-9.6%	-9.6%	+2.3%	+2.6%	+6.1%	+10.8%
Benchmark^	+2.4%	+16.8%	-7.6%	-7.6%	+5.2%	+6.0%	+7.7%	+9.0%
Relative Return (Before-Tax)	+0.2%	+0.4%	-2.0%	-2.0%	-2.9%	-3.4%	-1.6%	+1.8%

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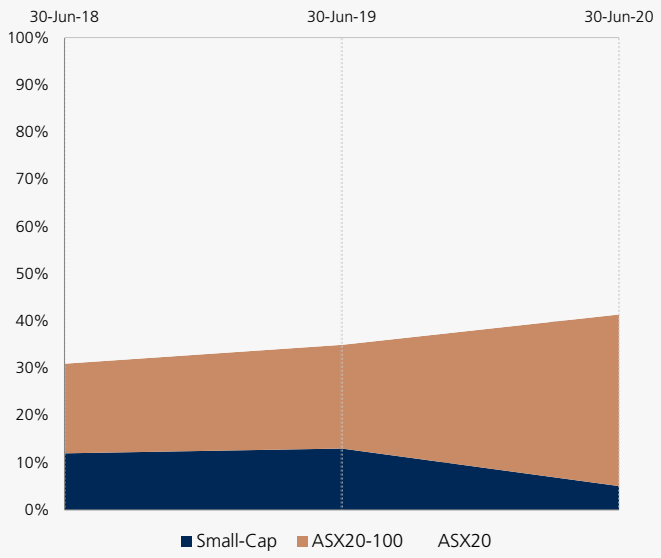
Benchmark^	+2.4%	+16.6%	-6.4%	-6.4%	+6.8%	+7.6%	+9.4%	+9.0%
Relative Return (After-Tax)	+0.2%	+0.4%	-1.4%	-1.4%	-1.6%	-2.6%	-1.1%	+1.8%

^ Benchmark is the S&P/ASX300 Accumulation Index. The after-tax benchmark has been calculated using the tax status of Tax-Exempt (0% tax rate).
* Fund inception date was 1 June 1993. **Since inception returns are before-tax, franking credits are not included.**

MARKET CAPITALISATION EXPOSURE



FUND SNAPSHOT

Key Information	
Investment Type	Long only, Australian equities
Investment Style	Active
Benchmark	After-tax benchmark based on the S&P/ASX300 Accumulation Index
Investment Objective	Outperform benchmark net of fees and after tax over the long-term
Trust Size	$253,059,138
Underlying Investment Manager	Northcape Capital
Stocks Held	35
Distributions	Income Quarterly, Capital Annually

Signatory of:

PRI Principles for Responsible Investment

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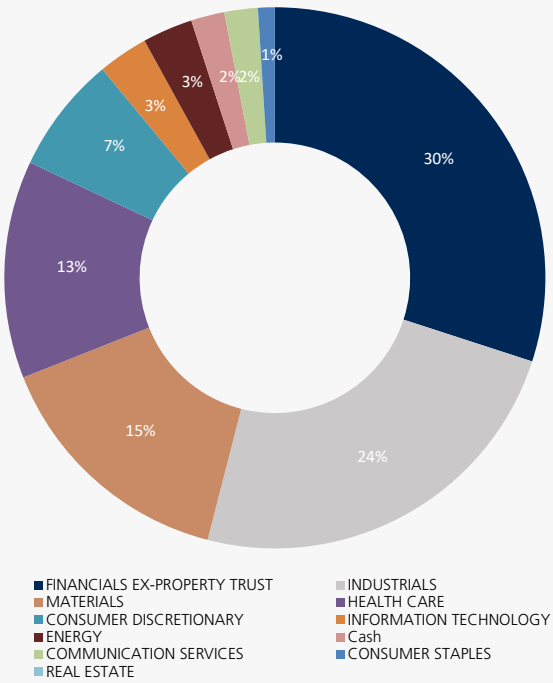
TOP 10 HOLDINGS

Security		Fund
BHP	BHP Billiton Ltd	8.8%
TCL	Transurban Group	8.8%
CSL	CSL Limited	8.5%
MQG	Macquarie Group Ltd	6.9%
CBA	Commonwealth Bank	6.3%
QAN	Qantas Airways	4.6%
WBC	Westpac Banking Corp	4.2%
ASX	Australian Stock Ex	4.0%
WES	Wesfarmers Ord	3.8%
MPL	Medibank Private Ltd	3.3%
Total		59.2%

INDUSTRY EXPOSURE



PORTFOLIO ATTRIBUTION

Top five contributors to relative performance

Security Name	Sector	Return	Average Active Weight	Contribution
Macquarie Group	Financials ex Property	40.7%	4.2%	+0.9%
James Hardie	Materials	48.8%	2.5%	+0.8%
Seek Ltd	Industrials	47.6%	2.1%	+0.6%
Telstra *Not Held*	Comm Service	2.0%	-2.4%	+0.4%
Woolowrths *Not Held*	Consumer Staples	6.2%	-3.0%	+0.3%

Top five detractors to relative performance

Security Name	Sector	Return	Average Active Weight	Contribution
Afterpay Touch Group *Not Held*	Information Tech-nology	224.4%	-0.5%	-0.6%
Sydney Airport	Industrials	1.5%	2.9%	-0.4%
Insurance Australia Group	Financials ex Property	-7.0%	1.4%	-0.3%
Brambles	Industrials	3.0%	1.7%	-0.3%
Newcrest Mining *Not Held*	Materials	36.8%	-1.5%	-0.3%

PORTFOLIO INCOME YIELD - FY19/20

WEAE Yield FY2019/20	
Income Yield	4.3%
Franking Credit Yield	1.6%
Total Grossed-Up Yield	5.9%

PERFORMANCE – RISING & FALLING MARKETS

Market	Total Months	Outperformed Months	Underperformed Months
Rising	209	101	108
Falling	116	77	39
Total	325	178	147

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FINANCIAL YEAR MARKET REVIEW

On a before-tax basis the S&P/ASX 300 Accumulation Index (Index) returned +16.8% during the June quarter, resulting in a -7.6% return for the 2019/20 financial year (FY20). It was another case of time in the market, not timing the market as the June quarter return was the strongest since September 2009 which assisted in reclaiming some of the sharp declines from March quarter. Chart 1 below displays the monthly and cumulative performance of the Index during FY20.

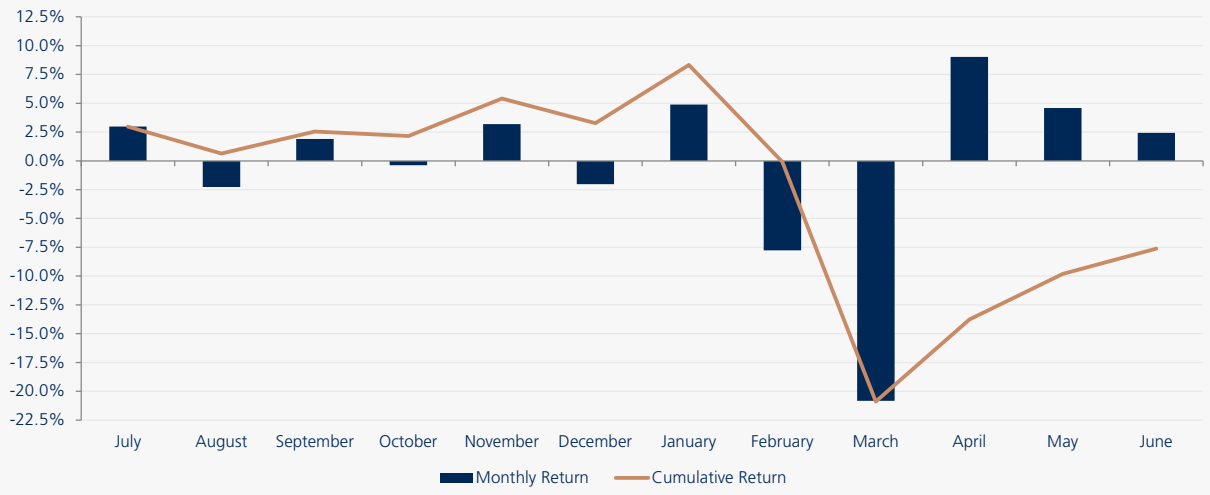
The S&P/ASX 100 Index (-7.8%) underperformed the S&P/ASX Small Ordinaries Index (-5.7%) for FY20. The worst performing sectors were Energy (-29.4%), Real Estate (-22.8%) and Financials (-21.2%). The Financials sector detracted the most (-7.0%) from the Index return during the year.

This sector had a starting weight of over 31% and finished the year at just under 27%. Much of the decline was driven by the 'Top 4' banks with all four underperforming the market. Westpac was the worst performing of the 'Top 4', down 33.9% and Commonwealth the best, down 10.9%. The banks share prices were impacted by the uncertainty created by COVID-19 on potential bad debts, squeezed margins from low interest rates and the ability to maintain dividends. CSL (+34.9%) contributed significantly to the Health Care sector delivering the best performance of +27.3%, followed by Information Technology (+19.7%) and Consumer Staples (+12.0%).

FY20 resulted in the first negative financial year return since June 2012. Despite this negative FY20 return, the Index has returned 6.0%p.a., 7.5%p.a. and 7.7%p.a. for the past five, seven and 10 years respectfully. During this volatile year, investors have experienced a strong bull market with record levels reached in February, to the fastest bear market in history in March, and back to a bull market to conclude the year! To put this into perspective, the Index one-year return to January 2020 was +25.0%. From the 20 February high to 23 March the Index fell a staggering -36.2%. Since the low, the Index to 30 June has increased +30.6%. There have been a number of likely contributing factors to the strong recovery including global fiscal and monetary stimulus, hopes of a COVID-19 vaccine and the anticipation that there will be a V-shape recovery. This optimism is despite record new COVID-19 daily cases from the US and a surge in new community transmission in Melbourne suburbs.

No doubt the black swan event of COVID-19 has been a testing time both personally and financially for all of us. This has come quickly after the bushfire devastation that large parts of the country experienced during our summer months. Many Australian's are now facing their first recession, since the recession of 1991. In an attempt to dampen the negative effects this has had on the economy, the Australian government (and many overseas governments) is providing fiscal stimulus to support the economic fallout of COVID-19. On the back of this stimulus the June Reserve Bank of Australia (RBA) minutes noted there are early signs of economic recovery.

Chart 1: S&P/ASX300 Accumulation Index Monthly and Cumulative Returns



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FINANCIAL YEAR MARKET REVIEW (Continued)

The monetary response has also been significant. The RBA has reduced the official cash rate to 0.25%. The official cash rate started the year at 1.25% and the RBA decreased this rate by 0.25% four times over the year in July, October and twice in March. The consistent commentary from the RBA is that rates will be lower for longer. Market commentary suggests the low rates for term deposits may be causing some investors to move into equities to obtain a higher yield from fully franked dividends. Although some companies have cut or cancelled their dividends in the short term, the estimated forward 12-month yield for the Index is 3.4%. This estimated yield is lower than the longer-term average yield but higher than cash given the risk associated with equities.

The Australian dollar hit an 18-year low in late March of just above US$0.57 before a strong recovery (+20%), almost back to where the currency started the financial year. The strong rebound can be partially attributed to the fiscal stimulus from China which has a strong focus on infrastructure. This benefits the bulk commodity price for Australia's key export, iron ore. The price of iron ore has been resilient over the year with the price closing just above US$100/mt for FY20 as Brazil's supply continues to be impacted by COVID-19. The other driver of the strong appreciating Australian dollar is the US dollar depreciation since late March against a basket of US major trading partners. Market commentary suggests the US, European and Japanese central banks may continue to provide unorthodox monetary stimulus which may drive their currencies lower.

FURTHER INFORMATION

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