Evans and Partners International Fund

EVANS & PARTNERS

JUNE 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 JUNE 2020

	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	SINCE INCEPTION (P.A.)
Portfolio return (AUD)	8.2%	-2.0%	8.6%	15.4%	13.7%	13.9%
MSCI AC World Accum Index ex-Aust (AUD)	5.8%	-4.1%	4.4%	10.1%	8.9%	11.0%
Excess return	**2.4%**	**2.1%**	**4.2%**	**5.3%**	**4.8%**	**2.9%**

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 JUNE 2020 (%)

TOP THREE		BOTTOM THREE	
Equifax	2.04	Ross Stores	-0.47
Broadridge	1.56	Automatic Data Processing	-0.26
Accenture	1.35	Booking Holdings	-0.04

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

SECURITIES MOVEMENTS FOR THE QUARTER OF JUNE

Bought in	–
Sold out	Booking
Increased holding	Automatic Data Processing, Lowe's
Decreased holding	Sika, Alphabet

TOP FIVE HOLDINGS AS AT 30 JUNE 2020

	REGION	SECTOR
Accenture	US	Information Technology
ADP	US	Business Services
Alphabet	US	Information Technology
Broadridge	US	Business Services
Microsoft	US	Information Technology

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

MARKET COMMENTARY

International equity markets rose 6% over the June quarter (all figures are in AUD unless noted otherwise). In local currency terms, the market appreciated 18%. Risk appetite improved, with unprecedented monetary and fiscal stimulus packages, positive analyst earnings revisions and an easing of COVID-19 lockdowns in many developed nations supporting equity markets. The Australian equity market outperformed global equities in AUD terms, bouncing strongly and delivering 15% over the same period.

The US equity market rose 8% over the quarter (appreciating 22% in USD terms), outperforming all other major international equity markets. While data early in the quarter confirmed the economic severity of the lockdown, ongoing loose monetary policy and the subsequent easing of restrictions, led to strong equity market gains. The latter part of the quarter saw optimism tempered as virus cases began to rise sharply again in some US states, notably Texas, Florida, Arizona and California.

European equity markets appreciated 3% (13% in local terms). The region also saw lockdowns lifted in many of the major economies, albeit towards the end of the quarter. The damage to the eurozone economy was evident as data indicated the region's economy shrank by 3.6% through Q1. In light of this, the European Commission called for a €750 billion loan facility to support plans for a post-COVID-19 recovery, while the European Central Bank offered additional support, increasing its emergency purchase programme to €1.35 trillion. The UK market fell 4%, however, rose 8% in GBP terms. The economy followed the same path as other developed nations with restrictions gradually lifting, employees returning to work and a phased reopening of various industry sectors. The Bank of England expanded its quantitative easing programme with rates under review, however, the prospect of negative rates appears unlikely. Attention will begin to return to Brexit, with the end of year now looming as the new deadline for the extended transition period.

Emerging market equities rose 5% for the quarter with the weakness in the US dollar magnifying returns. The strength was led by the likes of Brazil (+9%) and Russia (+5%). The Chinese equity market saw a 2% rise, as economic activity continued to recover, and various industries began to normalise. The ongoing US-China trade war continued to weigh on sentiment.

Sector performance varied significantly over the quarter, with Information Technology (+16%) and Consumer Discretionary (+14%) leading the way. The return of positive equity market inflows saw mega market capitalisation IT stocks, with business models that are perceived as resilient, such as Amazon, Microsoft, Alphabet and Facebook benefit disproportionately. As COVID-19 restrictions lifted, shopfronts began to reopen, accelerating discretionary purchases and complimenting strong online sales. Utilities (-5%) and Consumer Staples (-3%) underperformed on a relative basis as money continued to flow into higher growth sectors.

PORTFOLIO PERFORMANCE

The Evans & Partners International Focus portfolio rose 8.2% during the quarter, outperforming the broader market by 2.4%, which saw a 5.8% increase on a net basis. (Numbers may not add due to rounding).

Key contributors to performance for the quarter were **Equifax**, **Broadridge** and **Accenture**:

- **Equifax** – The company's mid-quarter business update, in early June, positively surprised the market, with management indicating expectations of constant currency growth in the range of 5%-7% during the second quarter. The strong mortgage market and the counter-cyclical, unemployment claims business helped deliver exceptional growth. Specifically, at the time of announcement, relative to the same period last year, the US mortgage related businesses had grown between 40%-50% and the unemployment claims business was up 100%. On the update call, management also highlighted the evolution of the Equifax Workforce Solutions (EWS) business. The business continues to experience strong growth and is benefiting from scale, technology that facilitates client-centric product innovation and the uncertain economic environment has created greater need for more detailed borrower information – making the product set even more valuable. Importantly, with limited competition in this area of the market EWS has pricing power. EWS is a unique and fast-growing business and remains a core plank of our Equifax investment thesis.
- **Broadridge** – Reported their third quarter results which saw organic growth accelerate to +3%. Further, forward looking commentary was positive as management expect the top-line momentum to continue into the fourth quarter. The business benefited from usual seasonality and unusually high volumes in the GTO business, which was driven primarily by equity market volatility. The current environment has validated the company's position as a market leader of critical infrastructure for financial markets. This is most evident in the earnings outlook, which is largely unchanged, a positive outcome in the current environment.
- **Accenture** – In a post-COVID-19 and increasingly digital world, the company remains very well-positioned as it continues to help clients navigate the changing business landscape. Of their top 100 clients, 95 have been with the company for over ten years and over 70% of their revenues come from Digital, Cloud and Security. Their balance sheet remains in pristine condition with $6.4 billion in net cash with free cash conversion expected to be ~130% of net income this year. This strong financial position has allowed the company to raise its dividend 10%, maintain its buyback, as well as spend $1.6 billion on bolt-on acquisitions.

PORTFOLIO CHANGES – STOCKS ADDED TO THE PORTFOLIO

There were no additions to the portfolio over the June quarter.

PORTFOLIO CHANGES – STOCKS REMOVED FROM THE PORTFOLIO

Booking Holdings (BKNG) – While we believe the company's value proposition is strong and competitive advantage will not be diminished by the COVID-19 crisis, the unprecedented COVID-19 circumstances have materially diminished earnings visibility. Uncertainty around the duration and the extent of travel restrictions, people's propensity to travel after the health crisis, impact on supply (hotels/homes) and the longer-term effect on business travel (~20% of bookings) have siginicantly reduced the predictibility of BKNG's earnings. Given this uncertainty, we have exited our investment and deployed funds into better risk/reward opportunuities.

COMPOSITION OF PORTFOLIO PERFORMANCE

	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	SINCE INCEPTION (P.A.)
Local currency return	19.2%	-4.1%	6.6%	11.7%	12.7%	11.1%
+/- currency impact on return	-11.0%	2.1%	1.9%	3.7%	1.0%	2.7%
Portfolio return (AUD)	**8.2%**	**-2.0%**	**8.6%**	**15.4%**	**13.7%**	**13.9%**

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PORTFOLIO CHARACTERISTICS – 3 YEARS TO JUNE 2020

Standard deviation	12.7%
Realised beta	1.03
Tracking error	5.3%
Upside capture ratio	1.12
Downside capture ratio	0.78

FUND NAME	EVANS AND PARTNERS INTERNATIONAL FUND
APIR Code	ETL0390AU
ARSN	166 708 792
Responsible Entity	Equity Trustees
Number of stocks	10 - 15
Maximum cash weighting	10%
Maximum single stock weighting	10%
Currency exposure	Unhedged
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

IMPORTANT INFORMATION