

Warakirri Ethical Australian Equities

Quarterly Report

31 March 2024



INVESTMENT OVERVIEW

The Warakirri Ethical Australian Equities Fund (the “Fund” or “WEAEF”) provides investors with access to an actively managed portfolio of Australian shares focused on maximising after-tax returns while taking ethical considerations into account. The Fund is managed by one of Australia’s leading active Australian equities managers, Northcape Capital, whose high calibre Portfolio Management team seek to invest in sustainable, high quality companies with attractive valuations listed on the Australian Securities Exchange (ASX). Warakirri’s Ethical Overlay which is outlined below is applied to the Fund.

- Positive Overlay: Investment in companies that operate sustainable businesses that exhibit sound practices across: **Environmental, Social and Governance.**
- Negative Overlay: excludes investment in companies that Warakirri considers have significant businesses, that is, revenue of greater than 5% from the audited financial statements of a company, involved in: **Gaming Products/Services, Tobacco Products, Alcoholic Beverages, Military Applications, Obesity and Thermal Coal & Coal**

WEAE PERFORMANCE SUMMARY – NET OF FEES

Performance Period	NORTHCAPE CAPITAL						5 Years (p.a)	10 Years (p.a)	Since Inception (p.a)*
	1 month	3 months	FYTD	1 Year	2 years (p.a)	3 years (p.a)			
Net of Fees									
Fund	+2.48%	+4.60%	+13.08%	+13.92%	+8.54%	+10.28%	+8.75%	+7.05%	+10.99%
Benchmark [^]	+3.26%	+5.43%	+13.28%	+14.40%	+6.66%	+9.43%	+9.15%	+8.27%	+9.39%
Relative Return (After-Tax)	-0.78%	-0.83%	-0.20%	-0.48%	+1.88%	+0.85%	-0.40%	-1.22%	+1.60%

The above performance summary reflects fund performance data that is Before Tax, Net of Fees. An after-tax report will be sent to our tax-exempt investors over the coming days. Northcape Capital was appointed the underlying investment manager effective 1 April 2020.
[^] Benchmark is the S&P/ASX300 Accumulation Index. * Fund inception date was 1 June 1993.

NORTHCAPE PERFORMANCE TRACK RECORD - CORE AUSTRALIAN EQUITIES

Performance Period	1 month	3 months	FYTD	1 Year	2 Years (p.a)	3 Years (p.a)	5 Years (p.a)	10 Years (p.a)	Since Inception (p.a)*
Gross of Fees									
Fund	+2.51%	+4.84%	+13.37%	+14.38%	+9.30%	+11.31%	+11.52%	+10.48%	+10.78%
Benchmark [^]	+3.26%	+5.43%	+13.28%	+14.40%	+6.66%	+9.43%	+9.15%	+8.27%	+8.00%
Relative Return	-0.75%	-0.59%	+0.09%	-0.02%	+2.65%	+1.87%	+2.37%	+2.21%	+2.78%

[^] Benchmark: S&P/ASX300 Accumulation Index
* Inception date Northcape Core Australian Equities is 1 June 2005.
Performance is for the Northcape Core Australian Shares Composite based on gross, pre-tax returns.

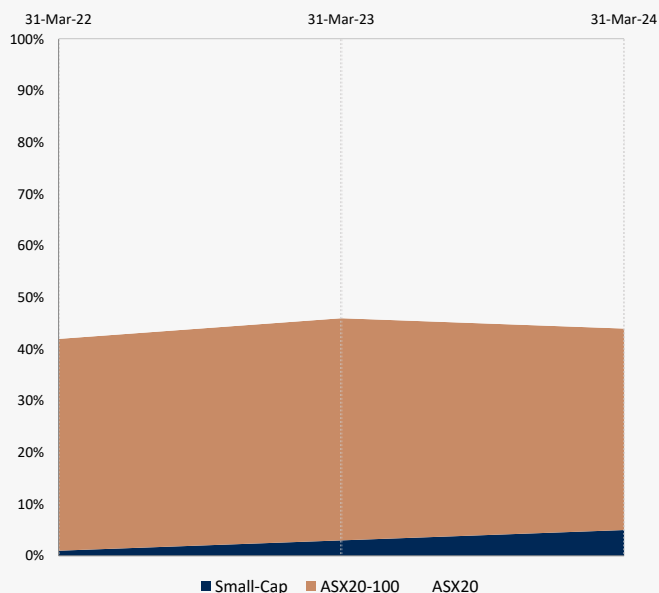
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MARKET CAPITALISATION EXPOSURE



FUND FACTS

Fund Facts	
Investment Objective	Outperform benchmark over the long-term
Investment Time Horizon	5 Years +
Portfolio Managers	Rob Inglis, Craig McCourtie, Richard Maynier & Paul Parsons
Risk Level	High
Distribution Frequency	Quarterly
Minimum Investment	\$25,000
APIR Code	WRA7701AU
ARSN Code	642 393 299
Fund Size	\$250,371,686
Platform Availability	Netwealth IDPS & Super HUB24 IDPS, Mason Stevens
Research Ratings	Zenith: Recommended LONSEC: Recommended
Further Information	www.warakirri.com.au

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TOP 10 HOLDINGS

Security	Fund	Index	Variance
BHP BHP Billiton Ltd	10.2%	9.3%	0.9%
CSL CSL Limited	9.2%	5.8%	3.4%
MQG Macquarie Group Ltd	7.6%	3.0%	4.6%
TCL Transurban Group	6.9%	1.7%	5.2%
NAB National Aust Bank	5.9%	4.5%	1.4%
CBA Commonwealth Bank	4.7%	8.3%	-3.6%
BXB Brambles Limited	4.2%	0.9%	3.3%
JHX James Hardie Indust	4.0%	1.1%	2.9%
IAG Insurance Aust Group	3.9%	0.6%	3.3%
ASX Australian Stock Ex	3.5%	0.5%	3.0%
Total	60.1%	35.7%	24.4%

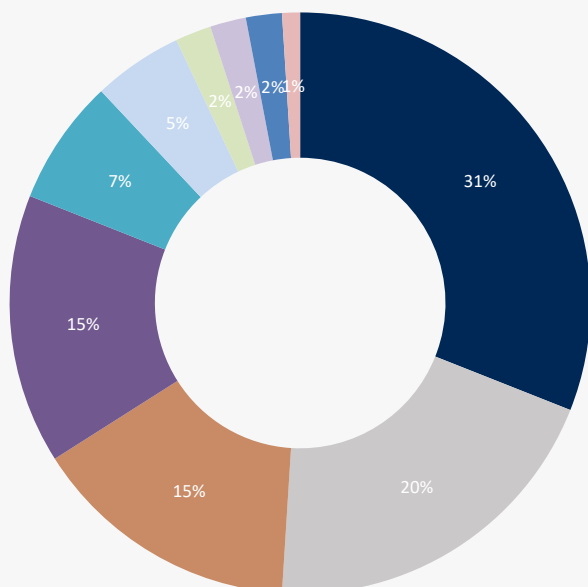
TOP 5 ACTIVE HOLDINGS

Security	Fund	Index	Variance
TCL Transurban Group	6.9%	1.7%	5.2%
MQG Macquarie Group Ltd	7.6%	3.0%	4.6%
CSL CSL Limited	9.2%	5.8%	3.4%
IAG Insurance Aust Group	3.9%	0.6%	3.3%
BXB Brambles Limited	4.2%	0.9%	3.3%

BOTTOM 5 RELATIVE HOLDINGS

Security	Fund	Index	Variance
WBC Westpac Banking Corp	0.0%	3.8%	-3.8%
CBA Commonwealth Bank	4.7%	8.3%	-3.6%
ANZ ANZ Banking Group	0.6%	3.7%	-3.1%
GMG Goodman Limited	0.0%	2.4%	-2.4%
FMG Fortescue Metals Group	0.0%	1.8%	-1.8%

INDUSTRY EXPOSURE



- FINANCIALS EX-PROPERTY TRUST
- MATERIALS
- CONSUMER DISCRETIONARY
- CONSUMER STAPLES
- ENERGY
- INDUSTRIALS
- HEALTH CARE
- COMMUNICATION SERVICES
- INFORMATION TECHNOLOGY
- Cash

PORTFOLIO INCOME YIELD

WEAE FYTD Portfolio Yield	
Income Yield	3.2%
Franking Credit Yield	1.0%
Total Grossed-Up Yield	4.2%

*Investors should view Warakirri's estimates as a guide only.

INSIGHTS FROM THE MANAGER

MARKET REVIEW

The Australian equity market was up 5% over the March quarter, following a strong 8% rise in the December quarter of the prior year. Earnings season was similar to previous reporting periods where slightly more companies exceeded consensus expectations than fell short. Revenue growth moderated back to a more normal level as companies had less scope to use price/mix and were more dependent on volume growth. Corporates were generally well hedged and protected to some extent from higher interest rates.

Global equity markets remain focussed on the timing and magnitude of potential rate cuts. This will be dependent on inflation returning closer to target ranges. Central banks (including the RBA) have been surprised at the time taken for tighter policy settings to impact on economic activity and this outcome may be due to “excess” savings from COVID which are now being depleted. US bond yields pushed higher (3.84% to 4.2%) over the quarter as the timeframe for rate cuts (and magnitude of the decline) was pushed out while Australian bond yields were flat. Investors have been quick to price in an easing cycle and any deferral may see a short-term correction.

A feature of our market was a 21% fall in the iron ore price, leading to a selloff in the major miners. The fall in the iron ore price could be attributed to rising ore stockpiles at the ports and medium-term concerns over the outlook for the Chinese property market. Excess steel in China is currently being used to add capacity in the manufacturing industry. However, this may lead to trade problems in the long run as other countries use tariffs to protect their own industries from dumped manufactured goods. Excess steel output is also being exported, leading to record low Asian steel spreads which BlueScope noted are now below the cash breakeven level.

The 4 major banks have been strong relative performers over the last 3 quarters. The team at Northcape has been somewhat surprised by these gains as recent earnings results suggest the medium-term outlook for bank sector profits is relatively flat and valuations are now at extended levels. Intense competition for deposits is contributing to a gradual decline in net interest margins while at the same time credit growth has been anaemic. Cost growth remains a headwind due to limited productivity offsets. The cost story for the major banks is in contrast to Macquarie Group where its significant investment in platform and compliance resource is largely complete and could benefit from positive operating leverage in FY 25.

Positive global sentiment for AI stocks spilled over into the Australian market as both Goodman Group and NextDC were re-rated on the profit potential from their respective data centre development pipelines. The team are cautious on stocks such as NextDC which advanced approximately 30% over the quarter. It remains unprofitable due to continued re-investment in new data centres and is probably best viewed as a property infrastructure company. The market is currently paying 4x net asset backing which seems excessive to the manager despite it currently being Buy-rated by all 11 broking analysts who cover the stock (no sells, no holds). Goodman Group is a different investment proposition and looks set to generate strong earnings growth over the next 3-5 years. Management has forecast a data centre development pipeline > \$50bn over the next 5-7 years and investors have been quick to incorporate future development profits into their valuations. Northcape believe there is limited allowance for risk factored into the current share price.

M&A activity picked up in the quarter, especially from foreign buyers. Takeover bids for Australian building material stocks (CSR, Adelaide Brighton & Boral) were prominent. A successful takeover offer for Altium by a foreign company led to funds being re-invested in other technology stocks such as Wisetech, which advanced 25% over the quarter. While there are some high-quality stocks in this sector, the team are cautious at current extended valuation multiples, especially where earnings quality is questionable. Implied organic revenue growth for stocks such as Wisetech seems over optimistic to the team.

PORTFOLIO PERFORMANCE

The Warakirri Ethical Australian Equities fund's performance rose 4.6% for the quarter underperforming the benchmark by -0.8%. The main contributors to performance were our overweight position in JB Hi-Fi (JBH + 24%), Brambles (BXB +21%) and Ventia Services (VNT +26%). Negative contributions came from our nil exposure in Goodman (GMG +37%) and overweight position in Transurban (TCL -3%), IDP Education (IEL -9%).

CONTRIBUTORS & DETRACTORS MARCH QUARTER

Top 5 Contributors to Relative Performance	Sector	Return	Average Weight	Contribution
JB Hi-Fi Ltd	Consumer Discretionary	24.2%	3.0%	+0.5%
Brambles Ltd	Industrials	20.5%	3.0%	+0.3%
Ventia Services Group Ltd	Industrials	25.7%	1.8%	+0.3%
Fortescue Metals Group Ltd (Not Held)	Materials	-7.8%	0.0%	+0.3%
Insurance Australia Group Ltd	Financials	15.0%	3.7%	+0.3%

INSIGHTS FROM THE MANAGER (continued)

Top 5 Detractors from Relative Performance	Sector	Return	Average Weight	Detraction
Goodman Group (Not Held)	Real Estate	+33.6%	0.0%	-0.5%
Transurban Group Ltd.	Industrials	-2.8%	7.1%	-0.5%
IDP Education Ltd.	Consumer Discretionary	-9.3%	2.2%	-0.3%
Westpac Banking Corporation (Not Held)	Financials	+14.0%	0.0%	-0.3%
ANZ Group Holdings Ltd	Financials	+13.4%	0.6%	-0.2%

JB Hi-Fi (JBH) was our largest contributor for the quarter continuing its run of beating expectations with the H1 result, delivering sales, margins and cashflows all moderately above expectations. Sales to start the new year have continued to be above expected levels and this appears to have altered the markets view that sales have now normalised post the strong covid related period. The stock outperformed by 19% over the quarter and having increased by close to 40% over the last six months. The manager has trimmed the portfolio's position as the valuation gap has reduced.

Brambles (BXB) outperformed the market after a strong half year result which featured an upgrade to full-year profit guidance. The company is demonstrating strong pricing power which is enabling profit growth in an inflationary environment.

Goodman Group (GMG) which is not held in the portfolio was our largest detractor for the March quarter as it strongly outperformed the market delivering a H1 result well ahead of expectations and upgraded full year guidance from 9% to 11% p.a. growth. Investors also responded positively to evidence that an increasing proportion of Goodman Group's work in progress is development of data centres (possibly >50% by FY 25). The new data centre model is still evolving but will involve more development assets on balance sheet and a somewhat higher level of risk. Medium term earnings growth looks quite attractive but is more than fully reflected in the share price, in Northcape's view. The earnings multiple also seems demanding to Northcape given more than half of group earnings are development profits, which carry a higher risk profile than the rental income that is the staple of other property trusts.

Transurban Group (TCL) was our second largest detractor as it underperformed by 8% over the quarter. The market was slightly disappointed by the lack of a distribution guidance upgrade for FY24. Further, an interim report released by the NSW Independent Toll Review raised some questions over the long-term viability of the Public-Private Partnership model TCL has deployed to develop additional toll road assets in the state. The team at Northcape are confident that current concession entitlements will be honoured by government stakeholders and believe the combination of population growth and inflation linked tolls will deliver an attractive income stream for shareholders for years to come.

PORTFOLIO POSITIONING

During the quarter the portfolio manager added a new position in Rio Tinto (-7%) as well as adding to positions in Brambles (+20%) and Woodside (+1%). Rio Tinto is one of the few high quality resources companies available to Australian investors, while Woodside has been left behind by a rally in the energy sector. At current oil prices, Woodside can pay a dividend yield of over 7% fully franked while also funding its growth projects. Brambles has reported strong earnings growth in recent years and is now expected to deliver better cash flow, which can fund higher returns to shareholders.

The manager also trimmed positions in JB Hi-Fi (+24%) and Seek (-6%) and exited small positions in BlueScope (+3%) and Netwealth (+38%). They have lower conviction in Seek's offshore strategy and its pricing power in the relatively competitive Australian market.

MARKET OUTLOOK

After a strong market rally in recent months, investor enthusiasm seems high while the equity risk premium is at a low level in Australia, similar to overseas equity markets. Traditional defensive stocks are being ignored at the expense of more thematic names. Our portfolio has a slight defensive bias which is not doing us any favours in the current market setting but should prove resilient on any market setback.

NORTHCAPPE AUSTRALIAN EQUITIES TEAM



Rob Inglis
Director | Portfolio Manager | Analyst
42 years investment experience



Paul Parsons
Portfolio Manager | Analyst
22 years investment experience



Craig McCourtie
Director | Portfolio Manager | Analyst
35 years investment experience



Richard Maynier
Portfolio Manager | Analyst
18 years investment experience



Kevin Soo
Senior Analyst
8 years investment experience



Peiting Liang
Senior Analyst
6 years investment experience

For more information, please contact us on
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