Warakirri Concentrated Australian Equities
Monthly Report
31 October 2024

PERFORMANCE SUMMARY – NET OF FEES

Performance Period	NORTHCAPE CAPITAL						5 Years (p.a)	10 Years (p.a)	Since Inception (p.a)*
Net of Fees	1 month	3 months	FYTD	1 Year	2 Years (p.a)	3 Years (p.a)			
Fund	-1.59%	+3.26%	+8.57%	+27.29%	+13.81%	+7.95%	+7.44%	+8.05%	+9.86%
Benchmark^	-1.30%	+2.19%	+6.41%	+24.86%	+13.14%	+7.62%	+8.10%	+8.33%	+8.84%
Relative Return	-0.29%	+1.07%	+2.16%	+2.43%	+0.67%	+0.33%	-0.66%	-0.28%	+1.02%

Northcape Capital was appointed the underlying investment manager effective 30 April 2020.
^ Benchmark is the S&P/ASX300 Accumulation Index.
* Fund inception date was 25 April 1996.

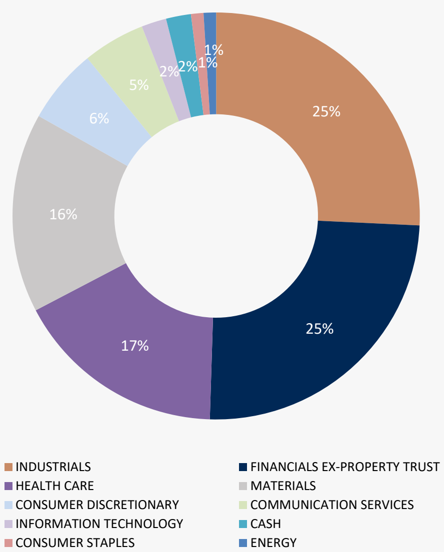
FUND FACTS

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	WRA3342AU
ARSN Code	642 392 041
Fund Size	$78,297,051
Platform Availability	Netwealth, AMP North, BT Panorama, Macquarie Wrap
Research Ratings	Zenith: Recommended LONSEC: Recommended

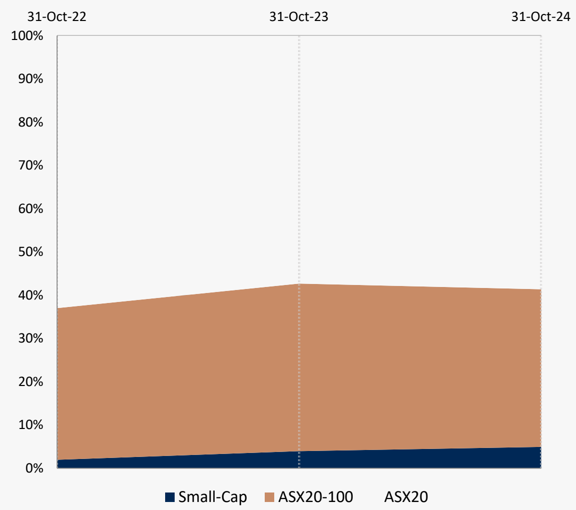
TOP 10 HOLDINGS

Security		Fund	Index	Variance
BHP	BHP Billiton Ltd	12.0%	8.7%	3.3%
CSL	CSL Limited	10.2%	5.6%	4.6%
MQG	Macquarie Group Ltd	9.4%	3.3%	6.1%
BXB	Brambles Limited	6.9%	1.0%	5.9%
TCL	Transurban Group	6.7%	1.6%	5.1%
QAN	Qantas Airways	6.7%	0.5%	6.2%
NAB	National Aust Bank	6.3%	4.7%	1.6%
TLS	Telstra Corporation	4.8%	1.8%	3.0%
CBA	Commonwealth Bank	3.7%	9.6%	-5.9%
JHX	James Hardie Indust	3.5%	0.9%	2.6%
Total		70.2%	37.7%	32.5%

INDUSTRY EXPOSURE



MARKET CAPITALISATION



INSIGHTS FROM THE MANAGER

MARKET REVIEW

The ASX300 fell 1% in October on a total return basis. Rate sensitive sector Financials (+3%) and defensives such as Healthcare (+1%) outperformed Utilities (-7%) and Consumer Staples (-7%). A robust U.S. economy, rising odds of a Trump victory and cautious Federal Reserve comments pushed U.S. Treasury yields up to finish the month at 4.3%. Iron ore prices remained resilient at US$96/t due to Chinese stimulus while oil prices were buffeted by geopolitical tensions in the Middle East. The AUD closed at 0.65 US cents.

During the month, the CEOs of market darlings WiseTech (not owned, -14%) and Mineral Resources (not owned, -24%) came under media scrutiny. The Australian Securities and Investments Commission's (ASIC) announced it was investigating Mineral Resources and its charismatic founder, Chris Ellison, following his admission of tax evasion. Since then, the Board has announced both the CEO and the Chair will leave the company in the next 12-18 months. In the case of Wisetech, CEO Richard White is facing allegations of inappropriate conduct in both professional and personal settings. One common thread underlying these public scandals was that both are founders and dominant figures within their respective companies. While Northcape acknowledge the value of founder-led businesses, their strong leadership style can make the company heavily reliant on their vision singularly and makes it difficult for the management team and Board to challenge their views. It can also create issues with succession planning, capital allocation and governance.

The Lottery Corp (owned, -3%) hosted its Investor Day. Overall, the team at Northcape were impressed with management's depth and their ability to refine game offerings using data and analytics which should ultimately allow it to do better than its 5% historic revenue growth rate. Its extensive retail network and strong partner support should support revenue growth and favourable regulatory outcomes particularly around State-based licence extensions.

CSL (owned, flat) held its annual Research and Development (R&D) day which outlined a few late-stage trial failures. While these updates were disappointing, they were not unexpected due to the high-risk nature of healthcare R&D trials. Encouragingly, the majority of CSL's portfolio products are performing strongly and management remained confident the R&D pipeline supports double digit earnings growth over the medium term.

ResMed (owned) rose 6% after beating expectations in both sales and margins. Demand across both masks and sleep devices remains strong, with no evidence of weight-loss drug (GLP-1) impacts as yet.

The Northcape team also met with insurance companies and contacts over the month and are confident insurers are still maintaining rational pricing. Media scrutiny (e.g., the recent Four Corners report into the sector) and an ongoing Government flood review pose minimal risk to future profits for the sector, in their view. Private health insurers expect a shift towards short-stay hospitals which reduces system healthcare expenditures and lower claims for insurers.

Lithium prices have experienced a significant decline (-70%) over the last 12 months on weaker than expected electric vehicle demand and high-cost supply not exiting the market as expected despite lower prices. Rio Tinto (not owned, -8%) announced it was acquiring Arcadium Lithium (not owned, +94%) for A$9.9bn, representing a staggering 90% premium to Arcadium's undisturbed share price, but still 20-25% below where it was trading just 12 months ago. The team are cautious on the outlook for lithium but with the commodity price now at rock bottom levels, this is probably as good a time as any for RIO to be investing in the sector.

Company AGMs echoed the recent August reporting season, highlighting weak revenue growth, slowing consumer demand and rising labour costs weighing on company margins. Trading down is occurring across discretionary retail and supermarkets are increasing promotional activity amid intensifying political pressure to ease cost of living pressures on Australian households. Discretionary retailers continue to struggle with declining sales and negative growth. 20 out of 28 retailers have downgraded earnings outlooks at their recent Annual General Meetings (AGMs), while 4 have upgraded and 4 kept their outlooks unchanged. JB Hi-Fi (not owned, +3%) was one of the few to upgrade and noted a strong first-quarter trading where it has benefited from market share gains amid a challenging retail environment.

PORTFOLIO PERFORMANCE

The Warakirri Concentrated Australian Equities fund returned -1.6% for the month underperforming the benchmark by -0.3%. The main detractors from performance were our overweight position in James Hardie (JHX -15%) and our underweight position in Commonwealth Bank (CBA +5%). Positive contributions came from our overweight position in Qantas (QAN +9%) and nil positions in Woolworths (WOW -10%) and Wisetech (WTC -14%).

INSIGHTS FROM THE MANAGER

KEY CONTRIBUTORS & DETRACTORS OCTOBER 2024

Top 5 Contributors to Relative Performance	Sector	Return	Average Weight	Contribution
Qantas Airways Ltd	*Industrials*	+8.9%	6.3%	+0.6%
Woolworths Group Ltd *(Not Held)*	*Consumer Staples*	-10.0%	0.0%	+0.1%
Wisetech Global Ltd *(Not Held)*	*Information Technology*	-13.8%	0.0%	+0.1%
Rio Tinto Ltd *(Not Held)*	*Materials*	-7.6%	0.0%	+0.1%
Fisher & Paykel Healthcare Corp. Ltd	*Health Care*	+2.2%	3.4%	+0.1%

Top 5 Detractors from Relative Performance	Sector	Return	Average Weight	Detraction
James Hardie Industries PLC	*Materials*	-14.9%	4.0%	-0.4%
Commonwealth Bank of Australia	*Financials*	+5.4%	3.6%	-0.4%
IDP Education Ltd.	*Consumer Discretionary*	-12.4%	3.1%	-0.4%
BHP Group Ltd	*Materials*	-7.2%	12.4%	-0.2%
Brambles Ltd	*Industrials*	-3.5%	7.4%	-0.1%

Qantas (QAN) was our largest contributor this month, following favourable AGM comments from the company regarding strong customer demand and a benefit from lower fuel prices. QAN has been gradually re-rated by the market, as evidence that favourable conditions are likely to be more persistent than the low price to earnings multiple it trades upon implies. Despite strong performance this year, the manager still sees upside to their valuation of QAN and are comfortable retaining an overweight position at the current share price.

Woolworths (WOW) which we don't hold, continued its weakness during October. The key news flowed from the company's AGM comments, where despite reporting reasonable sales growth, they engaged in significant self-funded promotional activity to deliver the increase, and this has impacted margins. The strength in online sales growth was another headwind to margins. The result was downgrades of up to 10%. Given the weak consumer environment, regulatory scrutiny and negative media comments the Northcape team prefer to watch from the sidelines to see if a longer-term opportunity presents.

On the negative side, James Hardie Industries (JHX) underperformed primarily due to the sharp sell-off in the 30-year mortgage rate, as stronger economic data tempered the pace of future interest rate cuts. US home building profits were slightly weaker than expected as weather conditions also played a part in slowing starts.

Management comments from the home builders supported the underlying demand conditions on which the Northcape team base our holding in the company.

The portfolio's underweight in the banks again detracted during the month, particularly our underweight holding in CBA. The manager's positioning comes down to their concern at record high multiples despite lack of sustainable profit growth for the banks. The four largest Australian banks have grown rapidly in market capitalisation and now comprise nearly 23% of our index, outperforming the broader market by 20% over the past 12 months. The sector's Price to Book ratio averages 2x, with CBA at 3.2x, which is historically expensive for banks. Impairments are unusually low and bank share prices are pricing in no credit cycle going forward, which seems unrealistic to the manager. The team prefer NAB due to the higher returns it generates through its business bank. Our bank underweight is offset with a large position in Macquarie Group which continues to invest ahead of competitors in the energy transition and digital economy.

PORTFOLIO POSITIONING

The uncertain economic outlook appears at odds with current stock market valuations, in Northcape's view. Despite weakening economic conditions, ongoing concerns about China and limited profit growth, the market continues to trade at record levels. Low equity and credit risk premiums suggest investors aren't prepared for prolonged higher interest rates, increasing the risk of a near-term correction. The team took some profits in recent outperformers like Ventia (owned, +1%), Fisher and Paykel (owned, +2%) and Brambles (owned, -4%) but continue to be positive on their medium-term growth outlook.

They increased our holding in their preferred bank NAB, but retain a large underweight to the bank sector, reflecting valuation concerns. The team also initiated a new position in Woodside on its relatively attractive valuation. Lastly, they sold out of QBE following strong share price performance and an outlook for lower interest rates in the US.

INSIGHTS FROM THE MANAGER (Continued)

MARKET OUTLOOK

The return of Donald Trump to the White House led to a small market rally in early November, partly on the expectation of lower corporate taxes in the U.S. Northcape expect ongoing volatility in politically exposed sectors because the Republican policy platform is likely to continue to evolve in an erratic fashion. Australian companies that export to the U.S. may face tariffs on their products, especially those sourced in China. This could be a drag on these companies if their end market is discretionary, such as Breville Group.

Domestically, consumer price growth has slowed to 2.8% but underlying inflation (stripping out electricity bill rebates and lower fuel prices) exceeded market forecasts, making near-term rate cuts unlikely. The manager expects our portfolio to be hold up well in an environment of persistently higher inflation due to our preference for companies with strong pricing power and solid margins.

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