Evans and Partners International Fund (Hedged)

SEPTEMBER 2020 QUARTER REPORT

For fund investor use only. The views expressed herein are part of a wider portfolio investment strategy and should not be considered in isolation.

PERFORMANCE TO 30 SEPTEMBER 2020

	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	SINCE INCEPTION (P.A.)
Portfolio return (AUD)	4.7%	26.2%	4.0%	12.1%	14.1%	11.5%
MSCI AC World Accum Index ex-Aust (AUD) (Hedged)	6.6%	25.3%	6.7%	6.5%	10.1%	8.8%
Excess return	**-2.0%**	**0.8%**	**-2.7%**	**5.6%**	**4.1%**	**2.7%**

Performance is net of investment management fees. Inception date is 18th February 2014. Numbers may not sum due to rounding. Since inception return is annualized and assumes reinvestment of distributions. Past performance should not be taken as an indication of future performance.

BOB DESMOND
Head of International Equities

ADAM CHANDLER
Portfolio Manager

CONTRIBUTION TO PORTFOLIO RETURN – QUARTER SEPTEMBER 2020 (%)

TOP THREE		BOTTOM THREE	
Lowe's	1.15	Equifax	-1.11
Sherwin-Williams	0.69	Automatic Data Processing	-0.84
Sika	0.52	Alphabet	-0.05

Numbers represent contribution in percentages of each stock to the percentage change in portfolio value.

SECURITIES MOVEMENTS FOR THE QUARTER OF SEPTEMBER

Bought in	CME, Diageo, Agilent
Sold out	adidas, Accenture, Sika
Increased holding	Lowe's, Ross Stores, Automatic Data Processing, Aon, CDW, Equifax, Visa
Decreased holding	–

TOP FIVE HOLDINGS AS AT 30 SEPTEMBER 2020

	REGION	SECTOR
Alphabet	US	Information Technology
Aon	US	Financial Services
Automatic Data Processing	US	Business Services
Microsoft	US	Information Technology
Visa	US	Information Technology

Please note the top five holdings of the portfolio are in alphabetical order.

MARKET COMMENTARY

Global equity markets rose 6.6% over the September quarter (all figures are in local currency terms unless noted otherwise). The US and China outperformed, while Europe and the UK, lagged. The Australian equity market also underperformed global equities, in AUD terms, posting a 1.2% decline over the same period.

The S&P 500 recorded all-time highs during the quarter, assisted by an improving economic outlook, the Federal Reserve's accommodative monetary policy settings and strong risk appetite. US unemployment declined to 8.4% in August, below consensus expectations and down from 10.2% in July. Industrial production's upward trajectory continued, and the consumer discretionary sector benefited from pent up demand as lockdown restrictions eased across the nation. The Federal Reserve's monetary policy commentary indicated a willingness for the Fed to tolerate inflation above 2.0% before responding with tightening. The US equity market rose 9.5% in the quarter. The strong quarter was front-loaded, with the market consolidating in September, following the strong momentum in July and August. There were pockets of excess again apparent this quarter – notably, certain speculative companies achieved valuations which bore little relation to their current, or any likely medium-term, profit (or even revenue). While most of the Fund's current positions are US domiciled, our process continues to ensure we avoid start-ups, companies with difficult to predict financial results, aggressive forecasts and/or exuberant valuations. Our companies have well entrenched competitive advantages and are expected to benefit from the long-term power of compounding. A stark contrast to certain investments touted by some of the recent band of "Robinhood" retail traders (which appear to have the promise, but also the payoff, of a typical Powerball ticket – i.e. purchasers will ultimately be lucky to get their money back).

European equity markets remained relatively flat, rising just 0.3%, with the region lagging its US counterpart. The rate of improvement in economic data slowed through the quarter, as sharp spikes in COVID-19 cases in many countries led governments to reinstate certain restrictions. The newly imposed restrictions were more localized than previously, with governments aware of the potentially devastating second round effects of full-lock downs on the economy. The UK market performed poorly, falling 4.6% as fears of a poorly coordinated exit from the Eurozone continued to weigh on sentiment. The backdrop saw a rapid increase in the rate of COVID-19 infections across the country with localized restrictions being imposed in a similar fashion to that being taken in Europe.

Emerging market equities posted relatively strong returns, rising 8.6% for the quarter with news around vaccine developments, as well as US dollar weakness, supporting markets. The strength was led by the Chinese equity market, which saw an 8.6% increase (China A 50 rising 11.3%). Investors were comforted by solid rebounds in GDP (Q2 GDP rising 3.2% year-on-year) in addition to Q2 earnings that were ahead of expectations.

Sector performance was mixed over the quarter, with Consumer Discretionary (+16.8%) and Information Technology (+12.0%) leading the way. The easing of lockdowns saw pent up demand drive retail sales around the globe (notably apparel, appliances, and restaurants) while the large US technology companies continued to drive markets forward. Energy (-13.6%) was the worst performing sector as crude oil prices retreated in September, in part due to questions about the pace and sustainability of the economic recovery. Financials (flat) and Real Estate (+1.1%) also underperformed on a relative basis as money continued to flow into areas of the economy most benefiting from reopening.

PORTFOLIO PERFORMANCE

The Evans & Partners International Fund portfolio rose 4.7% during the quarter, underperforming the broader market by 2.0%, which saw a 6.6% increase on a net basis. (Numbers may not add due to rounding).

Key contributors to performance for the quarter were **Lowe's** and **Sherwin-Williams**:

- **Lowe's** – As one of the leading retailers in home improvement products in the US, the company clearly benefited from increased share of wallet at the expense of other discretionary categories. With much of the population forced to stay at home, many took the opportunity to spend up and renovate (both indoors and outdoors). In August, exceptionally strong US comps of 35% were announced for the June quarter. The tone from management is that demand remains strong. Improvements in operations, supply chain and inventory management – executed by the new executive team over the last 18 months – allowed the company to successfully respond to the significant spike in demand. Our thesis is very much intact, and we retain Lowe's as a core holding within the portfolio.
- **Sherwin-Williams** – In much the same way that Lowe's have profited from a shift in consumer demand, Sherwin have also been beneficiaries. A global leader in paint and coatings, demand within their DIY business has been stronger than expected, with residential repaint and new residential segments outperforming expectations. While the industrial coatings business remains relatively hampered by COVID-19 disruptions, the consumer business was stronger than expected, whilst the company was also a beneficiary of falling raw material input prices.

PORTFOLIO CHANGES – STOCKS ADDED TO THE PORTFOLIO

- **CME Group (CME)** – We initiated a position in CME in September. As the world's largest futures exchange, the group has an effective monopoly in its core US interest rate futures product and strong competitive positions across benchmark products including equities, energy, FX, agricultural commodities and metals. We were attracted by the highly profitable, capital light business model with the combination of high margins and low capital expenditure allowing for large capital returns to shareholders. We are forecasting low-double-digit earnings growth in the medium-term, as well as a healthy, and growing, dividend yield.
- **Diageo** – We also initiated a position in Diageo, the world's largest spirit producer, with close to 20% market share (nearly 2x the nearest competitor). They own 25 of the top 100 spirit brands in the world, including iconic brands such as Johnnie Walker, Smirnoff and Guinness. Over recent years the management team have invested heavily in systems and data analytics that have enhanced inventory visibility across the value chain, allowing them to better identify and react to changes in consumer demand trends. We expect mid-single-digit organic sales growth and modest margin improvement to drive high-single-digit earnings growth over the medium-term.
- **Agilent Technologies** – A further addition to the portfolio during the September quarter was Agilent. The company provides laboratories worldwide with instruments, services and consumables. Agilent have been a stalwart in the life science industry for decades, with their large installed base of instruments now covering nearly all the world's 265,000 labs. We were attracted by the attractive financial metrics, as well as a management team that have carefully steered the company into higher growth areas of the market, through both organic and acquisition-led expansion. We expect Agilent's presence in these attractive end markets to expand, bolstering top-line growth and margin expansion. We are forecasting mid-single-digit top line growth and margin uplift, resulting in low-double-digit earnings growth over the medium-term.

PORTFOLIO CHANGES – STOCKS REMOVED FROM THE PORTFOLIO

- **adidas** – While the financial performance of the company has been in line with our thesis (COVID-19 aside), our research and channel checks have indicated a lack of meaningful product innovation, ultimately resulting in market share loss and the addition of downside risk to our earnings estimates. Thus, with a full valuation and more attractive risk/return opportunities elsewhere, we exited our position in adidas.
- **Accenture** – While still a best-in-class global IT services company, our analysis indicated this was being more than fuly reflected in the company's valuation. With the stock trading at a price that was 38% above our estimated instrinsic value and a forward price earnings multiple that was 55% above its ten-year average, we were comfotable exiting the position and allocating capital to more attractive investment ideas.
- **Sika** – We exited this business on valuation grounds. Our view on the quality of the buiness and management team remains unchanged, however, with the company trading at a 39% premium to our estimated valuation, we believed there were better investment opportunties elsewhere.

PORTFOLIO CHARACTERISTICS – 3 YEARS TO SEPTEMBER 2020

Standard deviation	16.6%
Realised beta	0.98
Tracking error	5.2%
Upside capture ratio	1.13
Downside capture ratio	0.88

FUND NAME	EVANS AND PARTNERS INTERNATIONAL FUND (HEDGED)
APIR Code	ETL0391AU
ARSN	166 708 407
Responsible Entity	Equity Trustees
Number of stocks	10 - 15
Maximum cash weighting	10%
Maximum single stock weighting	10%
Currency exposure	Hedged
Benchmark	MSCI All Countries World Accum Index ex-Australia (AS)
Minimum Investment	$20,000
Distribution Frequency	Bi-annually
Investment Management fee	1.25% incl. GST
Buy/sell spread	0.10% / 0.10%
Fund Inception	18th February 2014