

# Ethical Partners Australian Share Fund

JUNE 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
Cum Price 30/6/22	\$0.9139	\$0.9088	\$0.9188	\$0.8998
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 – Margo Ward and Paul Hines](#)

CEO: Matt Nacard  
CONTACT: 02 8999 1228  
[investors@ethicalpartners.com.au](mailto:investors@ethicalpartners.com.au)  
[www.ethicalpartners.com.au](http://www.ethicalpartners.com.au)  
[Link to PDS](#)  
Read about Net Zero 2050 [here](#)



## MONTHLY COMMENTARY

During June 2022 the Fund returned -10.47% versus the S&P/ASX 300 Accumulation Index of -8.97%, underperforming the market by -1.51%. An underweight position in the Top 20 stocks, namely Woodside, Transurban and CSL Limited was the main reason for the underperformance during the month. A number of our newly established positions underperformed the market into the end of June, including McMillan Shakespeare, Reece, Breville and Pinnacle. Pleasingly however, nine out of ten of these new positions have outperformed in the month of July to date.

Increases in interest rates have had a material effect on valuations in the calendar year to date with the next shoe to drop being earnings downgrades as the economy slows. But it is true that some stocks have already seen consensus earnings expectations fall while the market has lagged this move for others. Despite increases in interest rates, Transurban with over \$15bn of net debt has not seen any FY23 eps downgrades as yet and the stock has barely fallen since the market started selling off. Whereas Breville, a consumer discretionary stock, has seen FY23 earnings downgrades of around 5% while the stock has fallen around 40% as the market anticipates, perhaps a bit too enthusiastically, that sales and profits are going to fall materially from here.

Newly established portfolio positions fall primarily into two categories. The first being stocks where consensus earnings expectations have already fallen and taken the stock price with it to attractive valuation levels, considering the new outlook. The second category is where the stock price has already well and truly priced in the likely earnings downgrades to come. In August, at the next opportunity for companies to update the market at their full year financial results, we believe that for our positions, the outlook will either not be as bad as consensus now expects or if the stock has reached a valuation level that is attractive enough (even with consideration

## SIGNIFICANT HOLDINGS

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

## Performance as at 30 June 2022

INVESTOR CLASS	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	SINCE INCEPTION (ANN %)
	%	%	%	%	
Fund (after fees)	-10.47	-16.09	-18.66	-8.99	0.46
S&P/ASX 300*	-8.97	-12.22	-10.39	-6.78	5.23
Excess	-1.51	-3.88	-8.27	-2.22	-5.69

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

to a worse outlook) these positions have the potential to significantly outperform.

Good investment opportunities occur during poor market sentiment. And while buying into weakness can have a short term cost it can also maximise the medium term return potential for any investment. In one example of how poor market sentiment is currently, in recent weeks one of Australia's largest retail brokerages did a survey of share advisors. 86% of respondents are currently bearish to neutral on the market and their favourite stock to own in this environment? BHP Limited. 72% of advisors were predominantly investing in Australian Large Caps with only 12% currently liking Australian Small Caps. BHP is actually down -8.7% since the survey while the Small Ords is up +1.5% over the same time, showing that crowded trades aren't the ones you want to have a major exposure to. The portfolio has sold all of its major Transition Commodity and Resources positions into share price strength in the last few months so recent commodity and resources weakness is not affecting the portfolio. Our view is that the uncrowded (but quality) areas of the market have the most promise from here.

Another thing that might help market sentiment in coming months is the run rate of inflation. Despite the predominance of inflation talk and the resultant central bank rate hike fears across markets it is difficult to see any hard or soft commodity that is actually going up right now. And we know that inflation is a lagging indicator. Additionally, the UBS Supply Chain Stress Indicator is also showing an improvement, indicating lower order backlog, better shipping and airfreight costs, improving empty/full container ratios and order/inventory data. This might also just be a reflection of a slowing global economy. As supply chain pressures ease this will also help the backward looking inflation numbers that are due to be released. As these measures stabilize we believe it will help confidence to be restored to markets even as economic growth potentially slows.

We are carefully sorting through the Australian equity market turmoil to determine the best opportunities that fit our conservative investment approach. Today the portfolio contains a good balance of defensive businesses with enduring but low growth potential and companies with higher prospects for growth in earnings (bought at a Value price) that will display their full potential when markets stabilize.

#### **ESG AND ENGAGEMENT COMMENTARY**

Ethical Partners travelled to New Zealand to visit the assets of one of our portfolio companies and ESG leaders, Meridian to gain a better understanding of their important role in the New Zealand renewable energy generation. We were able to tour their wind farms and their hydro-electric assets across the country. This was a valuable experience in order to better understand their operations on the ground, and the passionate commitment of their entire team, from the operational staff right through to the chairman towards clean energy, their own footprint, their potential role in green hydrogen, and their policy engagement regarding country wide decarbonisation planning. It was also a good chance to better understand and discuss their policies and practices involving cultural heritage and their consultation, consenting and collaboration with the Maori Iwi People. It also resulted (somewhat unexpectedly) in our Investment Director, harnessed, standing on top of a 80 metre wind turbine. This left us with a huge appreciation of the detailed, active and very dedicated safety program that Meridian has in place for staff, contractors - and visiting shareholders!

Whilst in New Zealand, we were also able to visit and observe the progress in the decarbonisation work being undertaken at Synlait, which process the milk for portfolio company A2 Milk and learn about their targets and their active commitment to converting their boilers to biomass and electrification, which we were able to view first hand with their CFO and Sustainability leadership team. We were also able to speak at length with Fonterra and Synlait about the challenge of decarbonising New Zealand's large agricultural carbon emissions footprint and the work being undertaken by both these companies to work with their farmers, provide incentives, certifications, education and support. Natural capital, water and reforestation was another very active conversation with all the companies we met in New Zealand, and once again the heightened awareness of the Maori cultural heritage throughout all the companies we visited.. Good read throughs here for Australian companies. We were also able to meet with portfolio company Kathmandu, and discuss ESG reporting, their circularity initiatives and many other sustainability related trends and topics.

We were also able to discuss circular economy initiatives with Fletcher Building, including their use of burning waste tyres and soft plastics to replace coal for cement and learn more about both the challenges, but also ambition, initiatives and progress towards displacing thermal coal and meeting their decarbonisation targets.

We also met with ANZ and discussed issues such as agricultural loan credit risk, decarbonisation targets and agricultural transition planning with their CEO and CFO, as well as discussing their rapidly increasing work in the sustainability linked loan space. We met with a Deputy Governor of the RBNZ, with whom we were able to discuss their regulatory landscape, mandatory reporting, TCFD, transition related credit risk, stress testing and their policy work in the decarbonisation space.

Finally, back in Australia, our team has been very active this month in analysing, discussing and integrating the results of our annual EPORA analysis and screening process. We conducted several team wide roundtables yielding invaluable insights into the interconnected and material issues we are seeing across our portfolio companies including the top down trends and patterns we are seeing across the ASX. The sustainability team has also been analysing the findings across 240 companies, determining our priorities from the key gaps and findings of this analysis and further building off this EPORA research to build a detailed engagement plan for each of the relevant and material issues, for all companies across our portfolio, which will be undertaken in conjunction with the analyst team over the coming year.

**SECTOR EXPOSURE, JUNE 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 15 – Part A: Margo Ward and Paul Hines.** These two corporate titans have developed a very unique culture at their respective companies. Business leaders wanting insights into how good corporate culture is shaped and developed, tune in. [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.