

# Ethical Partners Australian Share Fund

OCTOBER 2020

Ethical Partners Funds Management is a boutique Australian fund manager which is fully owned by its staff. We have a dual focus on performance and investing ethically over the long term. Our approach directly manages risk for our clients, provides the ability to invest in line with your values and actively advocates for change. Investors in the Fund invest alongside the owners and managers of Ethical Partners.



INVESTOR CLASS		CLASS A	CLASS B	CLASS C	CLASS E
Unit Price 31/10/20	\$0.8231	\$0.8213	\$0.8242	\$0.8179	\$0.8256
APIR code	EPF9951AU	EPF9964AU	EPF3813AU	ETL8683AU	-

**INCEPTION DATE**  
8 August 2018

**BENCHMARK**  
S&P/ASX 300 Accum. Index

**UNIT PRICING**  
Daily

**DISTRIBUTIONS**  
Every six months

**BUY/SELL SPREAD**  
0.20%

**MANAGEMENT FEE (PDS)**  
0.95%

**PERFORMANCE FEE (PDS)**  
15% of outperformance

**MINIMUM INVESTMENT**  
\$25,000

**INVESTMENT DIRECTOR**  
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[Link to PDS](#)

This newsletter is intended for wholesale and institutional investors only

## MONTHLY COMMENTARY

During October 2020 the Fund returned 2.85% versus the S&P/ASX 300 Accumulation Index of 1.89%, outperforming the market by 0.96% (after fees). Overweight positions in Insurance stocks and an underweight position in Metals & Mining contributed to relative performance while overweight positions in Consumer Staples and Media & Entertainment detracted from relative performance. An underweight position in Information Technology (specifically Afterpay) also detracted from performance.

The Australian market rallied as much as +7.1% during the month but fell -4.8% in the last two weeks of October amidst rising global COVID-19 cases and in the lead up to the US election. Technology, Consumer Discretionary and Healthcare stocks outperformed as the market fell, reflecting the continuing stay-at-home trends year to date, while Energy/Materials, Telecommunications and Industrials underperformed.

But despite increased COVID-19 cases globally and the potential for further lockdowns overseas we are seeing early signs of returning industrial production activity fuelling base metal commodity and steel demand. This is being driven by growth in e-commerce logistics, building and home improvement activity, continuing demand from China, detached housing volumes and the revival of volumes to key industries such as US automotives.

While our view is that the market has, through 2020, overcapitalised retail and technology company earnings and significantly over-valued their long term opportunity, the return of traditional industrial demand is now starting to drive an earnings-led recovery for other companies. The focus on the current period of phenomenal (revenue) growth for retail and tech in particular during COVID-19 has seen the valuations blow out to unprecedented levels but this also leaves them susceptible to a pull-back should earnings growth become more widespread across other sectors.

## SIGNIFICANT HOLDINGS

Bega Cheese	Insurance Australia Group
Bluescope Steel	Meridian Energy
Commonwealth Bank	SCA Property Group
Graincorp	TPG Telecom
IGO Limited	United Malt Group

## Performance as at 31 October, 2020

INVESTOR CLASS	1 MONTH %	3 MONTHS %	6 MONTHS %	12 MONTHS %	SINCE INCEPTION (ANNUALISED %)
Fund (after fees)	2.85	3.42	5.32	-15.47	-6.26
S&P/ASX 300 Accum	1.89	1.22	9.09	-7.91	1.63
Excess	0.96	2.20	-3.77	-7.56	-7.90

Companies that have suffered during 2020 from having limited access to facilities, reduced service availability, lower than usual rent collection or declining volumes but have maintained strong balance sheets, worked hard on their cost bases, have good market positions and are still generating robust levels of cash flow will be in the best position to benefit from here, in our view. Stocks of these companies are set to disproportionately benefit.

And given the low valuations of Australian general industrials we are now seeing a number of takeover bids from private equity and offshore entities

## ESG AND ENGAGEMENT COMMENTARY

### **Our customers are likely to buy less over time. Transition required.**

Australia's three largest thermal coal and gas export destinations have all set net zero carbon targets in the last month (China, Japan and South Korea) pointing to a major structural change in energy demand globally. Australia's current largest LNG customer Japan has pledged net zero emissions by 2050, underlining a major shift in climate change policy (previously aimed for carbon neutral after 2050 without specifying any date). The policy will put Japan in line with the EU, the UK, and NZ, while China recently announced carbon neutral by 2060. President elect Joe Biden has also committed the US to net zero emissions by 2050. Surely now is the time for Australia to invest significantly in alternative renewable-oriented industries over oil, coal and gas for both the domestic and export markets. Clearly our trading partners will be buying less of our coal and gas in particular over time if they are going to achieve their now publically stated targets.

From a policy perspective it certainly raises serious questions regarding Australia's national "gas led recovery". Somewhat at odds with that was the NSW Government's recent announcement of a new 20-year energy road map that supports private investment in energy infrastructure, targeting 12 GW of renewables and 2 GW of storage in pumped hydro and batteries. The NSW plan does refer to gas peaking plants to provide supply stability but doesn't refer to the Federal Government's call for private investment in 1,000MW of gas-fired generation by early 2021.

What is becoming increasingly clear is that as battery technology improves, the requirement for gas peaking to firm renewables becomes less essential. This is obviously good news for emissions and will also likely lead to lower wholesale electricity prices in the future. The major traditional utilities, AGL and Origin, are on the way to further developing their renewables portfolios, however the transition will likely be financially difficult. The Ethical Partners Australian Share Fund cannot own fossil fuel producers and hence cannot own AGL, Origin or coal producers.

### **Fundamental shift occurring: Boards no longer control all Resolutions**

It has been a busy AGM season for our team due to the frequency of direct engagements we are having with Boards and the complexity of issues that companies are facing. We are witnessing a higher number of shareholder resolutions being presented at AGMs on issues such as climate and lobbying. These resolutions are being proposed by interested parties such as advocacy groups and NGOs. Our team considers each one carefully and we have been supportive, voting in favour, against the Board's recommendations where we see a clear improvement by adopting the change. Increasingly Boards are having to take these proposals seriously and have seen large support from shareholders. This resulted in a number of high profile shareholder resolutions (IAG and BHP) being withdrawn by Boards prior to AGMs with the company preferring to adopt the changes quietly behind the scenes rather than risk their reputation at the AGM with a large vote against the Board. There is a fundamental shift occurring in the landscape for Australian Boards with shareholders no longer subject only to Board imposed ideas, strategies, nominated directors and resolutions. Ethical Partners is an active participant in this change.

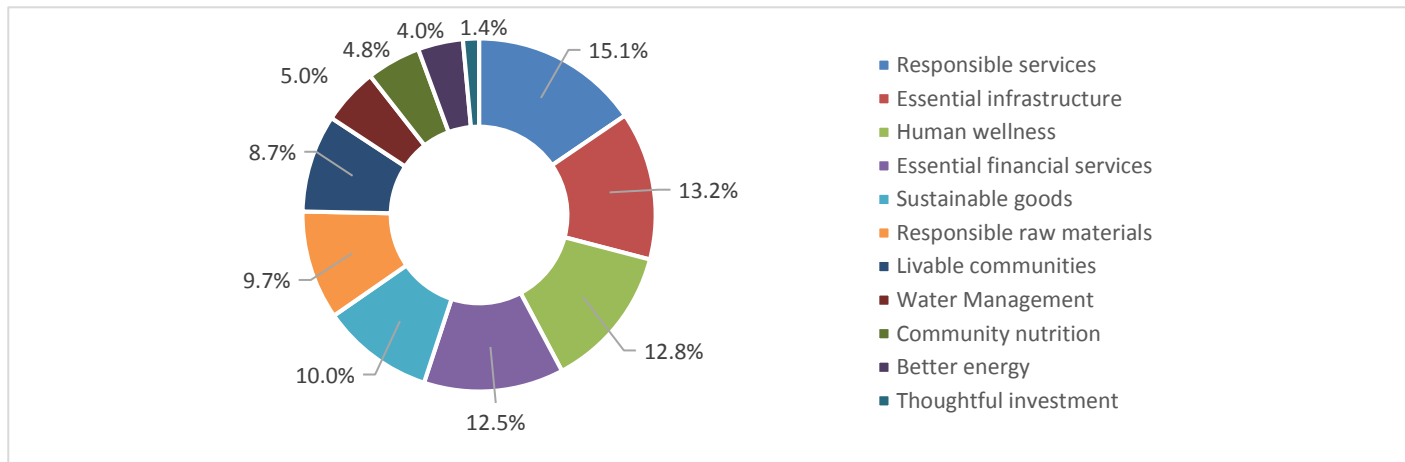
### **In the Studio: SCA Property's (ASX: SCP) focus on sustainability and improving sales and rent collection**

In Ethical Partners' new "In the Studio" series ([SCP interview: Click here](#)) we speak with Anthony Mellowes, CEO of SCP, about its focus on sustainability as well as strong recent sales performance and rent collection. SCP has a specific focus on the local communities in which it operates, has strong policies and procedures in place when it comes to managing the safety and working conditions of its contractors (cleaning and security is a particular focus) and ensuring its centres are as environmentally efficient as possible. Q1 FY21 sales grew 9% across the portfolio as an increasing number of shoppers choose to shop locally. Strength was seen across the board in most retail categories. Rent collection also improved considerably with cash collected as a proportion of the total rent roll reaching 97% in September. With interest rates expected to stay low for an extended period of time (at both the short and long end of the curve), term deposit rates at around 0.5% and 80% of SCP's rent roll coming from either supermarkets, fresh food stores or essential services, SCP's cash backed distribution yield in excess of 5% (pre acquisitions) looks significantly mispriced.

### **True Board diversity**

We have previously written on the sensitive and important issue of Cultural Heritage as it pertains to the large listed mining companies, in light of the tragic events at Juukan Gorge earlier this year. It is in that vein that we were very impressed to see that one of our key positions, the New Zealand based wholly renewable energy generation company Meridian Energy (ASX: MEZ), has a chosen Board representative for the relevant traditional owners. Meridian Energy are of the view, Ngāi Tahu (the principal Maori tribe of the South Island), have authority over the land and as such believe it to be of vital importance to ensure these crucial stakeholders have representation at Board level. Anake Goodall, the former Chief Executive Officer of Te Rūnanga o Ngāi Tahu (Ngāi Tahu's governing body), holds this position on the Board. We see this as a somewhat unique and positive move for listed companies to take and applaud Meridian for this step. We encourage listed companies (particularly in the extractives industry) to consider such a representative on their Boards to ensure all voices are not only heard but fairly represented. This is something we will continue to engage on. *(...continued over)*

## SECTOR EXPOSURE, OCTOBER 2020



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