Warakirri Ethical Global Equities Quarterly Report
31 March 2024

INVESTMENT OVERVIEW

The Warakirri Ethical Global Equities Fund ("WEGE" or the "Fund") provides investors access to a professionally managed global equities portfolio, offering diversification by geography, industry sector, and market capitalisation, while incorporating the Warakirri Ethical Overlay. Warakirri has appointed the global equities team at Northcape Capital as the underlying manager of WEGE, taking over investment management responsibilities as at 30 April 2020. The Warakirri Ethical Overlay is outlined below:

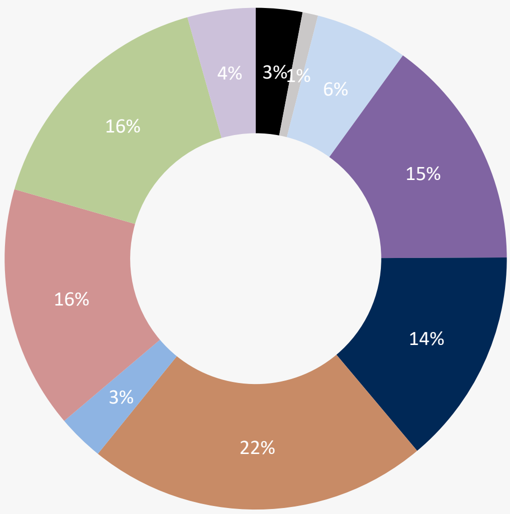
- Positive Overlay: Investment in companies that operate sustainable businesses that exhibit sound practices across: Environmental, Social and Governance.
- Negative Overlay: Excludes investment in companies that Warakirri considers have significant businesses, that is, revenue of greater than 5% from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

PERFORMANCE SUMMARY – NET OF FEES

Performance Period	1 month	3 months	FYTD	1 Year	2 Years (p.a)	3 Years (p.a)	5 Years (p.a)	Since Inception (p.a)*
Net of Fees								
Fund	+1.28%	+11.12%	+13.04%	+17.82%	+9.48%	+8.97%	+8.85%	+10.89%
Benchmark^	+3.02%	+13.88%	+19.49%	+28.44%	+15.71%	+14.36%	+13.80%	+14.08%
Relative Return	-1.74%	-2.76%	-6.45%	-10.62%	-6.23%	-5.39%	-4.95%	-3.19%

Northcape Capital was appointed the underlying investment manager effective 1 May 2020.
^ MSCI World Total Return Index with Net Dividends in AUD
* Fund inception date was 1 November 2016.

INDUSTRY EXPOSURE



FUND FACTS

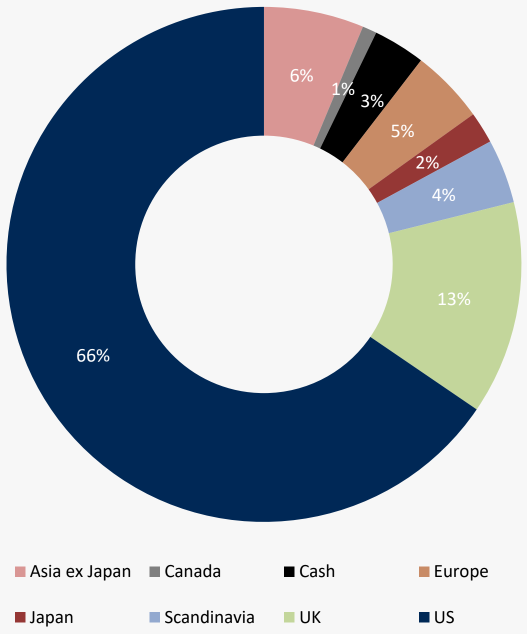
Fund Facts	
Investment Objective	Outperform benchmark over the long-term
Investment Time Horizon	5 Years +
Portfolio Managers	Fleur Wright, Theo Maas, Calvin Lim, Wendy Herringer
Risk Level	High
Distribution Frequency	Semi-Annually
Minimum Investment	$25,000
APIR Code	WRA5182AU
ARSN Code	642 393 799
Fund Size	$28,557,259
Platform Availability	Netwealth IDPS, HUB24, Mason Stevens
Research Ratings	Zenith: Approved
Further Information	www.warakirri.com.au

Warakirri Ethical Global Equities
Quarterly Report
31 March 2024

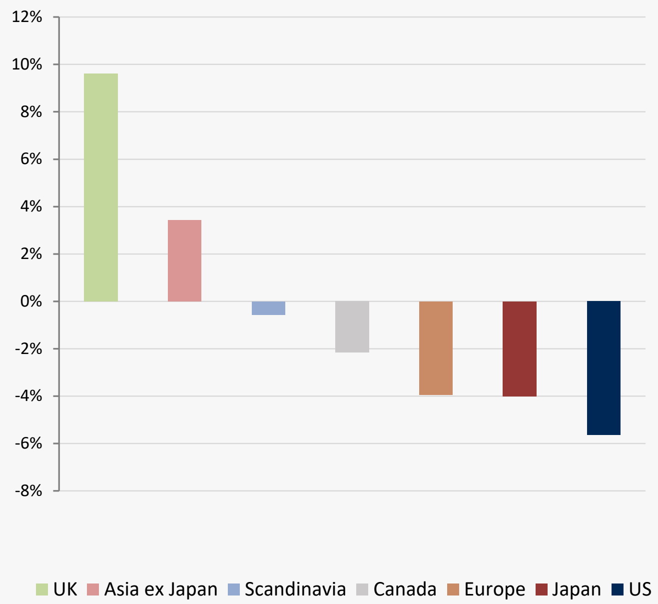
TOP 10 HOLDINGS

Security	Fund	Country	Sector
New Informa	6.4%	United Kingdom	Communication Services
Nvidia	6.2%	United States	Information Technology
Marsh & Mclennan Companies	5.0%	United States	Financials
Microsoft Corp	4.6%	United States	Information Technology
Intertek Group	4.4%	United Kingdom	Industrials
Visa Inc	4.3%	United States	Financials
Alphabet Inc	4.2%	United States	Communication Services
Electronic Arts	4.1%	United States	Communication Services
Salesforce	4.1%	United States	Information Technology
Zoetis Inc	3.9%	United States	Health Care
Total	47.2%		

GEOGRAPHIC EXPOSURE



GEOGRAPHIC EXPOSURE RELATIVE TO INDEX



HOLDINGS BY MARKET CAPITALISATION

Size	Market Capitalisation	Exposure
Mega	Greater than US$100bn	42.00%
Larger	US$50bn - US$100bn	21.00%
Large	US$10bn - US$50bn	34.70%
Mid	US$2bn - US$10bn	2.40%
Small	Less than US$2bn	0.00%

INSIGHTS FROM THE MANAGER

MARKET REVIEW

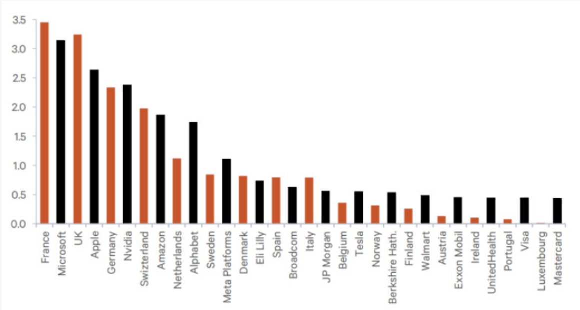
Global equity markets continued their stellar 2023 performance in the first quarter of the year. The MSCI World Index showed another positive month in March and ended up 3.0% (in AUD), bringing the total for Q1 to +13.9% (in AUD). Strength was seen across the globe in developed markets with Japan leading the pack followed by Euro Stoxx 50 and S&P 500 indices.

This market strength is mostly related to a rapidly moving change in macro-economic sentiment, where inflation is coming down while growth expectations are moving up. Despite the fact that the Fed has actively been flagging that interest rates cuts will be delayed (and likely limited to 3 cuts in 2024), the market continues to see the glass as half full. There has been a fast decline in rate cut expectations by the market, moving from 6 cuts to 3 in the space of weeks. While this would in 'normal' times lead to pressure on equity markets, the unwavering belief by the equity market of a 'Goldilocks' outcome has trumped any negative sentiment in the bond markets.

There are however, very good reasons for this optimism as the macro data has been getting stronger this year supported by a history-defying strong labour market in the US. Despite the 2-year anniversary of one of the fastest rate hike cycles in history, there have been very little negative impacts. A mini crisis in regional banking last year was short lived before the Fed flooded the market with liquidity and saved the day. The consumer has held up remarkably well, despite showing the usual signs (after rate hikes like this) of fatigue. This can be seen in credit delinquencies and credit card balances as well as more cautious growth commentary from discretionary consumer names like Nike, Lululemon and Kering. This is all based on a roaring employment market, with historic low unemployment rates and a continued string of strong non-farm payroll data.

The better macro-outlook can also be witnessed in bottom-up earnings outcomes. Apart from the aforementioned stress in the consumer discretionary sector, most sectors have continued to print better than expected revenues and earnings, pointing to better times ahead. The poster child of this trend remains the tech sector and especially the Mega-7, although given the poor performance of Tesla (in stock price and earnings expectations) this might have to be rebranded to Mega-6. The group as a whole continued to outperform the market in Q1 and their respective market caps continued to increase. The chart below puts this dominance in perspective by graphing the market caps of the largest U.S. companies against entire European stock markets. E.g., Microsoft is rapidly becoming the biggest 'country' in Europe with only the entire French market still slightly ahead.

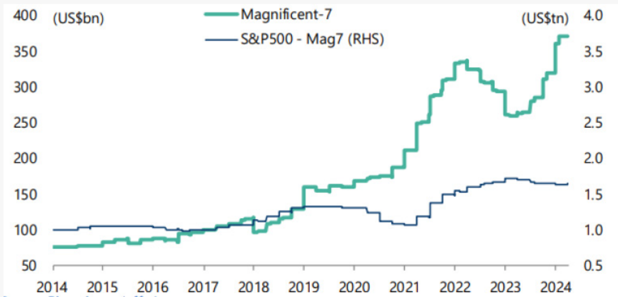
Select Company vs Country market capitalisations:



Source: Bloomberg, Eikon

Before dismissing this as a new dotcom bubble, note it can be easily demonstrated that these companies are backing this performance up with much faster and real earnings and cash flow growth. The chart below depicts the growth in net income of the Mega-7 and the remaining 493 companies in the S&P 500 and demonstrates this divergence since 2019 and the acceleration in 2023 clearly.

Magnificent 7 & the rest of S&P500 12-month trailling net income



Source: Bloomberg, Jefferies

The Japanese market has seen a strong comeback with the local equity market up ~40% over the last 12 months (in local currency) and outperformed most other developed markets. Quite a contrast from the last 10 years where Japan underperformed the MSCI World Index by over 100%. It needs to be emphasised that in sharp contrast the Yen has weakened materially and hence returns in USD would be 17% lower than the 40% in JPY over the last 12 months.

In the past, the team at Northcape has struggled to find ideas in this market with only two names on their Approved List, Unicharm and Hoya. This stems from poor corporate governance, lower growth, lower cash flow returns and complicated business models. From April last year however, the Tokyo Stock Exchange (TSE) is ramping market reforms, with the aim to attract more investment, requesting companies listed on the exchange to become aware of their corporate structures and drafting plans to address underperformance.

INSIGHTS FROM THE MANAGER

The team at Northcape has visited the country twice in the last 10 months (and will be back in May) to look for more ideas. The mood on the ground, reflected by a strong start to the year for the Nikkei 225 remains positive. We have had these 'one year in a decade' bull markets before, but the arguments that Japanese equities could be staging a comeback are still all valid:

- Corporate governance is improving.
- Decades of deflation have become manageable inflation, and the curse of the country's poor demographics should keep this trend up by pressure on wages.
- Japan's valuation levels are well below the rest of developed markets.

The biggest hurdle, however, remains the same: most of the excitement is in the undervalued part of the market, typically deep-value sectors that trade below book value. In the market segment the team are looking at (proper growth, returns, governance), the stocks typically look overvalued versus their global peers. The search continues, and the team are optimistic in finding more candidates for their Approved List.

PORTFOLIO PERFORMANCE

While the Warakirri Ethical Global Equities Fund was up +11.1% (in AUD) in the first quarter of 2024, it struggled to keep up with an astonishing strong start to the year for global equity markets and a benchmark which was up 13.9% in AUD. While there was no clear underlying trend in the drivers of this performance, our underweight position in the 'Mega-7' contributed almost 200bps positively to the quarter performance, helped by both the companies we hold and those we don't.

CONTRIBUTORS & DETRACTORS MARCH QUARTER

Top 5 Contributors to Relative Performance	Sector	Return	Average Weight	Contribution
NVIDIA Corporation	*Information Technology*	+90.8%	5.1%	+1.2%
Apple Inc *(Not Held)*	*Information Technology*	-6.8%	0.0%	+1.0%
United Rentals, Inc.	*Industrials*	+31.8%	3.2%	+0.5%
Tesla Inc *(Not Held)*	*Consumer Discretionary*	-26.0%	0.0%	+0.5%
Intertek Group PLC	*Industrials*	+21.7%	4.4%	+0.3%

Top 5 Detractors from Relative Performance	Sector	Return	Average Weight	Detraction
Zoetis, Inc.	*Health Care*	-10.2%	4.2%	-1.1%
American Tower Corporation	*Real Estate*	-4.3%	3.9%	-0.7%
AIA Group Limited	*Financials*	-19.4%	2.1%	-0.7%
Adobe Inc.	*Information Technology*	-11.5%	2.6%	-0.6%
Electronic Arts Inc.	*Communication Services*	+1.5%	4.8%	-0.6%

Semi-conductor company, Nvidia (NVDA US) was our largest contributor in the first quarter, as the stock went up another 90% (!) over that period. The company reported a stellar result in February, with revenue growth of +265% and adjusted EPS +486% YoY driven by the exploding demand for AI-related data centre chips. Revenue guidance for the April quarter is for revenue to grow another +268% YoY, which came in +12% higher than expectations and for gross margins to remain around current record levels of 77%. Since buying back into the stock in September last year, it has nearly doubled again. Looking at it in the context of market capitalization, Nvidia is now a larger weight than the whole of Germany! While it seems easy to address this as hype, the reality is that there are very strong fundamental reasons behind this remarkable performance. Nvidia's unique position in the value chain and the rise of Generative AI (GenAI) infrastructure means a perfect positive storm. The team has been gradually adding to the position, making it a top two absolute holding in the fund, and continue to remain positive.

Not owning **Apple** (AAPL US) was our second largest contributor (-6.8% in AUD). The underperformance has been driven by soft iPhone sell-through in the key markets of the US and China. Concerns are more acute regarding China where the smartphone market is estimated to be down 16% YoY, driven by the loss of market share to Huawei. Given these two markets are 52% of iPhone unit shipments, weakness suggests it will be a struggle to grow revenue in 2024. Whilst India has been lauded as the next big growth geography, unit sales were relatively flat. The other factor which has not helped Apple is its perceived lagging in AI research and products. Where Alphabet, Meta, Amazon and Microsoft have all been early adopters of GenAI, Apple has not followed. Even worse, it has been heavily rumoured that they are looking to adopt Gemini (Alphabet's GenAI model) in the next iPhone.

INSIGHTS FROM THE MANAGER (continued)

Global animal health leader and top 10 holding **Zoetis** (ZTS US, -10.2% in AUD) was the top detractor in the quarter. There was little material news flow to justify this underperformance and Zoetis reported strong earnings numbers in February. A potential reason for the weakness is around the outlook for new blockbuster drug Librela, a painkiller for osteoarthritis in dogs. While it has had a promising start in both Europe and the US, it received social media backlash related to some negative side effects. The other reason for share price weakness could relate to the EU Commission opening an antitrust probe regarding an $85m acquisition they did in 2017 for a biopharma company where they scrapped the launch of a late-stage dog pain medication. Northcape had a call with the company following these events. The team do not believe this is a cause for concern given Zoetis has all efficacy data to prove the legitimacy of its case. As such, the manager views this weakness as an attractive price level to add to our position and have done so in recent weeks.

The second largest detractor in the quarter was communications tower owner, American Tower (AMT US, -4.3% in USD). The stock was a top contributor to performance in the last quarter of 2023. In January, there was no change to the long-term fundamentals of the business, but the share price was negatively impacted by the reversal of US Government 10-year yield back to over 4% (currently 4.4%) as the market continues to digest the potential for a 'higher for longer' interest rate scenario. Northcape like the current attractive risk reward given the quality of the franchise, strong data centre demand trends and close to 'trough' valuation multiples. Additionally, with the Fed funds rate looking to have reached a 'peak', the company could benefit from a tailwind of downward pressure on rates when the Fed begins to pivot towards a loose monetary stance.

PORTFOLIO POSITIONING

Whilst the team at Northcape Capital made several changes over the quarter, they continue to maintain a balanced portfolio of high-quality businesses across a variety of sectors and exposures to manage risk. The material trades were:

- Added **Alphabet** to the Portfolio in January. Its dominance in search advertising and video content (YouTube) will continue to strengthen with the incorporation of AI to enhance the user experience.
- Added to **Enphase Energy** following its result which gave the team greater conviction that the green shoots of an earnings recovery for 2H24 are looking increasingly more credible.
- Initiated a small position in **CBRE Group** following its result, showing evidence confirming Northcape's thesis that FY23 is very likely the trough year for earnings, resuming growth in FY24 and onwards for EPS around the mid-teens.
- Added to our positions in **Nvidia, Novo Nordisk, CME Group** and **Rightmove.** Nvidia continues to benefit from its unique position in AI chips for hyperscalers and other users of Large Language Models for Generative AI. Rightmove sold off on competitive fears, which the team believe is overblown given their market leading position in the UK. CME Group has a very compelling growth outlook and provides good counter-cyclical exposure.
- Sold **Estee Lauder**, which was one of a smaller position in the portfolio. Northcape's analysis suggests they could face further near-term earnings risk in China, which is a key growth engine. The recent bounce in the shares despite poor earnings has resulted in a premium valuation, essentially giving them the benefit of a turnaround in earnings.
- Sold **Synopsys** and **Assa Abloy,** following strong performance in both and where the team see limited upside.
- Took profits in **Microsoft, CSL, Adobe, United Rentals, SAP, Intertek, Givaudan, Techtronic, Coloplast and Electronic Arts**, after good stock performance where they are reflecting less upside than other holdings.

MARKET OUTLOOK

The market spent most of 2023 looking for a bear narrative, based on the simple fact that history has shown over and over that a rapid rise in interest rates leads to bad economic outcomes. Even though there was a short-lived crisis in regional banking in the first quarter of last year, the swift actions of the Fed undid any of the potential damage. Besides this, the consumer remains strong based on a 'hot' labour market; strong fiscal tailwinds with trillions of dollars being handed out to the industrial sector; and a new thematic in GenAI. Surprisingly, during this bullish environment inflation has steadily declined, a 'Goldilocks' scenario indeed!

The data in 2024 has continued to point in the same direction and while the result has been delayed interest rate cuts, it still implies better earnings growth than initially expected. None of the 3 possible economic scenarios as we see them (No Landing, Soft Landing, Recession) can be discarded in Northcape's view, but the probabilities have shifted towards a more positive outcome.

INSIGHTS FROM THE MANAGER (continued)

This better-than-expected macro-economic background, new technological developments and the active government spending has opened up new exciting investment opportunities. Below are some of these selective exposures to the biggest themes and idiosyncratic growth opportunities for the coming years. These positions typically give higher expected growth outcomes but also come with higher risks and/or valuations.

- The GenAI revolution: The real excitement is yet to come in the managers view when we move from the infrastructure build-out phase to the monetisation phase. Longer term opportunities will be around increased productivity and cost savings from GenAI. We have material exposure through Nvidia, Microsoft, Salesforce, Adobe and SAP.
- Obesity/GLP-1s: Novo Nordisk gives direct exposure to the massive obesity opportunity as only 0.1% of the obese population use GLP-1s today!
- The US industrial renaissance: Crumbling US infrastructure has led to a trifecta of acts injecting >USD$2tn of spend which is only just starting to flow. Exposure through United Rentals and Advanced Drainage will directly benefit.
- Energy transition: Companies with dominant positions protected by IP/regulation selling to the markets that are at the forefront of driving the transition. E.g. Enphase and Legrand.

The team at Northcape believe that investing in a diversified portfolio of high-quality companies with higher earnings certainty, good balance sheets and resilient earnings streams is the best way to navigate the range of possible economic outcomes and provide our investors with strong risk-adjusted returns over the long term.

NORTHCAPE GLOBAL EQUITIES TEAM

Theo Maas

Portfolio Manager | Analyst

29 years investment experience

Fleur Wright

Portfolio Manager | Analyst

24 years investment experience

Wendy Herringer, CFA

Portfolio Manager | Analyst

17 years investment experience

Calvin Lim

Portfolio Manager | Analyst

17 years investment experience

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