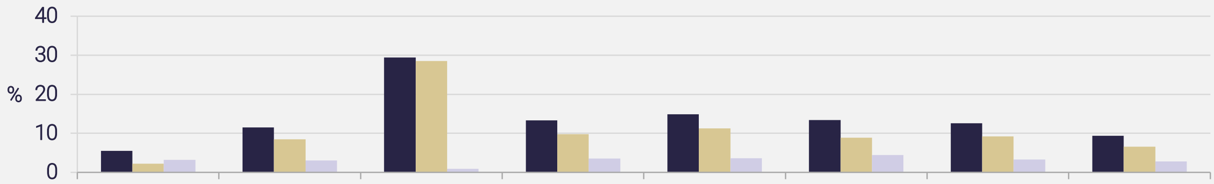
Fund Update

PLATYPUS ASSET MANAGEMENT

Platypus Australian Equities Fund

30 June 2021
QUARTERLY

Performance as at 30 June 2021



	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	**5.48**	**11.55**	**29.39**	**13.35**	**14.86**	**13.37**	**12.54**	**9.41**
S&P/ASX 300 Acc. Index	2.25	8.48	28.49	9.77	11.26	8.90	9.21	6.60
Active return	3.23	3.07	0.90	3.58	3.60	4.47	3.33	2.81

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 +11.55% in the June 2021 quarter, outperforming the benchmark by +3.07%. Notable contributions to relative performance came from Reece +0.97%, ResMed +0.92%, and Aristocrat +0.54%. Notable detractors included nil weight in Commonwealth Bank -0.59%, Ramsey Health Care -0.36% and Fisher and Paykel -0.33%.

RMD has two positive near term drivers to its revenues being the launch of a new flow generator device and a large-scale product recall from Phillips, a key competitor in the obstructive sleep apnoea device market. REH has a strong history of "bottom-up" execution in Australia and there is early evidence of them successfully exporting their winning ways to their US business. Cyclical tailwinds in both Australia and US will be helpful for their business. ALL reported solid first half FY21 results and appear to be gaining share in their land-based business in North America whilst successfully monetising games in their digital businesses.

CBA has been a strong performer along with the other major banks as leveraged beneficiaries of a recovering economy. Outlook for the banking sector's revenues remains favourable over the next 18-24 months but it is difficult to see the momentum sustaining beyond that period. Recovery in RHC's volumes have been slower and more protracted than expected. Their acquisition of Spire Healthcare in the UK whilst strategically sensible could weigh on share price performance in the near term. We have exited the position in RHC. JBH, like a number of COVID-19 winners, will have to cycle difficult comparative periods but the longer term positive investment thesis around the stock remains unchanged.

At the sector level, positive contributors included Health Care +0.89%, Industrials +0.72% and underweight in Financials +0.44%. The portfolio maintains an overweight stance in Health Care and Industrials sectors whilst holding an 'in line' weight in Communication Services. Only Materials -0.26% sector in which the portfolio tilt is again 'in line' with the market, detracted from performance in the last three months along with a drag from Cash of -0.19% in a rising market.

Notable changes to the portfolio included divestment of the RHC position mentioned above, along with exits from MND, QAN and NXL. The residual position in MND was exited as evidence of labour shortages in Western Australia and its impact on margins for mining services businesses started to emerge. QAN was profitably divested on the share price approaching fair valuation and the NXL position was sold in compliance with our capital management rules after the company disappointingly downgraded prospectus forecasts. The additions to the portfolio included two funds management businesses being MFG and PDL – both on the back of expectations for improved/resilient flows and reasonable valuation in a constructive environment for equities markets. The remainder of the trading activity related to marginal additions or reduction of existing positions.

Sector in Review

The S&P/ASX300 index returned 8.48% in the quarter, following on from a strong March 2021 quarter and delivering a strong start to calendar 2021.

A continued strong recovery in corporate earnings globally has been the main driver of markets. Notwithstanding the slightly more hawkish US Federal Reserve communication in June, monetary policy settings remain accommodative around the world (see Outlook section of this report for further discussion), and this has supported the continued recovery in economic activity and corporate profitability. Impressive progress was seen in the vaccine roll out in countries like Israel, the United States and the UK, although there have been serious setbacks in terms of deadly waves of the pandemic ripping through some countries like India and Brazil. A more recent surge in case numbers in Australia is also a concern. Despite these subsequent waves of the infection, macroeconomic data pointed to continued recovery in economic activity globally including here in Australia

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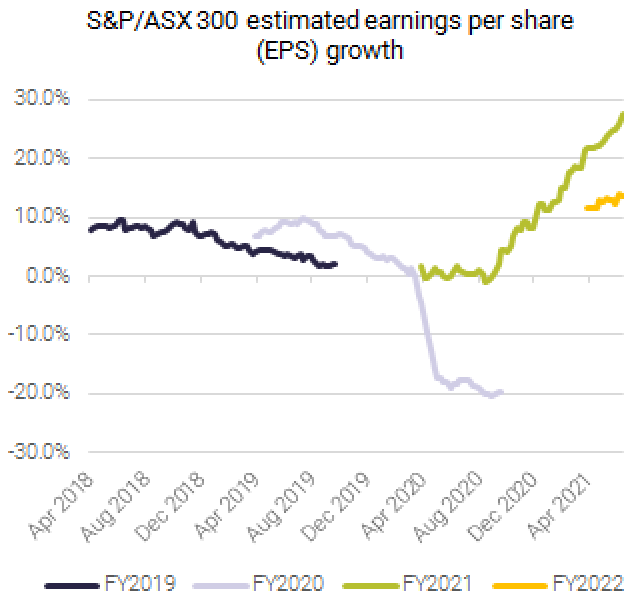
where our economy has now grown bigger than its pre-COVID-19 size. Not everything is running smoothly of course with supply chains still far from normal and many businesses calling out difficulties in securing materials and labour as demand recovers. In this context, inflation is an area of particular focus for markets. However, it was interesting to note that the higher CPI prints in the US since March have not yet caused any dramas in markets. Investors seem to be accepting the 'transitory' narrative on higher prices for now. Bond yields have remained relatively stable and commodity prices have held firm.

In terms of absolute returns by sector, Information Technology +12.13% led the charge, followed closely by 11% plus returns from Consumer Discretionary and Communication Services sectors. The laggards in the quarter were Utilities -6.49% and Energy -1.04%.

Outlook

As we entered CY2021, earnings momentum was strong, monetary and fiscal policies were highly supportive and our stock market index was a few hundred points below its pre-COVID high. Today, the earnings momentum is still strong (our favourite chart below), monetary and fiscal policies are accommodative but unlikely to get any looser, and the index has captured new highs. Our outlook for the remainder of CY2021 therefore is still constructive, but it is worth tempering expectations as to the size of the gains to come in absolute terms.

Notwithstanding the new COVID waves of differing amplitudes in many countries including Australia, the vaccine roll out has been impressive with >2.8bn vaccines administered globally. That effort should prevent the recovery in economic activity from reversing in the near term. Broadly speaking, the operating environment for businesses should continue to improve and that bodes well for the outlook for earnings.



Source: FactSet, Platypus

Fiscal impulse or the change in deficits in government budgets globally has likely peaked as the extraordinary support provided during 2020 is not likely to be repeated. One could argue that negative fiscal impulse will be a drag on economic activity, which is true but there is an offset. The transfer payments (such as JobKeeper) made during the pandemic leave the households in most western economies in a strong financial position that should bolster consumption and therefore support economic activity for longer. As examples, approximately 70% of the US economy and 55% of Australian economy is represented by consumption.

On the monetary policy front, there has been a change in tone set by the Federal Reserve during this quarter. At the June 2021 meeting, the FOMC signaled a slightly more hawkish stance expressing greater confidence in the recovery and their ability to achieve their inflation objectives. The investment community was surprised – USD and bonds rallied, gold sold off and the rotation from defensive sectors of the equities market towards more cyclical sectors paused/reversed. For what it's worth we think that this is a positive adjustment to the policy setting signaled by the FOMC, and it reduces the risk of the US central bank falling behind the curve on inflation by flagging the withdrawal of the emergency policy accommodation provided with the pandemic was raging.

Overall the 'free kick' from extraordinary monetary and fiscal policy settings may be coming to an end but conditions remain accommodative and there is no immediate threat to markets from policy mistakes.

Finally, the equities market in most countries have captured their pre-COVID highs. Absolute gains from here, in the short term, could be more muted as the market consolidates the extraordinary recovery made from the depths for the pandemic lows. There is perhaps even more opportunity for active portfolio managers and stock pickers to add value in a constructive market and not the raging bull market that we have seen in the past twelve months.

Portfolio Strategy

We anticipate some continuing headwinds for "growth" in the near term but they are likely to be less intense than that experienced in November 2020 and February 2021. That said, there is considerable uncertainty on how inflationary trends evolve over the remainder of 2021, how they affect bond yields and therefore the valuation sensitivities of long duration growth assets. The present situation where 'growth' and 'value' seem to have reached an equilibrium may prove to be a temporary respite but it has allowed us to monetise the 're-open counters' and deploy that capital back into structural growers. Through all these top-down considerations our focus remains on finding investment opportunities with sustainable earnings growth and operating momentum across the market capitalisation spectrum.

ESG Update

The June quarter is typically quiet for ESG related work, given that there are few AGMs and ESG-related company announcements scheduled for this period, but it was a very busy period for us on the engagement front. We sent our annual ESG survey to a quarter of our universe – about 75 companies in the S&P/ASX300 – and held 24 meetings with companies on ESG grounds alone. Of these 24 meetings, 21 were with companies in the portfolio, including BHP, AMI, STX, ASX, APT, ALL, GMG, AIA and REA, to name a few.

These meetings are particularly valuable because they provide insights into each company's priorities and areas of focus, and highlight the areas companies might need to do more work on to minimise ESG risks. In our ESG meeting with BHP Group, for example, we discussed BHP's approach to emissions reductions, their thinking around Scope 3 emissions and targets, and the alignment of capex with their emissions reduction targets. On relationships with our first nation's peoples, we would like to see all miners agree to have all Participation Agreements reviewed by an independent party to ensure they are fair and appropriate and objections can easily be made. BHP's position is that indigenous Australians already have a legislative right to review these agreements in formal legal arbitration. Gender diversity was also an area of discussion given BHP's aspirational target of gender balance by 2025 in a traditionally male dominated industry. We are currently researching gender diversity policies and initiatives that drive tangible progress so we are particularly interested in the experience of companies like BHP that have led corporate Australia on diversity targets.

On our thematic engagement agenda, we have continued to focus on climate change and modern slavery. While we discussed climate change with each of the companies we met with over the June quarter, there were some conversations of note. We met with Qantas twice and specifically discussed decarbonisation plans with the chair and executives. Qantas has committed to net zero emissions by 2050 but has not yet set short or medium term targets to get there. This is a focus for the company and there are research projects on sustainable aviation fuels, more efficient fleets, and further out, the potential to service Australians with smaller planes on smaller trips. We are also participating in Climate Action 100+'s engagement with Qantas. Other interesting conversations were with the smaller companies including Strike Energy and Aurelia Metals. Both have emissions reductions as a key strategic target and are frank about the ways in which small companies with big growth aspirations can operate in a market focused on climate change.

Modern slavery is obviously a more material issue for some than others, notwithstanding that all companies with revenue of over $100 million are legally required to produce a Modern Slavery Statement. There is a spectrum of performance on this issue. While some companies have done a lot of work to understand where the risks lie in their supply chains and some have started working on prevention and remediation (not an easy task), others are very early on in the process and only just recognising that modern slavery presents a tangible business risk.

In the high risk sectors of retail (garment and technology manufacturers) and construction, we have been really pleased to see how far JB Hifi has come over the last year or two. It has comprehensively mapped its first tier of suppliers and decided to focus on its private label manufacturers where it has the most amount of leverage. We are leading the industry engagement with JB Hifi as part of the Investors Against Slavery and Trafficking initiative and we are in the process of formalising our engagement objectives for JB HiFi.

While Goodman Group is a leader on ESG in the REIT sector, particularly when it comes to emissions and green building, it has the opportunity to have a close look at the risk of modern slavery in its Asian development and construction arm. Construction accounts for almost 20% of the 50 million people globally caught in modern slavery, with 50% of all victims in Asia. Accordingly, we are asking Goodman Group to do a deep dive on their construction contractors and map the risk of bonded labour, underpayment and other poor working conditions for this workforce. To date, Goodman has focused on its Australian operations given its potential exposure to underpaying contractors like cleaners, and in Asia has focused on safety – also an important priority.

There weren't any AGMs this quarter to report on for companies in the portfolio. While it was an interesting quarter for shareholder climate resolutions in particular, with the Rio Tinto, Oil Search, Santos and Woodside AGMs, none of these companies were held by the Australian Equity Fund over this period. We did vote on some of these AGMs for our Systematic Growth Fund and would be happy to discuss our rationale for these votes if you would like more details.

Commentary courtesy of Platypus Asset Management Pty Limited
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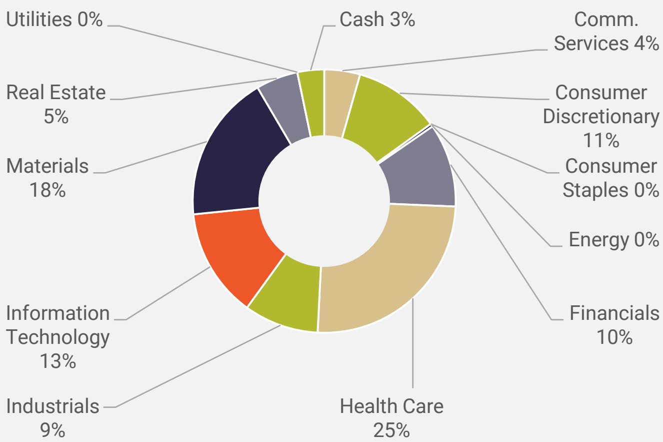
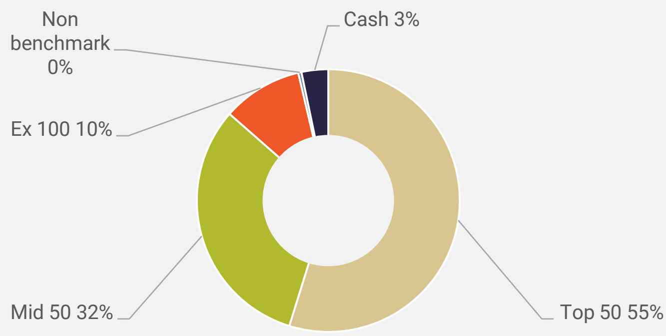
Sector Allocation



Market Capitalisation



GICS Sector	Portfolio%	Benchmark%	Active%
Communication Services	4.41	4.16	0.24
Consumer Discretionary	10.63	8.34	2.30
Consumer Staples	0.00	5.15	-5.15
Energy	0.36	3.05	-2.69
Financials	10.26	29.28	-19.02
Health Care	25.14	10.13	15.01
Industrials	9.19	6.68	2.51
Information Technology	13.40	4.41	9.00
Materials	18.15	20.33	-2.18
Real Estate	5.18	7.02	-1.84
Utilities	0.00	1.45	-1.45
Cash	3.28	0.00	3.28

Market Cap Band	Portfolio%	Benchmark%	Active%
Top 50	54.80	74.36	-19.56
Mid 50	31.67	13.40	18.28
Ex 100	9.85	12.25	-2.40
Non benchmark	0.40	0.00	0.40
Cash	3.28	0.00	3.28

Asset Allocation

Asset Class	Portfolio%
Australian Shares	96.72
Cash	3.28

Top 5 Holdings

Company	Portfolio%	Benchmark%	Active%
BHP Group	10.64	6.73	3.90
CSL	9.97	6.11	3.86
ResMed Inc.	6.11	0.54	5.57
Goodman Group	5.18	1.67	3.51
Aristocrat Leisure	5.08	1.29	3.78

Fund Snapshot

	Wholesale Units
APIR Code	AUS0030AU
Inception date	30 April 2006
Fund size (net asset value)	$265 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