

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 return including dividends finished the month +4.7% in USD or +3.2% in AUD. The US was the main outperforming market with the S&P 500 TSR +5.3% in USD while Japan was the notable underperformer with the Topix index -1.7% in USD.

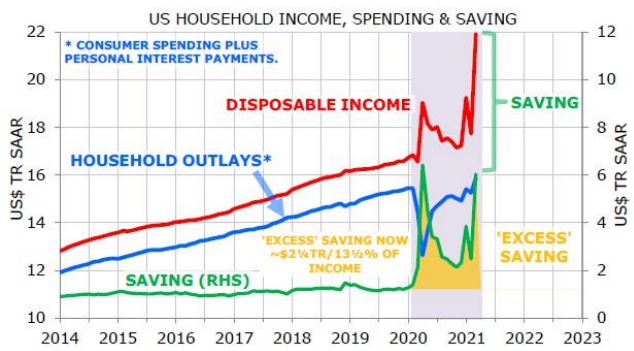
Return to growth over value:

We note during April there was a reversal of the YTD trend of value outperforming growth. For the month, MSCI World Growth index TSR was +5.0% in AUD while MSCI World Value index TSR was +2.0%.

This rotation back towards growth and quality stocks was likely helped by the US 10-year Government bond yield declining from a high of 1.7% at the beginning of April to a low of 1.5% on 22nd April.

Strength of the US consumer:

Data came out during the month highlighting the record spending spree of American consumers as the country reopens and the benefit of stimulus payments flows through. The pent-up savings in US households (materially helped by stimulus payments) is a key upside risk as households look to spend these excess savings as the economy reopens. This material boost to household income is certainly atypical of recessions.



Source: BEA, NBER; Minack Advisors

Additional US stimulus:

During the month more stimulus programs were announced by Biden, being the \$2.3tn American Infrastructure plan and \$1.8bn American Families Plan, on top of the \$1.9tn COVID-19 relief bill that was passed in March. This is positive for companies and sectors linked to infrastructure construction like contractors as well as suppliers such as steel producers.

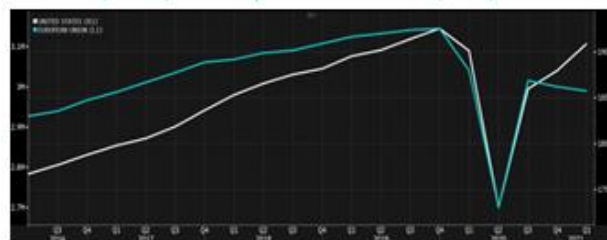
Semiconductor chip shortage:

The worldwide semiconductor chip shortage continued in April. There were several companies ranging from automakers such as Ford to equipment manufacturers like Caterpillar which have had to reduce production as a result. With most industries increasingly going digital the impact is far reaching. Consequently, the semi-conductor manufacturing equipment supply companies are reporting strong earnings results as the race to build chip manufacturing capacity accelerates globally.

COVID:

Looking at developed markets, the COVID situation in the US is improving in terms of daily new cases reducing in April as the vaccination drive kicked into full gear and the economy gradually began to reopen. Europe has been mixed, but generally better in April compared to prior months. Consequently, the GDP data for 1Q21 released in April shows US GDP accelerating while Eurozone GDP declined.

US GDP (white) vs European Union GDP (blue):



Source: Bloomberg

Commodity price inflation:

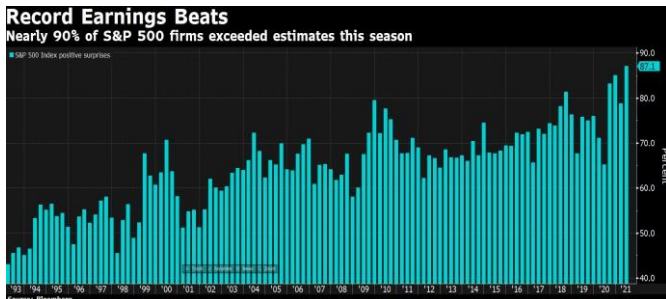
Companies are increasingly commenting in their results on the impact of supply chain shortages and rising commodity prices. Consequently, many, where able to, talk of raising prices to pass on these costs increases. We think it is important to consider the margin impact risk from this. We also note increasing comments of labour shortages in the US and potential for wage rates to rise accordingly as companies seek to attract labour participation. The generous COVID insurance and stimulus benefits have made it more attractive for low wage workers to stay at home rather than return to the workforce.

Global Equities Update

April 2021

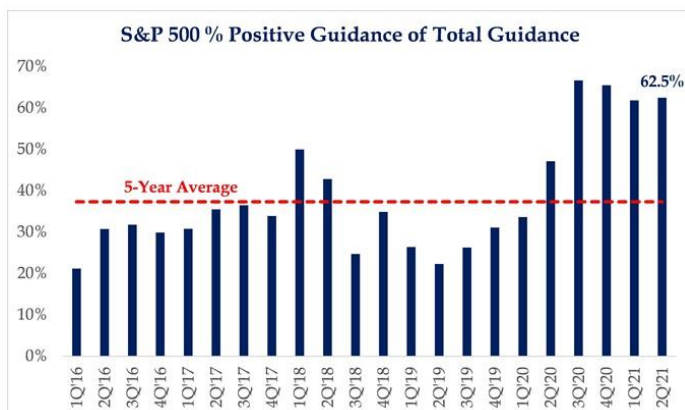
S&P500 1Q21 earnings season having a positive start:

The US market is well underway with 1Q21 quarterly earnings season and seeing a record 88% of earnings beats so far.



Source: Bloomberg

In addition, forward guidance was also very positive with 62.5% surpassing consensus expectations. That said, it is not particularly surprising given the very low bar ahead with 2Q20 being the weakest quarter for most COVID impacted businesses. The comparable start to get more challenging thereafter.



Source: Strategas

The Warakirri Ethical Global Equities Fund is long only, low turnover, concentrated and benchmark unaware. As such it will typically hold up to 40 stocks. These stocks will come from a concentrated Approved List based on Northcape's research of around 60-75 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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