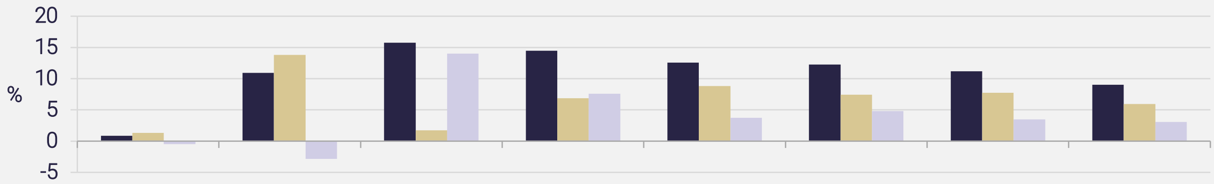
Fund Update

PLATYPUS
ASSET MANAGEMENT

Platypus Australian Equities Fund

31 December 2020
QUARTERLY

Performance as at 31 December 2020



	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Since inception % p.a.
Total return	**0.85**	**10.93**	**15.76**	**14.45**	**12.57**	**12.26**	**11.21**	**9.02**
S&P/ASX 300 Acc. Index	1.32	13.79	1.73	6.87	8.84	7.45	7.75	5.95
Active return	-0.47	-2.86	14.03	7.58	3.73	4.81	3.46	3.07

Performance returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance. Inception date for performance calculations is 30 April 2006.

Quarter in Review

The portfolio returned 10.93% in the December quarter and underperformed the benchmark by -2.86%. Notable contributions to relative performance came from Xero (1.19%), REA Group (0.67%) and Nuix (0.5%). Notable detractors included CSL (-0.63%), Nextdc (-0.56%) and a nil weight in Commonwealth Bank (-0.93%).

At the sector level positive contributions came from Information Technology (1.16%), Industrials (1%) and Communication Services (0.74%), while notable detractors at sector level were Financials (-2.15%), Health Care (-1.56%) and Consumer Discretionary (-0.81%).

In terms of changes to the portfolio, we added to our position in BHP Group on a more positive medium term outlook on Iron Ore price given continued supply constraints out of Vale coupled with robust demand from China. We also added to our position in Aristocrat Leisure as the company is expected to benefit from relaxation of movement restrictions, once COVID-19 infection rates are under control. Until then, the company has demonstrated ability to effectively manage costs and deliver solid results from its digital division. In addition, we added to our position in NetWealth Group on expectations of positive medium term earnings growth. We took partial profits in Xero and Northern Star during the quarter and reduced our position in Monadelphous Group as the share price recovered during the quarter. During the quarter we also participated in the IPO of Nuix, a cybersecurity platform provider with large addressable market and strong, medium-to-long term, earnings growth opportunity.

Sector in Review

The S&P/ASX300 index returned 13.79% in the quarter, neutral with other indices in their respective local currencies. The index grew in all three months of the quarter, with November returning impressive double-digit growth, alongside other global benchmarks.

Negative sentiment that was building amongst the global investment community in the September quarter on the back of a rising number of COVID-19 infections in Northern Hemisphere was shrugged off in November as positive news on the two leading vaccine trials (Pfizer and Moderna) provided optimism that lockdown restrictions will not continue to impede normal economic activity for much longer. This was a catalyst for risk assets including equities to rally. With performance skewed to those stocks that have underperformed expected to benefit from lockdown restrictions easing. A number of major economies, including the US and the UK, have already approved and started administering COVID-19 vaccines; however, as we are writing this report the latest news suggests that the administration of those vaccines (in particular of the Pfizer vaccine that require complex cold supply chain) is proving more difficult than originally anticipated. The progress of mass inoculation is behind expectations almost everywhere, except in Israel and a number of European countries have reintroduced and extended strict lock down restrictions.

Other major global developments during the quarter included the outcome of the US Presidential Elections, which delivered a win for the Democratic candidate Joe Biden but failed to deliver a much anticipated 'Blue Wave', although at the time of writing run offs in Georgia have gone to the Democrats handing them the control of the upper house. In addition, the stalemate on the latest round of the US stimulus was finally resolved late in the quarter, with the US Senate approving ~$900b relief package, which included a direct payment of $600 to those earning less than $75,000.

Domestically, the fiscally supportive 2020 Australian Federal Budget was delivered in October and the Reserve Bank of Australia cut the cash rate to 10bps and provided additional supporting measures in November. Bottom up company news flow was also positive with broadly positive updates from companies during the domestic AGM season. During the quarter, most domestic lock down restrictions had been eased with Australia achieving a number of weeks with negligible to no local transmissions of COVID-19. However, a new outbreak in the Northern Beaches of Sydney in

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mid-December, followed by new clusters of local transmissions in both NSW and VIC, have seen a reintroduction of some lockdown measures and interstate border closures as the year ended. Trade tension between China and Australia accelerated during the quarter with Chinese government introducing tariffs or enquiries into a range of commodities, including wine, lobsters, barley, coal and timber.

The Australian Dollar appreciated ~7.5% during the quarter against the US Dollar, to $0.77.

On the commodities front during the quarter the Gold price remained broadly stable, despite the intra-quarter volatility, which saw gold price decline by ~5% in November as risk assets caught a bid. As we write this report, gold price is recovering back to +U$1940/oz. level on the back of the latest bout of COVID-19 related negativity. Iron Ore and Copper remained well bid during this quarter again. Copper was up ~19% in the quarter, while Iron Ore price increased ~32% driven by continued supply disruption out of Brazil and ongoing robust demand from China. Oil price, much like Gold, was volatile in the quarter, delivering a high single digit decline in October, followed by a strong double-digit increase in November. It finished the quarter up ~19%.

In terms of sector returns, Energy (26.11%), Financials (22.77%) and Information Technology (22.77%) led the market higher, with Utilities (-5.41%), Health Care (-0.99%) and Industrials (5.74%) being the notable laggards.

Outlook

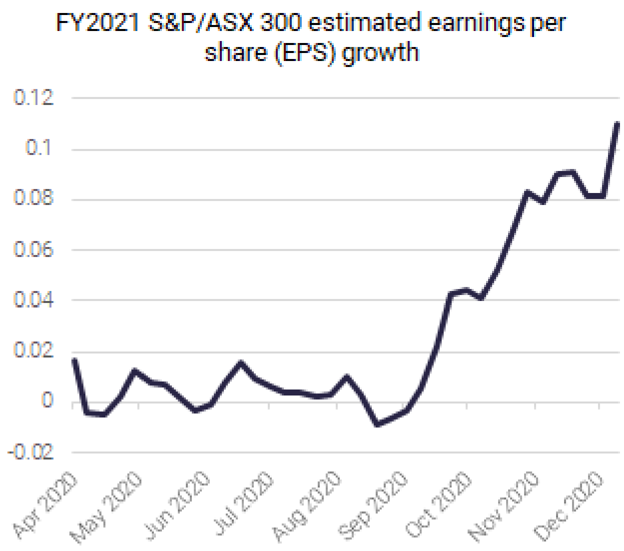
To describe 2020 as an "extraordinary year" would be an understatement. In drafting this commentary, we reviewed our outlook for 2020 to find that this time last year, while we were worrying about the timing of the next US recession and outcome of trade negotiations between US and China, the worst global pandemic in 100 years completely sideswiped us. Therefore, with greater humility we attempt to put our thoughts for 2021 on paper.

This year an unusually strong consensus appears to have emerged for a 2021 outlook, which goes along the following lines:

- The global economy will recover strongly in 2021, supported by the unprecedented level of fiscal support provided in 2020 that has come on top of the expanded monetary stimulus. The US government is said to have spent approximately 10% of its GDP in pandemic support measures and the Federal Reserve balance sheet is nearing US$10 trillion. In other major economies around the world the numbers are not too dissimilar;
- Equity markets will provide handsome returns as earnings recover sharply in a favourable operating environment. Many strategists are calling for returns in the range of 10-20% from equities in 2021;
- Bonds and other safe haven assets will be sold as investors add risk to their portfolios. Most experts expect the US 10-year bond yield to rise from the current 1.12% to between 1.25% and 2.0%. Likewise many have called a top in the price of gold for the current move;
- The US$ being a counter cyclical currency will remain under pressure and commodities will remain strong; and
- 'Reopen' or 'vaccine' beneficiaries will outperform 'COVID-19' winners.

A weak and almost inaudible counter argument to the above narrative points to the possibility that Northern Hemisphere second wave of the virus is likely to see global economy weaken in Q4 2020 and Q1 2021. This minority is also concerned about valuations being stretched and that the stimulus measures that underpin the consensus view may be unwound sooner than expected. For example, Momentum in China's money supply growth has peaked and may be a lead indicator of tighter policy settings for 2021.

We lean firmly towards the consensus view in terms of our outlook for 2021 and therefore we are bullish. Whilst we acknowledge that there are near term headwinds to the economy, we believe that the market will look through this weakness now that pathway for an effective and scalable vaccine(s) has become clearer. On the valuation argument, again we acknowledge that the market has priced quite a bit of the recovery already, but the operating environment is very supportive for businesses and analyst earnings expectations are clearly in a catch up mode. This is visible on the chart below therefore earnings recovery could materially surprise to the upside. The trickiest one to handicap of course is the path that monetary policy takes towards normalisation, which, if ever achieved, will have a profound impact on asset prices. Again, we are happy to back the consensus that this is not a 2021 problem, by simply taking the majority of the central bankers at face value that they are in no rush to remove support.



Source: FactSet, Platypus

In summary, we think that Australian equity market has a very good chance of making new all-time highs in 2021.

Portfolio Strategy

The long term structural growth businesses held in the portfolio that have benefitted from the pandemic, and are trading at high valuations, will continue to be held and will be added to opportunistically if they meet one or more the following criteria:

a. The pandemic has expanded their total addressable market (e.g. FPH, APT);

b. The conversion of their total addressable market to revenues is likely to be faster in the post-COVID world (e.g. NXT, RMD, XRO);

c. The business is in a stronger competitive position exiting the pandemic (e.g. ALL, COH); and,

d. The business had strong operating momentum pre-pandemic (e.g. REH, GMG, JBH).

A better macroeconomic outlook for 2021 does mean that these stocks will have to 'digest' their pandemic performance, but their long term prospects remain strong which should see them reassert their leadership once the cyclical recovery is discounted by the market. The longer-term risk to the performance of these stocks could come from a regime shift in higher inflation expectations and sustained higher bond yields/steeper yield curves that could see these stocks de-rate permanently.

The cyclical growth stocks (e.g. BHP, QUB) held in the portfolio should experience a more supportive operating environment in 2021 and if the environment extends beyond the next calendar year, we would look to add to exposures.

Finally, the portfolio has reasonable exposure to the 'reopen' beneficiaries most of which fit well in our portfolio longer term (e.g. AIA, IEL), being high quality businesses with the prospect of enduring growth in revenues and earnings.

Commentary courtesy of Platypus Asset Management Pty Limited
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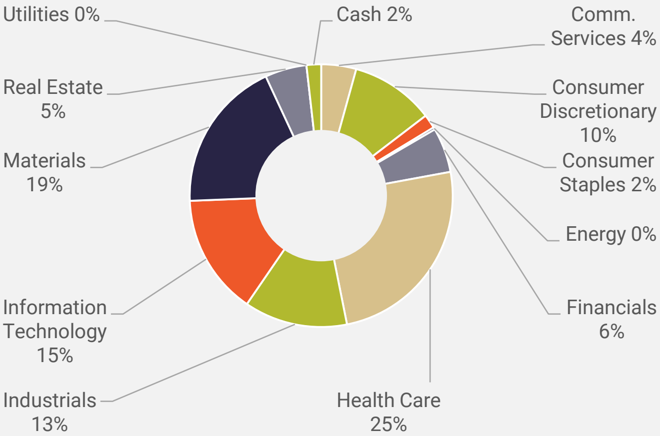
Sector Allocation



GICS Sector	Portfolio%	Benchmark%	Active%
Communication Services	4.30	4.05	0.25
Consumer Discretionary	10.30	7.68	2.62
Consumer Staples	1.71	5.88	-4.17
Energy	0.29	3.76	-3.48
Financials	5.51	27.12	-21.61
Health Care	24.76	10.61	14.14
Industrials	12.70	7.18	5.52
Information Technology	14.82	4.64	10.18
Materials	18.71	20.48	-1.77
Real Estate	5.12	7.26	-2.14
Utilities	0.00	1.35	-1.35
Cash	1.79	0.00	1.79

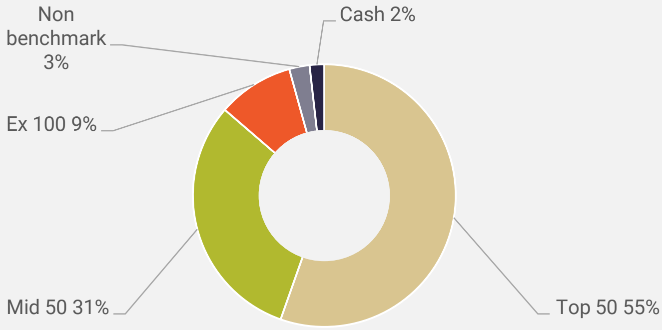
Asset Allocation

Asset Class	Portfolio%
Australian Shares	98.21
Cash	1.79

Top 5 Holdings

Company	Portfolio%	Benchmark%	Active%
BHP Group Limited	10.96	6.56	4.40
CSL Limited	10.88	6.76	4.11
Xero Limited	5.68	0.90	4.78
Goodman Group	5.12	1.67	3.46
Nextdc Limited	4.66	0.29	4.37

Market Capitalisation



Market Cap Band	Portfolio%	Benchmark%	Active%
Top 50	55.40	73.83	-18.43
Mid 50	30.93	13.54	17.39
Ex 100	9.37	12.62	-3.25
Non benchmark	2.50	0.00	2.50
Cash	1.79	0.00	1.79

Fund Snapshot

	Wholesale Units
APIR Code	AUS0030AU
Inception date	30 April 2006
Fund size (net asset value)	$201 m
Minimum initial investment	$5,000
Management Fees	0.76% p.a.
Estimated Recoverable Expenses	0.12% of net asset value of the Fund for each financial year ending 30 June.
Performance Fees	15.375% of the excess performance over the relevant Index^
Buy/Sell spread	0.20%/0.20%
Distributions	Half yearly
Advice fee	Available

^ Refer to the PDS for more information about the Performance Fee.

Important Information

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