

This report has been prepared by Northcape Capital, the underlying investment manager for the Warakirri Ethical Australian Equities and Warakirri Concentrated Australian Equities Funds.

Market Review

Australian stocks rose 3.7% over April with the main areas of strength being technology (+10%) and Mining (+7%). A slight decline in long term interest rates may have enabled a rebound in some of the key technology stocks while the major miners were bolstered by a higher iron ore price (+13%).

Supermarkets and discretionary retailers underperformed, reflecting concerns over cycling a very strong comparative period when the start of the pandemic inflated sales.

Energy stocks were the worst performer (-5%) reflecting a weaker oil price and also a revised profit outlook from Origin Energy and a resource downgrade from Beach Energy.

Market Outlook

The pace of economic recovery in Australia and abroad is accelerating in response to unprecedented fiscal and monetary stimulus. In Australia we have an unusually high savings rate as overseas travel has not been an option over the last year and international borders are unlikely to re-open until mid- 2022. This should result in buoyant consumer spending in the year ahead. While the vaccine rollout has been slow to start, momentum is building and the official target for full vaccination is end of 2021. Investors have perceived the economic and health risks relating to the pandemic to be receding, resulting in a "risk on" mindset. This is creating a tailwind for equity and commodity markets, although may also heighten risk in some sectors of the market.

Earnings momentum in cyclical sectors continues to be revised up and further upgrades could be expected for the major miners if spot commodity prices are sustained. Free cash flow yields for the majors are highly attractive although longer term valuations (which assume a reversion in commodity prices to long term trend levels) are more challenged.

We see the best opportunities in a number of structural growth and infrastructure stocks which have been left behind as the market focuses on near-term cyclical trends.

Stocks in Focus

Fisher & Paykel Healthcare rebounded strongly in April after a sell-off in the previous month as investors became more confident about the medium term outlook for its respiratory business despite an expected decline in COVID hospitalisations. Fisher & Paykel's installed base of respiratory humidification machines in hospitals has expanded dramatically in response to the COVID pandemic and this should support strong growth in consumables which is a key profit driver.

The Qantas share price under performed as enthusiasm for a domestic travel recovery was tempered by concerns over potential community transmission in various states throughout the country during April. Whilst we remain circumspect on the timing of a full recovery in domestic aviation, we do consider enhancements to Qantas' competitive position will lead to higher profitability once a sustained recovery occurs.

The Warakirri Ethical Australian Equities and Warakirri Concentrated Australian Equities Funds are long only, low turnover, concentrated and benchmark unaware. As such they will typically hold no more than 40 stocks. These stocks will come from a concentrated Approved List of about 60 stocks based on Northcape's research of selected stocks comprising of resilient businesses with clear opportunities for growth.

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