

Performance Net (%)	1 Month	3 Month	1 Year	3 Year p.a.	Since Inception* p.a.
Australian Equities Fund	1.14	7.85	32.39	6.46	10.04
S&P/ASX 200 - Total Return	2.26	8.29	27.80	9.59	10.43
Excess Return	-1.12	-0.44	4.59	-3.13	-0.39

* Inception date - 02 August 2017

Investment Objective

The Fund aims to outperform the S&P/ASX 200 Total Return Index (after fees and before taxes) over a rolling three to five year period.

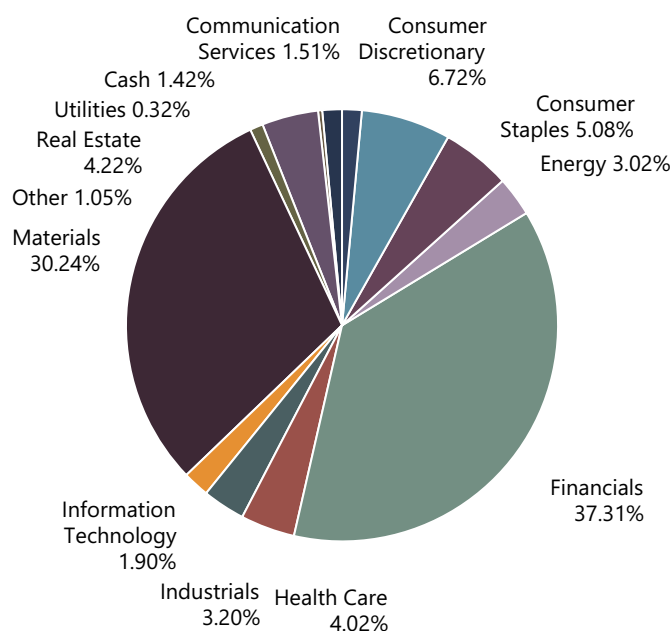
Lead Portfolio Manager

Troy Angus

Fund Overview

The highly experienced team use a detailed fundamental research process to find stocks that are growing faster with better outlooks over the next 3-5 years. The fund is agnostic of investment style and has a focus on capital preservation.

Sector Allocation



Key Details

Number of Holdings	47
Portfolio Dividend Yield	2.31%
Fund Size (AUD)	\$34M

Top 10 Positions

	Weight %
BHP Group Ltd.	12.99
Commonwealth Bank of Australia	8.36
Westpac Banking Corporation	7.18
Australia and New Zealand Banking Group Ltd.	6.66
National Australia Bank Ltd.	5.33
CSL Ltd.	4.02
Macquarie Group Ltd.	4.01
QBE Insurance Group Ltd.	3.39
Incitec Pivot Ltd.	3.39
Goodman Group	3.15

Fund Details

APIR Code	ETL8084AU
Distribution Frequency	Semi-Annually
Management Fee ¹	0.75% p.a.
Performance Fee	15% p.a.
Buy Sell Spread	+/- 0.20%
Minimum Investment	\$20,000
Stock Range	30 - 50
Cash Range	0-10%

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Australian Equities Fund

Market Review

For the purposes of comparison, commentary is quoted in AUD terms and Australian sector returns refers to the S&P/ASX 200 Total Return Index except where stated otherwise

Global equity markets continued to rebound strongly with the MSCI World Net Total Return Index rising 7.7% (in USD) over the June quarter as the economic growth outlook continued to improve. The S&P/ASX 200 Total Return Index rose 8.3%.

The key drivers were ongoing material fiscal and monetary stimulus; and further expanding consumer and business confidence as vaccine rollouts continued and movement restrictions eased. The JP Morgan Global Composite Purchasing Manufacturers Index rose from 54.8 points in March 2021 to 58.4 points in June. Inflation expectations have lifted since the beginning of the year and company surveys show pressures are evident, on the back of recovering demand and supply constraints.

However, the Federal Open Market Committee (FOMC), the Reserve Bank of Australia (RBA) and other central banks have concluded these inflationary pressures are only “transitory”. Also, the pace of acceleration of economic activity (i.e. the second derivative) has slowed, as economies globally begin to cycle the first of the stimulus packages from early in the crisis. For example, the Citi US Economic Surprise Index after ranging 20.6-90.2 in the March quarter, has dropped to range -0.6-50.6 in the June quarter.

As a result, the US 10-year yield fell 27bps and the US yield curve flattened 36bps in the Jun quarter, while the Australian 10-year fell 26bps. The US yield curve has still steepened 43bps in 2021 though.

The Bloomberg Commodity Total Return Index rose 15.1% during the quarter, the largest quarterly move since June 2016, on the back of strong demand. Thermal and coking coal prices rose 42% and 34% respectively. Iron ore gained 30.6%. Brent and WTI were up 20.1% and 26.2% after OPEC failed to agree on supply increases, which is convenient as the status quo (supply restriction) remains.

In Australia, tech stocks led the surge in the S&P/ASX 200 Total Return Index this quarter, gaining 12.1%. Discretionary at +11.2% followed closely behind, boosted by Consumer Services in particular, which rose 12.7%. Utilities lagged, dropping 4.5%. Energy was down 2.9%.

Banks first half earnings were robust with capital and margins standing out, in addition to some (expected) provision releases.

During the quarter merger and acquisition activity continued to heat up with, for example, Star Entertainment making a script proposal for Crown, and Seven Group for Boral.

Performance

The portfolio performance was near flat over the quarter.

The top relative contributors to performance for the quarter are as follows:

Galaxy Resources (GXY) Overweight Galaxy rose on a merger with Orocobre that will create a global top five lithium producer.

Uniti Group (UWL) Overweight Uniti outperformed as broadacre housing approvals rose, accelerating demand for their fibre assets.

ALS (ALQ) Overweight ALS reported their full year results that showed positive operating trends, particularly in the geochemistry division which is seeing strong demand from rising commodity prices.

The top relative detractors from performance for the quarter are as follows:

Incitec Pivot (IPL) Overweight Incitec underperformed following news that their US ammonia plant was not working properly. The outages mean they risk missing out on harnessing the benefits of the current high ammonia prices.

Santos (STO) Overweight Santos outperformed peers, but the Energy sector underperformed despite a rising oil price as investors increased their focus on carbon emissions and forced asset divestitures in the sector.

Aristocrat Leisure (ALL) Underweight (not held) Aristocrat announced their half year report that revealed a strong recovery in land-based gaming in the US, while their digital business continued to perform well.

ESG

Paradice Developments

Paradice joined the Investors Against Slavery and Trafficking (IAST) as a support investor to Ansell. The importance of Modern Slavery analysis is highlighted by the recent actions of the US Customs and Border Protection (CBP) and its seizure of Top Glove manufactured disposable gloves.

Paradice implemented its overarching Responsible Investment Policy. In line with our commitment not to invest in tobacco growers or manufacturers, we have signed the Tobacco-free Portfolio Pledge. In addition, in alignment with Paradice’s support of the Paris Agreement, and our belief that thermal coal is facing long-term structural headwinds, we will not become a substantial shareholder (defined as owning more than 5% of the company) in companies whose primary business generates over 25% of revenues from mining or transportation of thermal coal.

Paradice is now a member of the Responsible Investment Association Australasia (RIAA). This membership will allow us access to a broader range of collaborative working groups and engagement opportunities that we intend to utilise moving forward.

Notable Global and Australian Developments

A number of countries have accelerated their climate change commitments. The Biden administration has set a new target of a 50-52% reduction from 2005 levels – effectively doubling the previous commitment under President Obama. The EU increased its target from a 40% to 55% reduction in emission by 2030.

Exxon and Chevron came under pressure from shareholder activism over the companies' climate strategy to date. Shell faced a court order to cut its carbon emissions by 45% by 2030 going beyond its existing target.

Seven European countries, accounting for 40% of export financing in OECD, have formally pledged to end financing for fossil fuel projects by export finance agencies, while speeding up efforts to reduce public funding for polluting high-emissions energy sources. Denmark, France, Germany, the Netherlands, Spain, Sweden and the United Kingdom announced a new alliance, Alliance of Export Finance for the Future (E3F). The NSW Government will waive stamp duty on EV purchases and provide subsidies for 25,000 new purchases as part of a \$490m strategy to drive uptake of EVs. A road user tax will be postponed for 6 years or until new EVs make up 30% of new car sales.

The ANZPAC Plastics Pact was launched. 60 organisations including Woolworths, Coles, Amcor and Coca Cola have signed the pact committing to making plastic packaging reusable, recyclable or compostable by 2025.

Outlook

The portfolio is positioned to benefit from reflation, and a rotation from growth and long duration stocks to value and more economically cyclical exposure.

We anticipate an improving economic outlook, and upgrades to growth and inflation forecasts, in Australia and globally. Supportive governments, monetary authority stimulus, and better than expected COVID health outcomes, are boosting consumer and business confidence.

The improving economic environment should continue to drive a recovery in the earnings profile of Materials and Financial stocks where the portfolio is positioned overweight.

Increasing inflation through the year should continue to drive interest rates higher, and a rotation away from long duration growth stocks. The portfolio is underweight IT, Healthcare, Infrastructure, Telcos and utilities.

We acknowledge the pathway to a reflationary environment may not be smooth and take some time to play out. There is some degree of capacity constraints (e.g. access to semi-conductors, available workers due to ongoing stimulus payments, and oil prices) which may hold back activity levels and dampen elevated margin expectations. As these constraints abate, strong consumer balance sheets and underlying demand should make way for higher growth forecasts.

The portfolio is overweight commodity stocks exposed to electric vehicles as governments globally look to accelerate that transition. The portfolio has exposure to some sectors of the economy that are reopening post pandemic such as air travel and gaming but avoids those where COVID impacts persist medium term despite vaccine success, such as office REITs.

The portfolio is near market weight Energy stocks. Ordinarily market dynamics would favour more exposure. However, the balance of risks on the oil price is skewed to the downside. Oil back in the USD \$60's puts US Shale back into profitability, and individual OPEC members face the prospect of enjoying extra profits if they break ranks and they have excess capacity.