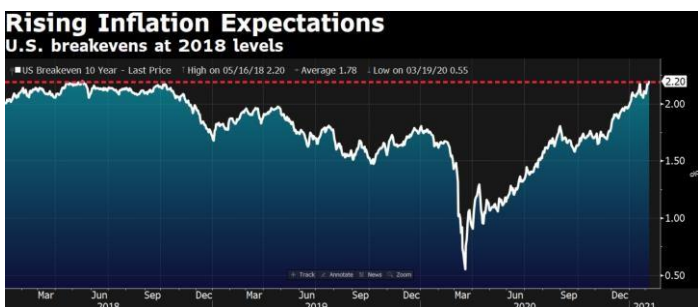


This report has been prepared by Northcape Capital, the underlying investment manager for the Warakirri Ethical Global Equities Fund.

Market Review

The MSCI World index finished the month down 1% in USD or -0.43% in AUD terms. The first material development was the surprise Democratic win of both senate seats for the Georgia senate run-off elections which resulted in a Democratic sweep in both the House and Senate. The result was 50-50 senate seats to the Democrats and Republicans which in the event of a tie, the Vice President gets a single vote meaning the

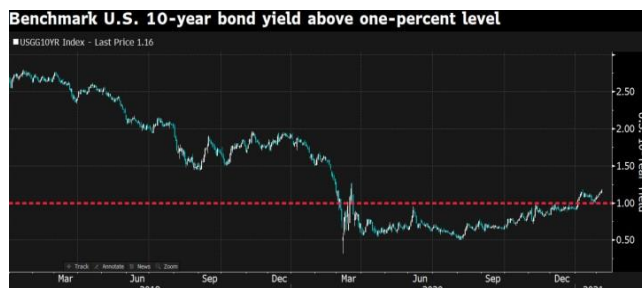
Democrats have a slim 51-50 majority. This is significant as a Republican controlled senate could have used their veto power to not pass bills into law for instance. The implication for markets of this Georgia outcome is that of further fiscal stimulus support and greater support for the “Green new deal” and the associated winners in renewable energy. The US Government bond also spiked up to a high of around 1.2% during the month along with rising inflation expectations.



Source: Bloomberg

Higher expectations of US growth (and inflation) as a result of the “blue sweep” saw a step in that direction a week after the Democratic senate win with the Biden administration proposing a US\$1.8tn “American Rescue Plan” which is on top of the most recent bi-partisan US\$900bn stimulus agreed in December 2020. We took a relatively neutral stance in our portfolio positioning leading up to the US election result which we saw as a binary event that we do not have an edge in predicting.

The final outcome is however likely to be inflationary, in which case we have a number of stocks that are relatively inflation proof/benefit from inflation. These include Visa and PayPal which have little in the way of physical fixed assets employed and also benefit from having differing degrees of their revenue line items linked to transaction value. The renewable energy sector is another key beneficiary though the sector has already had a material run over the past 1-2 years – we are looking to selectively add names to our approved list this year where the risk/reward makes sense.

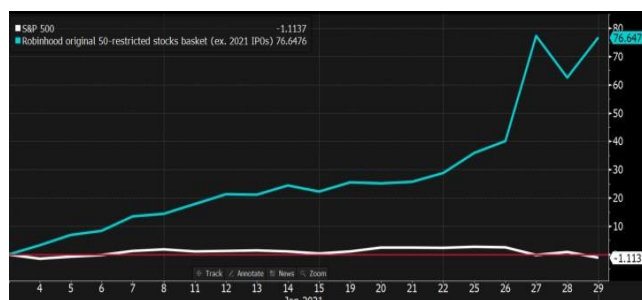


Source: Bloomberg

In other geopolitical news there was the storming of the US capital and associated protests which will surely go down in the history books. Another noteworthy event in the US was also the Wallstreetbets Reddit group where millions of retail stock traders banded together to engineer a massive short squeeze on a small group of heavily shorted stocks such as GameStop, AMC Entertainment and BlackBerry. This forced some hedge funds to cover their short positions while selling some of their long positions to fund margin calls for the short positions that went materially against them.

While it was interesting to watch from the sidelines as these “meme” stocks took off vertically for a short period of time and then subsequently came crashing back down to reality in February, we stand by our tried and tested investment process at Northcape of looking at our 5 quality characteristics and not chasing the latest investment fad such as this, which we are happy to stay well away from.

Return of a basket of 50 popular Robinhood trading platform stocks was +76.6% in January vs S&P 500 -1.1%



Source: Bloomberg

Amazingly GameStop on 26th January was the most traded stock in the world by dollar value at just over \$20bn which is quite a feat for a \$5-10bn market cap stock at the time.

Most actively traded stocks for 26th January 2021

Volume	Chg Up	Chg Down	Value	Δ AVAT	52wk Highs
Security	Last	%Chg	Value	Val 5'	
1) GameStop Corp	147.98	+92.71%	20.05B	143.99M	
2) Tesla Inc	883.09	+0.26%	19.72B	6.43M	
3) Apple Inc	143.16	+0.17%	13.46B	7.32M	
4) Microsoft Corp	232.33	+1.22%	10.96B	31.96M	
5) Amazon.com Inc	3326.13	+0.98%	9.57B	7.32M	
6) Beyond Meat Inc	186.83	+17.70%	5.70B	727.95k	
7) Advanced Micro ...	94.71	+0.62%	5.39B	26.53M	
8) Facebook Inc	282.05	+1.45%	5.32B	1.24M	
9) Plug Power Inc	73.18	+11.35%	4.92B	4.51M	
10) Alphabet Inc	1907.95	+0.72%	2.97B	124.98k	

Source: Bloomberg

Also during January, Europe was hit by a COVID virus variant known as B117 or the “UK variant” which is estimated to be 50% to 70% more infectious than previous COVID strains whilst having at least a similar case fatality rate. This is significant as the infection rate is the most sensitive variable to cases and number of deaths.

As a result, we saw more stringent lockdown measures in Europe and the UK, raising the chances of a double-dip recession (confirmed in early February). More borders are being tightened globally as countries act to help prevent another wave of infections driven by these variants. Looking at the US this is a near-term risk we see - despite COVID cases coming down in recent weeks, there could be another material wave ahead as these more infectious variants spread given their presence has already been confirmed in the US. In fact, South Africa just announced it has moved to halt the AstraZeneca vaccine after preliminary and limited evidence showed it failed to protect against mild and moderate forms of the South African variant also known as B1351.

This example is indicative of the challenge that the new COVID variants pose to the global vaccination effort and its ultimate effectiveness.

News Flow

January is traditionally a fairly slow month for corporate access and this time was no different. We did a number of meetings with sell-side research analysts across a variety of sectors and saw the beginning of Q4 earnings season. We also joined a video conference call with the CEO and CFO of ASML, which is one of our top 10 holdings to discuss the recent 4Q20 result and outlook.

ASML (Netherlands)

This was the first earnings report for our portfolio holdings for the 4Q20 period and ASML delivered a high-quality result as both the

the logic and memory markets experience strong demand, with a key foundry customer TSMC highlighting an expected 37% increase in their capex spend in 2021 at their result which will in-turn benefit the semiconductor equipment suppliers such as ASML. 4Q20 result saw EPS up a healthy 20% YoY and +13% higher than consensus expectations.

We walked away from the Company meeting incrementally positive on ASML’s fundamentals with also more upside to come in the years ahead from the proliferation of devices associated with 5G while the newer EUV product line should have production capacity sold out in the coming years underpinned by logic and expected growth in memory EUV demand.

Marsh & McLennan (United States)

Marsh is a professional services firm which has its core business in risk and insurance advisory to clients globally. This was a very resilient business in 2020 with the demand for advice on these complex risk areas continuing to increase. Indeed, we like this generally uncorrelated growth characteristic of MMC’s main end market, but without taking the underwriting risk and associated balance sheet and earnings volatility which primary insurers have. MMC reported 4Q20 results which saw EPS flat YoY though 5.6% ahead of consensus expectations. For the full year 2020 revenue was +3% YoY and adj. EPS was +6.6% YoY which was a resilient result given the global recession and associated disruption with COVID.

Looking forward to FY21 outlook, the company expects to see organic revenue growth revert to the usual 3-5% growth range together with margin expansion and a resumption of share buy-backs suggesting solid EPS growth probably in the high-single digit range in FY21 and we expect this to accelerate in FY22 onwards as global GDP growth and associated economic activity continues its recovery path.

The Warakirri Global Equities Fund is long only, low turnover, concentrated and benchmark unaware. As such it will typically hold up to 40 stocks from a concentrated Approved List based on Northcape’s research of selected stocks from global developed markets which comprise of resilient companies with enduring quality characteristics that are typically within attractive industries.

For more information, please contact us on 1300 927 254 or visit warakirri.com.au

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