

Ethical Partners Australian Share Fund

APRIL 2022

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. The Fund has adopted a Net Zero Emissions by 2050 target.



	INVESTOR CLASS	CLASS A	CLASS B	CLASS C	CLASS E
Unit Price 30/4/22	\$1.0813	\$1.0750	\$1.0866	\$1.0639	\$1.0807
APIR code	EPF9951AU	EPF9964AU	EPF3813AU	ETL8683AU	-

INCEPTION DATE
8 August 2018

RESPONSIBLE ENTITY
Equity Trustees (ASX:EQT)

BENCHMARK
S&P/ASX 300 Accum. Index

UNIT PRICING
Daily

DISTRIBUTIONS
Every six months

BUY/SELL SPREAD
0.20%

MGT & PERFORMANCE FEE (PDS)
0.95% (+15% outperformance)

AVAILABILITY
Macquarie Wrap, Netwealth, HUB24, Clearstream, direct

MINIMUM INVESTMENT
\$25,000

PORTFOLIO MANAGERS
Nathan Parkin & Andrew Wilson

GOOD INVESTING PODCAST
[Link to episode – Daniel Flynn](#)

CEO: Matt Nacard
CONTACT: 02 8999 1228
investors@ethicalpartners.com.au
www.ethicalpartners.com.au
[Link to PDS](#)

Read about Net Zero 2050 [here](#)



MONTHLY COMMENTARY

During April 2022 the portfolio returned -0.73% versus the S&P/ASX 300 Accumulation Index of -0.84%, outperforming the market by 0.11%. An underweight position in Materials contributed to relative performance while an overweight position in Utilities (renewable energy) detracted from relative performance.

In recent years many investors (not us!) were just focused on companies that were growing revenues. They would tell CEO's to just get revenues up; through taking on as many customers as possible, at any price or through acquisition. The talk was all about potential market share of the total addressable market (TAM). How many times did we hear that? At the time the market was valuing the highest growth companies on revenue multiples. Now the same CEO's are being told to get EBIT up. But it's not that easy. Sales volumes are important to investors as a forward-looking indicator but companies are finding that by putting prices up or closing revenue leakage loopholes (eg: multiple households using the same Netflix account) they are now losing customers. Making EBIT is never as easy as generating revenue. At the same time, the equity market is now valuing businesses on EBIT multiples & PEs again. Add to this the fact that costs are now rising across the board makes it even more important to be generating profits. Our Investment Process that only allows the purchase of companies that generate positive cash flow has positioned the portfolio well to navigate the current environment.

But determining a company's actual baseline profit (and therefore the business value) with all of the government stimulus, commodity shortages, supply chain disruption and changes in consumer spending patterns over the past two years is tricky, let alone determining the right PE multiple to use. To do this, our team looks through the noise and determines where earnings are likely to be through FY23 and FY24 then applies a conservative PE or EBIT multiple (based on the quality of the

SIGNIFICANT HOLDINGS

Australian Clinical Labs (ACL)	Graincorp (GNC)
Bluescope (BSL)	Macquarie Group (MQG)
Breville Group (BRG)	Nobleoak Life (NOL)
CSR Limited (CSR)	Pinnacle Investment Mgt (PNI)
Goodman Group (GMG)	United Malt Group (UMG)

Performance as at 30 April 2022

INVESTOR CLASS	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	SINCE INCEPTION
	%	%	%	%	(ANN %)
Fund (after fees)	-0.73	5.01	0.41	10.70	4.12
S&P/ASX 300*	-0.84	8.21	3.36	10.17	8.99
Excess	0.11	-3.20	-2.95	0.53	-4.87

This newsletter is intended for wholesale and institutional investors only. *Accumulation Index

business and its growth prospects) and right now we can see some significant opportunities emerging across the Australian market.

We discuss the Consumer Discretionary sector here as one area of the market we think is presenting the most opportunities, despite the recessionary fears and multiple profit warnings in the sector that are occurring in the USA. For the last few years the Consumer Discretionary sector has been one of our largest underweight sector positions on the basis that profits were unsustainable. And During Covid lockdowns, while booming retail sales and online retailers generated one-time profits, we eschewed the sector because we felt that the earnings base and the PE multiples were both too high. One of the more extreme examples is Kogan (not owned) that in March 2020 traded at \$4, rose to \$24 and is now back to \$4 per share, adding and deleting around \$2.2bn of market cap on the round trip. During the recent weakness we have recently been building positions in very high quality Consumer Discretionary companies that we believe have now become opportunities as share prices have fallen.

Catching up with a lot of retailers in recent weeks we have been impressed to see how some companies are keeping ahead of supply chain issues, managing rapidly changing consumer behaviour and adopting new pricing strategies. One business was having factories work through what would otherwise be quiet production times of the year to build a full inventory position for the next six months, carrying hundreds of millions of dollars of inventory on the balance sheet so if China lockdowns move to different cities they won't be caught short. We heard of one business that is opening up alternative entry points to the USA to avoid choke points like LA Port. Many seem to be considering how best to offer the customer value in an environment where there might be less discretionary spending, selectively passing on increasing cost of goods and transport through pricing or lower levels of discounting. The best companies know their own economics so well they are prepared to do things differently, knowing where the payoffs are likely to be down the track.

So the market is in the process of deciding who the winners and losers will be, accompanied by all of the requisite volatility that goes with such a period. And it is in these times that we believe our team works at its best. Our company insights and experience in valuation of businesses, combined with a strict Investment Process keeps us focused on things we know, which helps in making clear decisions on new opportunities.

ESG AND ENGAGEMENT COMMENTARY

This month, Ethical Partners has been focused on deepening our analysis and our engagements regarding *Just Transition*, one of our key ESG focus areas this year. Our team was grateful to meet and talk with Dr Chris Briggs from the UTS Institute for Sustainable Futures for a very thought provoking session in which we gained a much richer knowledge base about the risks and opportunities in the energy transition and the key roles that must be played in ensuring it is equitable. We look forward to sharing more details on how this has informed our engagements in upcoming reports.

Ethical Partners has also been working with the IGCC on its upcoming circular economy report, in which we share a case study on our engagements with companies on food waste and how these engagements address not only our circular economy focus, but also the multiple interrelated ESG issues at a systems level. This is a topic Ethical Partners has written on before as a key focus for engagements over the last two years and we were pleased to be able to continue these engagements this month with several companies within our investable universe. We look forward to sharing the details on these in our engagement report later this year.

Finally, it has been great to be able to be able to meet with many companies this month, both locally and interstate, as well as many other ESG investors, NGO partners and experts, both directly and at events such as the RIAA Responsible Investment Conference, the IGCC presentation from two of the IPCC lead authors and through company meetings and ESG group events at the Macquarie conference. Our team has also recently been able to discuss ESG on several conference panels, including the Governance Institutes Women in Leadership Conference and the Moelis small cap ESG conference. It has been wonderful to see so many companies interested in learning more about how they can best address ESG in their operations, as well as seeing the wider business and governance community so passionately embracing collaboration on ESG.

SECTOR EXPOSURE, APRIL 2022 (% of the fund)



The **Good Investing Podcast** connects you with successful investors and business leaders who invest in, or are experts in, a range of industries... but do it with a difference. These leaders of industry are the best at what they do in their chosen field but all have one thing in common - they are passionate about doing things the right way and giving back to the communities in which they operate. **Episode 14: Daniel Flynn.** Many of us use Thankyou products every day. Learn about the Thankyou story from Co-Founder Daniel Flynn and how they have successfully taken on the big players in the industry. [Link to the episode](#) or go to Apple Podcasts, Google Podcasts, Spotify.



NetZero 2050
AUSTRALIAN SHARE FUND



Investor Group on Climate Change



Ethical Partners Management Services ACN 623 503 720 (EPMS) as Corporate Authorised Representative of Ethical Partners Funds Management Pty Ltd (EPFM) ACN 623 475 454; AFSL 504749 is the author of this newsletter and Equity Trustees Limited (ABN 46 004 031 298, AFSL 240975) (EQT) is the issuer and responsible entity of the Ethical Partners Australian Share Fund (Australian Share Fund). Access to this newsletter and the information on it is intended only for people or entities that are Wholesale investors or Sophisticated investors (as set out in the following paragraph). The information provided on this newsletter is general information only. The information has been prepared without taking into account your personal objectives, financial situation or particular needs. Therefore, before acting on any advice, you should consider the appropriateness of the advice in light of your own or your client's objectives, financial situation or needs. You are responsible for all of your activity in connection with accessing the newsletter. The Zenith Investment Partners (ABN 27 103132 672, AFS Licence 226872) ("Zenith") rating (assigned May 2020) referred to in this document is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at <http://www.zenithpartners.com.au/RegulatoryGuidelines>. The information contained in the Ethical Partners Good Investing Podcast is for general informational purposes only and does not constitute investment or financial advice. You should seek tailored advice specific to your circumstances before making any investment decisions. For Ethical Partners Funds Management Target Market Determination (TMD) please Click here. The TMD describes who financial products issued by Ethical Partners or its Responsible Entity are likely to be appropriate for (i.e. the target market), and any conditions around how products can be distributed to investors. It also describes the events or circumstances where the TMD for financial products may need to be reviewed.