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ETHICAL PARTNERS FUNDS MANAGEMENT

MARCH 2020

Ethical Partners Australian Share Fund		
As at 31 March, 2020	**Unit price**	**APIR code**
Investor Class	$0.7566	EPF9951AU
Class A	$0.7566	EPF9964AU
Class B	$0.7584	EPF3813AU
Class E	$0.7594	-

Relative performance since inception vs S&P/ASX 300 Accum p.a (9 Aug '18): -5.59% (after fees)

To the clients of Ethical Partners and their advisors:

During March 2020 the Ethical Partners Australian Share Fund returned -21.06% versus the S&P/ASX 300 Accumulation Index of -20.83%, underperforming the market by -0.23% (after fees) in one of the most volatile months in the last 30 years. Over the last quarter eight out of ten of our largest overweight positions outperformed including our two largest overweight positions at 31 December 2019; Bega Cheese (+30.6% outperformance YTD) and Graincorp (+22.2% outperformance YTD) that were operating at bottom of the cycle conditions (and valuations) for much of the last year but are now seeing improving conditions even amidst the current downturn. With respect to industry sectors the Fund benefitted from overweight positions in Consumer Staples and Financials (namely Health Insurance) and an underweight position in Banks. Key detractors over the last quarter included an overweight position in both Consumer Discretionary (namely Services and Retail) and an underweight position in Healthcare.

Investor class	**1 Month %**	**3 Months %**	**6 Months %**	**Since Inception (annualised %)**
Fund (after fees)	-21.06	-24.49	-25.93	-13.59
S&P/ASX 300 Accum	-20.83	-23.41	-22.86	-8.00
Excess	-0.23	-1.08	-3.07	-5.59

"Instead, other yardsticks are coming to the fore, including companies' contributions to the crisis response, their reputations as employers and the resilience of their balance sheets."

Source: Financial Times 1 April 2020, Coronavirus opens a gulf between the companies with strong and weak balance sheets by Andrew Edgecliffe-Johnson

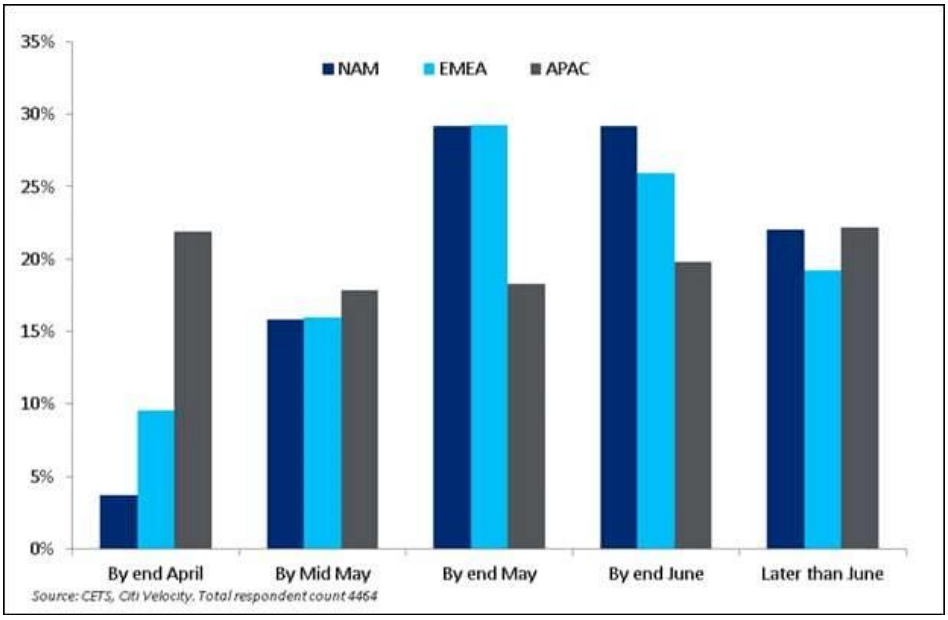
The Fund's characteristics of lower leverage (debt) and higher cash flow than the overall market proved more resilient with respect to performance, with outperformance for the month near the market low for the month on 20 March peaking at +1.78%. With the market rallying +11.8% in the last six trading days of the month, the outperformance fell away but we believe our conservative positioning and focus on strong company fundamentals will again assist in weak markets as we look forward.

With uncertainty pervading most industry sectors at present some of our largest active positions in the Agricultural, Home renovation, General Insurance, Health Insurance and Telecommunications sectors have proven more resilient in the current environment. A company's balance sheet, which is central to our investment process, has quickly become the principal issue across all sectors regardless of asset quality. A number of Australian companies with so-called defensive assets that had geared up in a low interest rate environment, where credit was abundant, and did not pass our Investment Process, are now facing significant recapitalisations and eps dilution, in our view. Whilst many companies face revenue uncertainty in this environment a weak balance sheet has compounded the impact on equity owners. Of the ten worst performing companies in the ASX200 for March, none of which were held in the portfolio, all of those companies had balance sheet issues that exacerbated other business pressures.

The Current Environment

It is likely that businesses, consumers and nations will emerge from this crisis more indebted than they went in and there is certainly a lower margin of error if there were to be further shocks. Australia, being a small open economy is also potentially prone to credit rating downgrades should government support remain for too long. There will be some companies that can retain their staff, continue to pay dividends and pay their debt obligations and some that cannot. Certainly the cost of money (risk margins) will increase and financial engineering is no longer befitting in the current environment. With that in mind it is surprising that the market has now rallied +21% from its March lows but the chart below gives some context around the high levels of optimism amongst financial market participants. It is unknown whether the market rally itself has contributed to this collective view or it the rally is partly because of it (George Soros calls it Reflexivity).

Citi recently surveyed over 4400 market participants asking "When do you think the majority of your country will be 'open for business' again (offices, shops, restaurants, etc)?" 80% of respondents thought that things will be back to normal before the end of June 2020. With the market now pricing in some of this optimism, our view is that it is a good time to sell those stocks with uncertainty and reinvest further in more resilient businesses.



Source: Citibank, 2020

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While we cannot totally avoid the risk of holding companies in the portfolio that may be affected by the COVID 19 shutdowns, our persistent focus on balance sheet, competent management and solid cash flow as well as good environmental, social and governance practices holds the portfolio companies in relatively good stead. Indeed some opportunities will emerge in buying the equity in selective companies that are more affected than others, provided they have the financial wherewithal to go the distance.

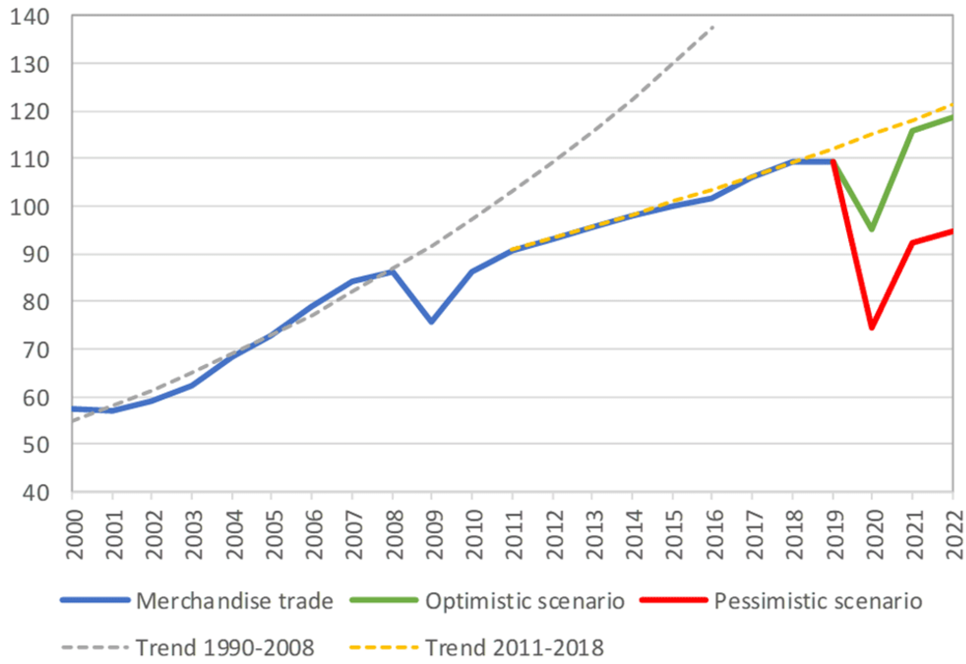
<u>ESG Issues Becoming More Important</u>

ESG practices are also coming to the fore, particularly what a corporate can do to assist in this crisis and how might they go out of their way to protect employees and customers. This is the time for businesses to distinguish themselves in this regard and those that do are likely to emerge stronger, with more customer support and an enhanced reputation. We have had a tremendous amount of engagement with Australian companies in the recent period across such topics. You'll see us publish more on this in the coming months.

<u>Growth Expectations</u>

As for future growth we take a cautious view considering that the prior growth trajectory is unlikely to resume in our view, post lockdowns being lifted in a rushed manner or otherwise, and that any forecast from here is likely fragile. The World Trade Organisation makes the following observation: "Whole sectors of national economies have been shut down, including hotels, restaurants, non-essential retail trade, tourism and significant shares of manufacturing. Under these circumstances, forecasting requires strong assumptions about the progress of the disease and a greater reliance on estimated rather than reported data."

We note the pre-2008 growth levels did not resume post the last crisis.



Source: World Trade Organisation, 8 April 2020

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Outlook

Despite capital raisings in Australia averaging around $500M per day since 26th of March, a large amount of refinancing still needs to take place both here and globally. Capital is likely to be more discerning going forward, in our view. Only those companies that have proven business models, track records and capable management teams will be able to access financing should they require it. Businesses models that have only seen a favourable environment to date will be tested. The Australian banks are already being clear on this with regard to debt funding and we expect the equity market will have the same focus. Companies that have resilient revenues, cash flows and profits in the current environment already make up a large proportion of the portfolio (we are not including banks in this comment). We have also recently added high quality names in the REIT sector that are now trading at significant discounts to asset backing. We continue to believe that companies that we rate strongly on social, governance and environmental issues will emerge from this crisis in a stronger position and we are seeking these out where the fundamentals are robust.

In our view our adherence to a conservative Investment Process has placed the portfolio in a good relative position to weather the current environment as well as take advantage of opportunities that may arise. While we are still very early in this new stage of the cycle we believe good stock-picking will have an advantage going forward in an environment where capital is scarce and where company fundamentals have again become key in the performance of a company's equity..

Nathan Parkin	Matt Nacard
Investment Director	*Chief Executive Officer*