

# EQT FLAGSHIP FUND – WHOLESALE CLASS

## FUND OBJECTIVE

The EQT Wholesale Flagship Fund (the Fund) aims to outperform its Benchmark over a rolling 5-year period, after taking into account Fund fees and expenses. The Fund is designed for investors seeking strong medium-to-long-term capital growth potential, coupled with an increasing income stream payable from the dividends of the underlying shares. There is a distinct focus on the after-tax returns offered to investors.

## FUND PERFORMANCE

| PERFORMANCE <sup>1</sup>      | 3 MONTHS | 1 YEAR | 3 YEARS<br>(P.A.) | 5 YEARS<br>(P.A.) | SINCE INCEPTION<br>(P.A.) <sup>2</sup> |
|-------------------------------|----------|--------|-------------------|-------------------|--|
| Distribution return           | 0.24%    | 2.85%  | 6.77%             | 5.78%             | 5.39%                                  |
| Growth return                 | -1.09%   | 7.98%  | 0.06%             | 2.25%             | 1.84%                                  |
| Total net return              | -0.85%   | 10.82% | 6.83%             | 8.03%             | 7.23%                                  |
| Benchmark return <sup>3</sup> | -1.05%   | 12.10% | 6.37%             | 7.26%             | 6.96%                                  |
| Active return                 | 0.20%    | -1.28% | 0.46%             | 0.77%             | 0.26%                                  |

Table 1

<sup>1</sup> Performance: distribution return is the return due to distributions paid by the Fund; growth return is the return due to changes in initial capital value of the Fund; total net return is the Fund return after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions. Results greater than one year are annualised.

<sup>2</sup> Inception date is 1 August 2006.

<sup>3</sup> Benchmark return is the S&P/ASX 200 Accumulation Index.  
Past performance is not an indicator of future performance.

## PERFORMANCE SUMMARY

The Fund recorded a total net return of -0.85% for the June quarter, outperforming the S&P/ASX 200 Accumulation Index by 0.20%. Over the last 12 months, the Fund recorded a total net return of 10.82% underperforming the benchmark by 1.28%. The fund was slightly more defensively positioned in FY24 given the expected macro-economic headwinds which ended up weighing against the relative performance.

The performance over the medium to long term remains solid outperforming the benchmark over 3 and 5-years as well as since inception. Over the last five years the Fund has produced a total net return of 8.03% per annum outperforming the benchmark by 0.77%. The total net return since inception has been 7.23% p.a., outperforming the benchmark by 0.26% over the same period. The Fund has also demonstrated it generates a dependable distribution stream over the long term with a distribution return of 5.39% p.a. since inception.

## PERFORMANCE DETAIL

At the stock level, over the last quarter the Fund benefited from its overweight positions in Origin Energy Ltd (ORG), Aristocrat Leisure Ltd (ALL), South32 Ltd (S32), and Insurance Australia Group (IAG). Underweight in Fortescue Ltd (FMG) also benefited the portfolio.

The main detractors to Fund performance were overweight positions in James Hardie Industries CDI (JHX), Bapcor Ltd (BAP), Mineral Resources Ltd (MIN), and Beach Energy Ltd (BPT). Underweight positions in Commonwealth Bank of Australia (CBA) also detracted from Fund performance.



## ATTRIBUTION SUMMARY

| <b>EQT FLAGSHIP FUND<br/>JUNE 2024 QUARTER</b> | <b>EQTFF<br/>TOTAL ATTRIBUTION</b> |
|--|------------------------------------|
| <b>Top five contributors</b>                   |                                    |
| Origin Energy Ltd                              | 0.40%                              |
| Aristocrat Leisure Ltd                         | 0.34%                              |
| South32 Ltd                                    | 0.34%                              |
| Fortescue Ltd                                  | 0.29%                              |
| Insurance Australia Group                      | 0.24%                              |
| <b>Bottom five contributors</b>                |                                    |
| James Hardie Industries                        | -0.42%                             |
| Bapcor Ltd                                     | -0.36%                             |
| Mineral Resources Ltd                          | -0.36%                             |
| Commonwealth Bank of Australia                 | -0.34%                             |
| Beach Energy Ltd                               | -0.31%                             |

Table 2

## POSITIVE ATTRIBUTION

### ARISTOCRAT LEISURE (ALL)

ALL delivered a strong result during the quarter with margins surprising to the upside. Post result ALL's earnings were upgraded by the market and expectations are now that they should achieve 15% earnings growth in FY24 (Sept year-end). ALL continues to outspend its competitors to retain its market leading position in content. ALL also announced that their somewhat problematic Casual gaming assets are under strategic review which was taken positively. Later in the quarter, ALL offered long-term bullish guidance and highlighted opportunities for ongoing opportunities to gain market share across their three businesses.

### INSURANCE AUSTRALIA GROUP (IAG)

IAG's margins are expected to continue to expand through into FY25. Recent inflation data shows personal lines pricing still well in double digit territory and ahead of claims inflation supporting strong profit growth. Industry feedback remains supportive of a "hard" market in the insurance industry with industry players acting rationally. Re-insurance headwinds also seem to be easing.

## NEGATIVE ATTRIBUTION

### JAMES HARDIE (JHX)

After performing very well over the prior 12-18 months, JHX has more recently been impacted by the cyclical weakness in the US housing market. The share price fell on a weaker than expected result and guidance during the quarter. Despite this, we remain of the view the long-term outlook is attractive. The company hosted an investor tour later in the quarter in the US outlining how they expect to take market share. JHX remains a high-quality stock in our view offering a superior product, strong balance sheet and long-term growth opportunities.

### MINERAL RESOURCES (MIN)

Mineral Resources was impacted by falling lithium prices, widening low-grade iron ore discounts and, despite the sale of 49% stake in the Onslow Iron haul road to Morgan Stanley Infrastructure Partners for A\$1.3bn, concerns that their balance sheet is stretched. Given the company's current heavy capex period, the market started to price in the chance of an equity raising and the risk that they may need to delay oncoming projects, reduce capital expenditure, or further sell down assets. However, a start-up of the Onslow project along with any recovery in commodity prices should start to alleviate these concerns.

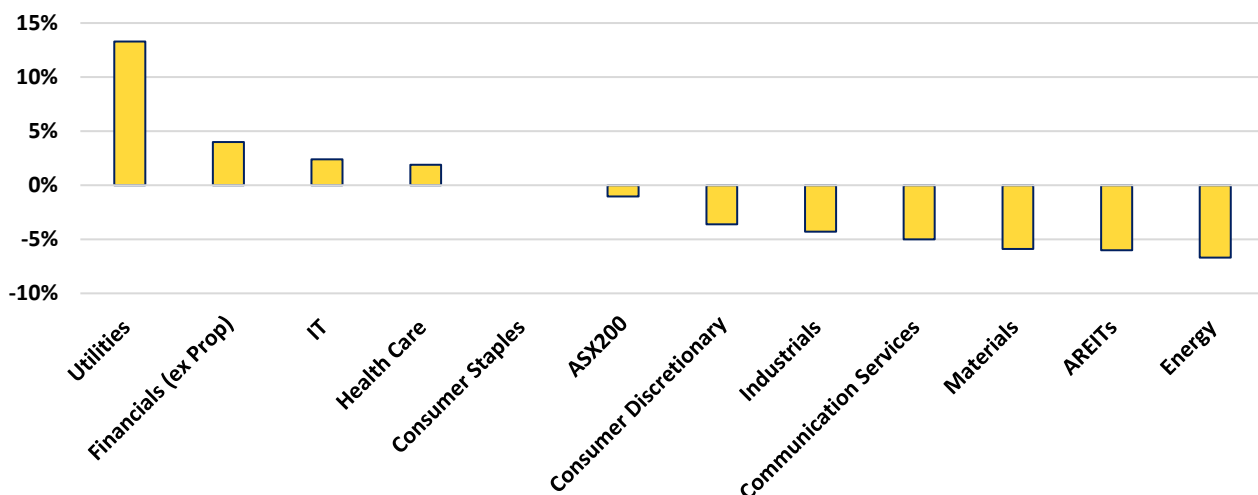


## MARKET SUMMARY

### KEY POINTS

- **International equities rallied, but the Australian shares fell** – After a pullback in April, equity markets rallied strongly in May and June driven by the US tech majors. In local currency terms, the ASX200 (-1.1%) underperformed the US S&P500 (+3.9%), the MSCI World ex Australia Index (+2.2%) and the MSCI Asia Pacific ex Japan Index (+5.5%). Emerging markets rallied 6.3%. In \$A terms, however, the MSCI World ex-Australia Index only rose 0.3%.
- **Financials outperformed the Miners** – The best performing ASX200 sectors for the quarter were Utilities (+13.3%), Financials ex property (+4.0%) and Information Technology (+2.9%). Utilities rose due to higher wholesale electricity prices and expectations that Data Centres supercharged by the AI revolution will drive very strong demand for electricity in the future. Within the Financials, the major Banks delivered robust results relative to expectations due to low bad debts and strong capital positions, while the Insurance sector benefited from continued premium rate increases and rational industry behaviour. The worst performers were Energy (-6.7%), Property/AREITs (-6%) and Materials (-5.9%). The subdued Chinese economic environment weighed on Materials, while higher bond yields and a soft office market hurt AREITs. Large caps outperformed small caps.

### ASX200 Sectors - June Qtr change (%)



Source: Equity Trustees

- **Stock moves** - The top five performers for the quarter were Telix Pharmaceutical (+44.7%), Pro Medicus (+38.1%), West African Resources (+34.2%), AGL Energy (+29.9%) and Life360 (+25.1%). The bottom five performers were Fletcher Building (-29.4%), Orora (-27.6%), Arcadium Lithium Plc (-27.3%), Eagers Automotive (-25.7%) and Block (-25.4%). Once we take market capitalisation (size) into account, the top five contributors to the ASX200 were Commonwealth Bank (+39.5bps), National Australia Bank (+16.6bps), Westpac Banking Corporation (+15.0bps), Aristocrat Leisure (+14.5bps) and CSL (+11.8bps). The bottom five contributors were BHP (-27.0bps), Fortescue Ltd (-24.4bps), James Hardie Industries (-21.0bps), Woodside Energy (-14.6bps) and Wesfarmers (-12.3bps).
- **Australian Economy** – The RBA held cash rates at 4.35%. The labour market remains tight but is slowing, but inflation data was stickier than expected raising concerns that the RBA may entertain near-term 25bps rate hike. Retail sales, consumer confidence and building activity remained soft. However, house prices continued to rise, and the government has initiated income tax cuts and cost-of-living relief to support households. The \$A/\$US rose 2.3% to 66.7c.
- **Global economic activity** – The US Federal Reserve kept rates steady at 5.25-5.5% as inflation was better behaved. The labor market is slowing but remained resilient. However, housing market activity and consumer activity is softening. The Bank of Canada and European Central Bank cut rates given low inflation and high unemployment. The subdued real estate market continues to plague the Chinese economy.



- **Bonds sold off** – The Bloomberg AusBond Composite 0+Y index fell 0.84%. Australian 10-Year bond yields rose 35bps to 4.31%, while US 10-Year bond yields rose by 20bps to 4.40%. Credit spreads are relatively tight in the US but remain wider in Australia.
- **Commodities** – Natural gas prices soared 47%, while Base Metals (+9.3%), Precious Metals (+6.5%) and iron ore (+3.8%) also rallied. Oil (-2.3%) and soft commodities fell.

**ASX200 valuation** – The ASX200 Price-Earnings (PE) multiple closed at 16.4x (12-month-forward) trading mildly expensive versus its longer-term average of 14.8x. The Banks rallied to 16.6x (12-month-forward PE), a 24% premium to the 10-year average, while the Resources closed at 11x PE, a 17% discount to their 10-year average.

## FUND ACTIVITY

Some adjustments to stock holdings were made in the Fund during the quarter.

## STOCKS BOUGHT FOR THE FUND

### BLOCK INC (SQ2)

Block is a technology driven payments facilitator. Block provides a suite of software products to small businesses (through their “Square” application) and consumers (through their “Cash” application). The suite of software provided to small businesses enables them to take and make payments seamlessly and have those integrated easily within their business, it also provides other software management tools. The consumer side of the business provides banking software for individuals which are relatively easy to use compared to traditional banking products.

## STOCKS SOLD FROM THE FUND

### ATLAS ARTERIA (ALX)

Atlas Arteria is an owner of toll road concessions in France, the US and Germany. We had previously owned ALX to capture the strong recovery in traffic volumes post Covid, inflation protection and M&A optionality. The lift in profits and dividends given the operational leverage, valuation upside, long-dated nature of the concessions and solid cashflow generation were seen as attractive features.

Fast-forward and the outlook is less attractive. In France, ALX roads have largely recovered to pre-Covid levels, limiting volume upside. Inflation has retraced and sluggish economic growth in France is impacting on truck volumes which pay higher tolls. Regulatory and political risk have also climbed. The French Government has imposed a new tax on toll-road operators and the political climate appears increasingly unfriendly towards private road companies. This elevates the uncertainty over concession extensions.

In North America traffic hasn't recovered to pre-Covid levels and with the structural change to work-from-home, upside to volumes is also limited from here. ALX continues to fight for legislative changes to their regulatory oversight in the US without much success and recently failed to achieve a toll increase under existing framework.

With current CEO Graham Bevans having announced his retirement and given the more challenged outlook, we felt it was an appropriate time to exit the stock.

### BAPCOR LIMITED (BAP)

Despite operating in a two-player market with good pricing power, BAP has struggled to deliver acceptable returns since the departure of incumbent CEO, Daryl Abotomey, in late 2021. It's failed transformation program, revolving door of key executives, loss of market share and successive earnings downgrades has led us to exit our small position in the stock.

The departure of newly appointed and highly regarded CEO, Paul Dumbrell 1 day before he was due to start on 1 May 2024 continued the number of disappointing updates. With no permanent CEO, CFO or Chairman in place, the challenge to turn the business around under the remaining BAP management appeared too challenging. Absent a takeover, we see little chance the stock outperforming in the short to medium term and have exited our small position accordingly.



## RESPONSIBLE INVESTMENT SPOTLIGHT

### First Nations Cultural Heritage Protection

During the year we connected with several First Nations leaders and organisations to gain a deeper insight into their ongoing relationship with mining companies, best practice engagement and cultural heritage protection.

- At the recent Responsible Investment Association Australasia (RIAA) conference in Sydney, we heard from Rachel Perkins from the First Nations Heritage Protection Alliance who delivered a keynote speech on First Nations cultural heritage protection.
- Rachel spoke to the ‘Dhawura Ngilan Guide for Business and Investors’ (which she played a leadership role in developing) - a framework designed to assist companies in doing businesses with First Nations people including guidance on how to implement best practice into their organisation.
- The guide depicts First Nations people’s expectations of companies, including the right to have free, prior, and informed consent (FPIC) over their cultural heritage.
- Rachel highlighted some key focus areas for investors to uncover whether FPIC principles are being applied and provided examples of best practice such as:
  - How a company identifies key First Nations stakeholders and how they go about ensuring engagement is meaningful and from the outset of a project.
  - Engagement needs to be at the beginning of a project, before plans are finalised, and all the way through a project.
  - First Nations people want to participate in setting the agenda and share in the benefits of projects for long lasting economic development prosperity of the community.

We have also participated in small group meetings directly with the Robe River Kuruma Aboriginal Corporation (RRKAC) and the Puutu Kunti Kurrama and Pinikura (PKKP) Aboriginal Corporation where we gained firsthand feedback on their relationship with Rio Tinto (RIO), their experience in dealing with RIO and their heritage management practices which was very valuable. We have and will continue to use these insights to support our engagements with mining companies moving forward.

### Corporate Engagement

Examples of specific company engagements undertaken during the June quarter are listed below.

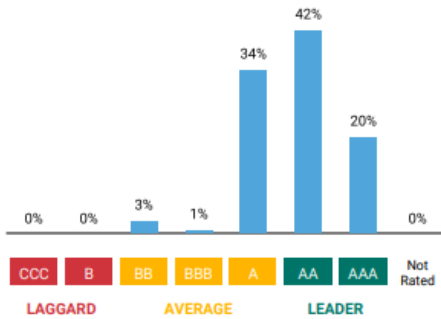
| Company     | ESG Topics        | Engagement Focus   |
|-------------|-------------------|--|
| Orica (ORI) | Health and Safety | <ul style="list-style-type: none"> <li>• Recent fatality and actions taken to prevent future incidents.</li> </ul> |



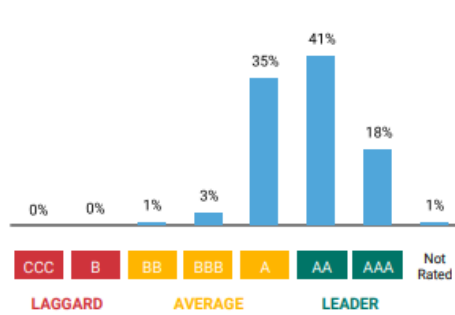
**FLAGSHIP FUND ESG METRICS AS AT 30 JUNE 2024\***

|  | PORTFOLIO | ASX 200 |
|--|-----------|---------|
| <b>MSCI ESG Scores</b>   |           |         |
| MSCI Weighted Average ESG Score (10 = highest, 0 = lowest)   | 7.6       | 7.6     |
| Proportion (market value) from companies classified as ESG leaders (AAA and AA)                      | 62%       | 59%     |
| <b>Governance Metrics</b>  |           |         |
| Proportion (market value) from companies classified as governance leaders                            | 86%       | 83%     |
| Proportion (market value) from companies where women comprise at least 30% of the board of directors | 90%       | 92%     |
| Proportion (market value) from companies with a majority independent board                           | 100%      | 99%     |
| <b>Carbon Metrics</b>  |           |         |
| Companies with GHG emission reduction targets  | 90%       | 88%     |
| Companies with targets across all scopes (Scope 1, 2 & 3)  | 57%       | 55%     |

**Portfolio ESG Rating Distribution**



**Benchmark ESG Rating Distribution**



\*Data sourced from MSCI as at 30 June 2024



## OUTLOOK AND STRATEGY

FY24 delivered strong investment returns due to falling inflation, expectations of central bank rate cuts, more resilient than expected economic conditions (led by the US but also in Australia) and technology sector earnings upgrades fuelled by substantial investment in Artificial intelligence.

The US and Australian economies have been propped up by high migration levels supporting the nominal economy, government investment, rising house prices giving rise to a strong 'wealth effect', and post-covid savings spend leading to demand for labour intensive services (which has in-turn buoyed labour markets further aiding consumption). The US economy has also benefited from low fixed mortgage rates mitigating the effects of higher interest rates. In Australia, the transmission mechanism from our more variable rate mortgage structure is a lot more fluid giving rise to a per capita recession that has lasted for longer than a year.

Corporate earnings in Australia for 2024 have been revised down over the last twelve months. Global earnings, however, have been stronger due to the ongoing upward revisions from the large cap tech companies. Below the surface though, revisions outside of the 'Magnificent 7' have been negative. Despite subdued underlying growth, markets have benefited from rising valuation multiples.

In the US and Australia, the stronger than expected headline growth levels, employment markets and wage outcomes have stemmed the disinflation trends seen late last year and led to a re-appraisal of the timing and magnitude of rate cut expectations. This is now in-line with our view of a 'higher for longer' rate environment. Despite this, equity markets have remained resilient as investors still expect solid earnings growth in FY25 driven by growing IT sector revenues and future interest rate (and tax) cuts which will support consumption.

We have felt that economic growth would weaken in many developed markets into the back half of the year as the cumulative impact of higher interest rates and cost of living pressures crimp consumer spending. Indeed, there are increasing signs of that weakness being felt in retail sales, housing activity, business insolvencies and some labour market indicators. Migration rates are also now slowing. Our short-term concern is that this weaker economic scenario is not priced into the current "soft landing" view of the market.

The broader view is that as inflation retraces central banks will cut rates supporting global economic growth in 2025. However, rate cuts may be modest, Australia is set to lag and divergence in growth may occur. While European and Asian growth is expected to improve, the US economy (which has been the engine room for growth) is forecast to continue to slow over the next six months. Chinese growth remains on track for ~5% growth as stimulus is enacted and renewable energy investments rise, but there is still a lack of conviction over some policy initiatives to support growth in the property market.

We would also argue that the market is not pricing a further rise in geopolitical tension. One cannot dismiss the geopolitical risks that not only remain, but may escalate further, especially with protectionist measures likely to be initiated against the Chinese by some major western economies. Higher tariffs, onshoring and Trump policies could all conspire to lessen the disinflation progress seen over the last year. A potential implication of this could be higher inflation and greater US government debt. Political changes in France look likely to lead to a hung parliament potentially limiting progress in Europe.

While we remain positive on the long-term strategic merits of equities, our tactical assessment remains that market conditions will get increasingly difficult over the remainder of 2024. Central Banks in the US and Australia will need to see evidence of lower inflation, which may require a growth slowdown, before implementing cuts. Meanwhile in the US, major technology companies will have to keep delivering on (and potentially above) already increased market expectations for earnings growth. Further, benefits from AI related spend may take longer to be realised. Given the narrowness of the market rally in the US and globally, we are wary that any disappointment could lead to increased volatility of returns.

We continue to note that while macro factors are important, in more challenging economic conditions it is beneficial to focus on basic micro factors as to what makes a good business and investment. We believe that active management the right areas can contribute to strong overall returns.

While portfolio holdings are all assessed on our fundamentally driven Quality at a Reasonable Price (QARP) process we carry a preferred exposure to select industrials over banks and resources. Given risks around another rate hike in Australia, we believe our Quality at a Reasonable Price (QARP) investment philosophy is a sound fit for current conditions as we are looking for well managed businesses with strong balance sheets and market leading positions that can ideally demonstrate pricing power.



The Australian equity market is trading moderately expensive at 16.3x price-earnings (PE) ratio. Earnings are forecast to grow ~3-5% in FY25 – with the banks lack of growth weighing. Income remains an important component of total return and dividends are forecast to be flat to slightly up in FY25 on FY24. The current income yield on Australian equities is ~3.8% (pre grossing up for franking credits).

Importantly, both defensive and growth asset classes are positioned to deliver reasonable returns over the medium term. A scenario of falling inflation, rate cuts and economic resilience is supportive for investment returns. Should economic activity weaken considerably, central banks are better positioned to cut quickly. In our view, this means a well-diversified investment strategy has the potential to deliver attractive risk-adjusted returns over the next 5-7 years. Key risks to this include higher and stickier inflation and increasing geo-political turmoil.

## FUND HOLDINGS

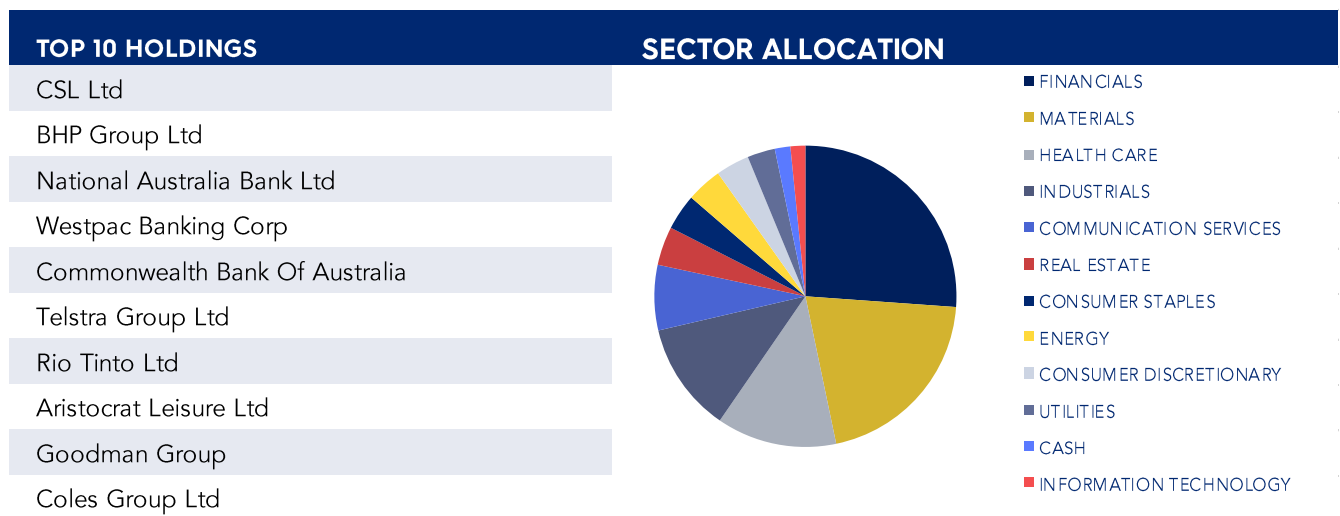


Table 3  
Source: Equity Trustees as at 30/06/24

Equity Trustees Wealth Services Limited ("ETWSL") (ABN 33 006 132 332), AFSL 234 528, is the Responsible Entity for the EQT Flagship Fund – Wholesale Class. ETWSL is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). The Investment Manager for the Fund is Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975. This publication has been prepared by Equity Trustees, to provide you with general information only. In preparing this information, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither ETWSL, Equity Trustees nor any of its related parties, their employees or directors, provide any warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product. The Fund's Target Market Determination is available here <https://www.eqt.com.au>. A Target Market Determination is a document which describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.  
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