EthicalPartners
FUNDS MANAGEMENT

Ethical Partners Australian Share Fund

JUNE 2021

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 30/6/21	$1.0194	$1.0171	$1.0219	$1.0115	$1.0237
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 & CEO
Nathan Parkin & Matt Nacard

GOOD INVESTING PODCAST
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Link to PDS

MONTHLY COMMENTARY

The Fund returned 25.22% (post fees) for FY21 versus the S&P/ASX 300 Accumulation Index return of 28.49% over the year to June 2021 (underperforming by -3.28%) capping the market's best financial year return in over 30 years.

The Fund remains very actively positioned and achieves returns in a very different way than the market index. Whereas the four major banks and the three major iron ore producers contributed just under half of the total market returns for the year, around eighty percent of the Fund's total returns for the year were from a combination of Bluescope Steel, IGO Limited, Westpac, Commonwealth Bank, Reece, Bega Cheese, NIB Holdings, PSC Insurance, Mirvac and Shopping Centres Australia. Outside of the banks the other stocks that were major contributors to Fund returns were mainly small and mid-cap companies with average index weight of 0.2%.

Our breadth of research means that the Fund participates in a more diverse range of investment opportunities than the overall market, with the index return concentrated around few major themes. There are two main benefits to our breadth of research; the first being around risk, with the Fund exposed to a more diverse range of economic factors with varying cycles; and secondly around returns, with the Fund not having to rely on a continuation of performance of the four major banks and three major iron ore companies to be able to generate competitive relative returns going forward, in our view. The Fund returns were also achieved during a strong year for the overall market and with the Fund carrying an underweight position in three strong sectors: Technology, Materials and Consumer Discretionary. The Fund was underweight (…over)

SIGNIFICANT HOLDINGS

Bega Cheese	Macquarie Group
Graincorp	Meridian Energy
IGO Limited	Mirvac
Insurance Australia Group	Qantas
OZ Minerals	Westpac

Performance as at 30 June, 2021

INVESTOR CLASS	1 MONTH %	3 MONTHS %	6 MONTHS %	12 MONTHS %	SINCE INCEPTION (ANNUALISED %)
Fund (after fees)	1.22	6.53	9.11	25.22	2.68
S&P/ASX 300 Accum	2.25	8.48	12.99	28.49	9.73
Excess	-1.03	-1.95	-3.88	-3.28	-7.06

Technology (FY21 sector return +40%) where we see valuations risks as too high and lack of cash flow in many cases, Materials (+77%) driven by iron ore and concentrated risk to China sales and Consumer Discretionary (+57%) amidst a not to be repeated boom in consumer spending driven by superannuation withdrawals and significant government fiscal stimulus.

Being a Value oriented Fund we outperformed strongly during the last three months of 2020 and consequently for the first half of the financial year. During the last quarter we have seen both Value factors and the Fund underperform, as bond yields traced back. While we remain unsatisfied with the Fund's relative performance we are satisfied that the Fund characteristics showed through as expected and with economic growth broadening out we believe the Fund is in a better position to capture excess returns going forward.

June 2021 Monthly Commentary

Inflation expectations remain a key topic for markets but our focus remains on how the macro environment allows us to position the portfolio in individual companies that we like, at compelling valuations. So while we pay attention to news such as the June US CPI print and the Federal Reserve's reaction to it, we keep our focus on individual stocks. We discuss what the current environment means for us, as a stockpicker below.

US CPI numbers were released mid-June and were slightly above expectations. While much of the ensuing debate centered around whether inflation is transitory or structural the important news for us is that the Fed confirmed that it will not step in to reign-in the economic and earnings recovery that is currently occurring.

What this means from a company bottom up point of view is that the demand growth that is driving the potential earnings upgrades at our chosen companies is more likely to occur, with continued assistance from Government fiscal policy and central bank liquidity. And while interest rates may not sharply increase, the ten year bond rate is unlikely to return to 2020 cycle lows in our view while the demand and the earnings recovery is taking place.

We observe two different cycles taking place at present.

One is a valuation cycle that arguably reached its peak somewhere in the last six months of 2020, driven by a decade of lower interest rates and exacerbated by excess liquidity, speculation on the future value of unprofitable companies and exacerbated further in 2020 by COVID lockdowns and short term spending habits of consumers. We see the long term drivers of this valuation cycle slowly unwinding and our view is that this cycle has now peaked.

The second cycle is about earnings growth from the depths of COVID and the emerging demand recovery and economic growth. We see this cycle as having just begun. The recent takeover activity (eg: Sydney Airports) highlights the market for private capital is starting to look through the earnings gap created by COVID and value companies on through-the-cycle earnings or recovered basis, while the listed market is still catching up. The equity of some listed companies where earnings recovery is likely is too cheap in our view. In addition, the earnings recovery cycle that is occurring is being intensified by high industrial capacity utilisation, cost savings initiated to survive during COVID and the long term underinvestment in the discovery and production of necessary commodities for an electrifying world.

During the month of June as the market sentiment swung wildly around the Fed discussions we used the market weakness in cyclicals to further position the portfolio further toward high quality commodity stocks and cyclical industrials with good outlooks going into August reporting season, strong balance sheets and superior management teams.

And despite the overall market being at record levels we have confidence in our portfolio and its relatively attractive valuation given our positioning in companies that are expected to grow earnings at a moderate to high rate over the next two to three years. Our team's research, knowledge of how companies generate profits and our judgement on valuations point to there being excellent investment opportunities available today.

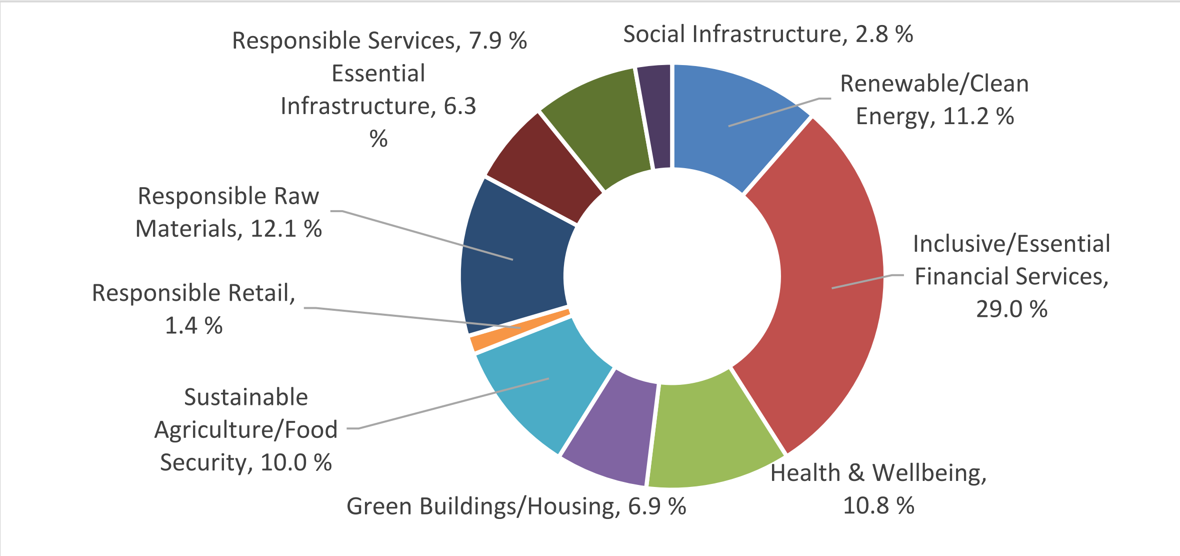
As discussed in previous reports we are currently positioned firmly in the earnings recovery cycle with an even more significant build-up of positions in earnings recovery stocks over the last three months from March to June 2021. Many of these stocks underperformed as ten year bond yields faded over the quarter. We estimate market consensus earnings for our major positions remains too low and valuations too cheap for the expected recovery.

ESG AND ENGAGEMENT COMMENTARY

Oceans Day

We recently recognised Oceans Day and acknowledge the vital roles of companies and investors to improve their practices in this area in order to build resilient marine ecosystems and sustainable fishing practices. This is also critical in addressing our global biodiversity crisis. Numerous of the SDG's, which are another important part of our investment process are also inextricably linked to ocean health including SDG 14 (Life below water), SDG 6 (Clean Water), SDG 15 (Life on land), SDG 2 (No hunger) and SDG 3 (Good health and wellbeing). The targets for SDG 14 specifically directly address reducing marine pollution, protecting ecosystems, fishing sustainably, ending subsidies that contribute to overfishing and conversing coastal and marine areas. In addition, there is a huge role for the ocean to play in helping mitigate climate change as it is the biggest carbon sink on the planet, storing up to 93% of all carbon, making ocean health a critical part of the way corporates and investors address Climate Change and SDG 13. As such, we aim to better understand and advocate for ocean health through our EPORA process, which includes assessing how companies address water, plastics and biodiversity risks across the ASX 200. We also have a deep commitment to and an active program of engaging with portfolio companies on these issues. Worryingly our recent EPORA analysis found that only 36% of companies even acknowledge biodiversity as a risk, and alarmingly, only 14% of companies disclose their practices and policies to reduce their impact. Similarly, our analysis found that only 36% of companies are addressing plastic waste specifically. There is even less attention to ocean health and water risks are still very much underappreciated across the market as a whole. There is clearly a lot more work for ASX companies to do to protect our oceans. Please read more about our thoughts and engagements in this area on this link:: https://www.ethicalpartners.com.au/post/ocean-day-8th-june-2021

SECTOR EXPOSURE, JUNE 2021



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