

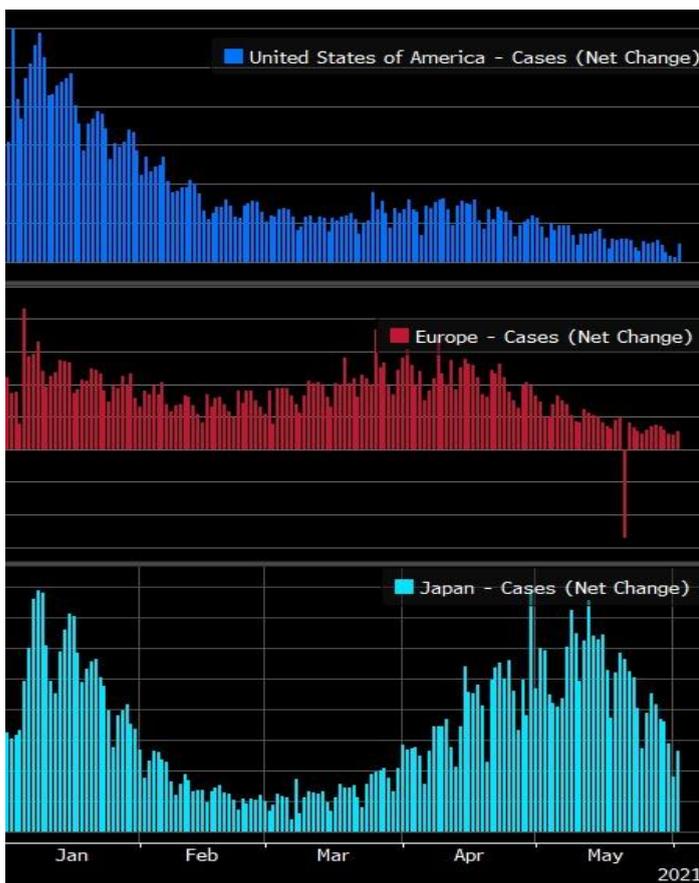
This report has been prepared by Northcape Capital, the underlying investment manager for the Warakirri Ethical Global Equities Fund.

### Market Review

Contrary to the saying “Sell in May”, the MSCI World index finished the month +1.4% in USD or +1.2% in AUD terms, as developed markets started to normalise with continued Covid vaccine roll outs and falling case numbers. Despite only a small move in break evens, inflation and interest rate beneficiaries (including ‘value’ stocks) outperformed - namely Energy, Financials and Materials, at the expense of Consumer Discretionary, IT and Utilities. For the same reason, Europe and Japan outperformed the US and in particular the NASDAQ.

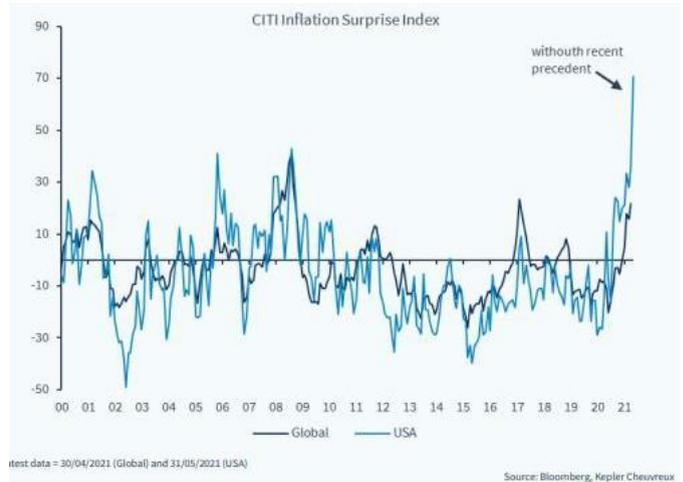
Outside of equities it was the same themes over the month - Gold was +7.7% and Oil +4.3%, while Bitcoin fell almost 40% to levels last seen in January.

### Daily Covid Cases Us, Europe and Japan



From a macro perspective, the debate continued through the month as to what extent inflation is picking up and to what extent this may or may not be transitory. US April CPI released during the month came in at +4.2% YoY, well ahead of expectations of +3.6%. PPI likewise was +6.2% versus expectations of +5.8%. The Fed, and over the pond, The Bank of England, both assured markets they see inflation as temporary and don't plan on any sudden changes in monetary policy. This is despite the Inflation surprise chart below!

### Inflation Surprises in the World and USA



At the stock level, as we experienced the tail end of the earnings season during the month and analysts updated their forecasts (upwards again), earnings estimates continued to grind higher and overall market multiples contracted. As a result, over the course of the Q1 earnings season, the S&P500 PE multiples contracted ~1.25 turns and the Euro Stoxx Index contracted ~0.75 turns.

For our portfolio overall, fundamentals have remained strong with EPS being revised up by street analysts almost 2% over the past few months and expected growth at 16.5% in the coming year (weighted average in local currency). The short-term issue is that earnings for the market overall have been revised up ~9% in the past few months and are expected to grow by ~30%.

We see this however as reflecting a lower quality (more cyclical and with higher leverage) group of stocks for the market, that were heavily hampered by Covid and where the recovery is more uncertain. We take comfort that the long-term EPS growth estimate for our stocks is a healthy 13.7% and well ahead of that for MSCI World as whole of 9.7%.

### Company News Flow

May saw the tail end of earnings with Estee Lauder, Cerner, PayPal, Macquarie, Electronic Arts, Unicharm and Home Depot (portfolio holdings) in addition to the handful of other names reporting. It was really a continuation of what we saw in April: of the stocks that reported earnings during the month, on average they beat on revenue by ~2.5%; beat on EPS by ~10%; but fell ~1.4% on the day.

Whilst quarters can be lumpy and often contain one offs and other quirks, particularly at the moment with some either very easy or very tough COVID comps, it is still interesting to observe the actual growth trends the above companies are experiencing or are expected to experience.

		EPS Surprise	Revenue Surprise	% Price Change
Estee Lauder	Q3	22.0%	-1.6%	-7.9%
Cerner	Q1	2.6%	-0.9%	-1.2%
PayPal	Q1	20.8%	2.6%	1.9%
Macquarie	S2	-39.5%	0.6%	-0.2%
Electronic Arts	Q4	15.8%	6.7%	-1.2%
Unicharm	Q1	15.2%	0.9%	-0.3%
Home Depot	Q1	26.2%	7.6%	-1.0%
Becton Dickinson	Q2	4.9%	0.3%	-3.6%
Hoya	Q4	-4.1%	4.0%	-3.0%
Nvidia	Q1	10.6%	4.6%	-1.4%
Dollar General	Q1	32.0%	2.6%	2.2%
<b>Average</b>		<b>9.7%</b>	<b>2.5%</b>	<b>-1.4%</b>
<b>Median</b>		<b>15.2%</b>	<b>2.6%</b>	<b>-1.2%</b>

*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](http://warakirri.com.au)

For the quarter just reported (or in the case of Macquarie half) the median company had revenue growth of over 15% and EPS growth of over 70%. The momentum is expected to continue next quarter with analysts forecasting >15% revenue growth again and 20% EPS growth.

### Stocks in Focus

During the month we added one new stock to both our Approved List and to the portfolio, Adobe.

Adobe's software touches consumers, creative professionals, SME's and Enterprises and has built a deep technological leadership around industry standards IP like Photoshop, PDF (that you are likely reading this via now) and Postscript. If content is King, Adobe is in a great position as market leader in many aspects of content creation!

Its IP leadership is built on significant R&D, as in more than \$US10bn alone in the last 10 years, which gives them a strong lead versus smaller point solution driven competitors. The other sustainable competitive advantage is the enormous installed base that has grown up with Adobe products and has little incentive to retool to other products.

The cloud transition that started 10 years ago had a big impact but is long done and has resulted in a strong growing recurring revenue base. While priced for strong growth, Adobe should be able to continue to deliver 15-20% top-line growth for the foreseeable future with significantly higher EPS growth. The recent correction in SaaS stocks is an opportunity to get exposure to a high quality, high growth software stock at a reasonable valuation in our view.

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