

# EQT FLAGSHIP FUND – RETAIL CLASS

## FUND OBJECTIVE

The EQT 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 (P.A.)	5 YEARS (P.A.)	SINCE INCEPTION (P.A.) <sup>2</sup>
Distribution return	1.00%	2.90%	6.45%	5.48%	5.47%
Growth return	6.00%	16.86%	1.47%	2.87%	3.85%
Total net return	7.00%	19.76%	7.92%	8.35%	9.32%
Benchmark return <sup>3</sup>	7.79%	21.77%	8.45%	8.38%	9.27%
Active return	-0.78%	-2.01%	-0.53%	-0.03%	0.05%

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 are annualised.

<sup>2</sup> Inception date is 1 August 2003.

<sup>3</sup> Benchmark return is the S&P/ASX 200 Accumulation Index.

Past performances should not be taken as an indicator of future performance.

## PERFORMANCE SUMMARY

The Fund recorded a total net return of 7.00% for the September quarter, underperforming the S&P/ASX 200 Accumulation Index by 0.78%. Over the last 12 months the Fund recorded a strong absolute total net return of 19.76%, albeit lagging the Index by 2.01%. While we would always like to outperform the index, this result is not inconsistent with our “Quality at a Reasonable Price” style where the Fund often performs broadly in-line with benchmark during rising markets but outperforms when the market falls.

Over the last five years the Fund has produced an 8.35% per annum total net return performing broadly in-line with the benchmark. The total net return since inception has been 9.32% p.a., outperforming the benchmark by 0.05% p.a. over the same period.

The Fund has also demonstrated it generates a dependable distribution stream over the long term with a distribution return of 6.45% p.a. over the last 3 years and 5.47% p.a. since inception.



## PERFORMANCE DETAIL

At the stock level, over the last quarter the Fund benefited from its overweight positions in Brambles Ltd (BXB), Qantas Airways Ltd (QAN), and ResMed Inc-CDI (RMD). Underweight positions in Woodside Energy Group Ltd (WDS) and Cochlear Ltd (COH) also benefited the portfolio.

The main detractors to Fund performance were overweight positions in Beach Energy Ltd (BPT), Origin Energy Ltd (ORG), CSL Ltd (CSL), and Mineral Resources Ltd (MIN). Underweight positions in Wisetech Global Ltd (WTC) also detracted from Fund performance.

## ATTRIBUTION SUMMARY

SEPTEMBER 2024 QUARTER	TOTAL ATTRIBUTION
<b>Top five contributors</b>	
Brambles Ltd	0.54%
Woodside Energy Group Ltd	0.34%
Qantas Airways Ltd	0.34%
ResMed Inc	0.24%
Cochlear Ltd	0.21%
<b>Bottom five contributors</b>	
Beach Energy Ltd	-0.41%
Origin Energy Ltd	-0.28%
CSL Ltd	-0.25%
Wisetech Global Ltd	-0.24%
Mineral Resources Ltd	-0.18%

Table 2

## POSITIVE ATTRIBUTION

### BRAMBLES LTD (BXB)

The result surprised to the upside and management provided a bullish outlook that led to upgrades to market expectations. The company operates in a strong industry structure with a rational competitor and is executing on a range of efficiency measures. This means that BXB has entered a period of strong earnings growth and improved cashflow performance. Improved pallet availability has lowered capex to sales requirements aiding the cashflow outlook and potential for capital management.

### RESMED (RMD)

RMD has continued to recover from the impact that GLP1 (Glucagon-like peptide-1) treatments may have on demand for obstructive sleep apnea (OSA). While the results from a number of weight loss drug providers have been commendable, research has indicated that best treatments appear to be from a combined approach of GLP and CPAP (Continuous positive airway pressure therapy) and that the impact on RMD will be longer dated. Reinforcing their strong market position, RMD also delivered a very solid result in August purporting strong trading momentum into FY25. Sales growth remained solid with RMD maintaining and winning market share across all key markets and gross margins were better than expected. Strong operating leveraged is being delivered. The strategy day at the end of the quarter reinforced the company's very strong medium term growth outlook that should provide strong sustainable cashflow for reinvestment back into the company as well as capital management.



## NEGATIVE ATTRIBUTION

### BEACH PETROLEUM (BPT)

BPT suffered from a low oil price during the quarter and a reserve downgrade that was announced at their FY24 result. Given the downgrade was not their first and projects have experienced delays, management credibility has taken a hit. While we see value in BPT, the market will now need to see evidence of delivery and associated cashflow from upcoming projects as well as a sustainable drop in costs which management has outlined previously. Once this is delivered, we see very strong production growth and cashflow generation.

### CSL LIMITED (CSL)

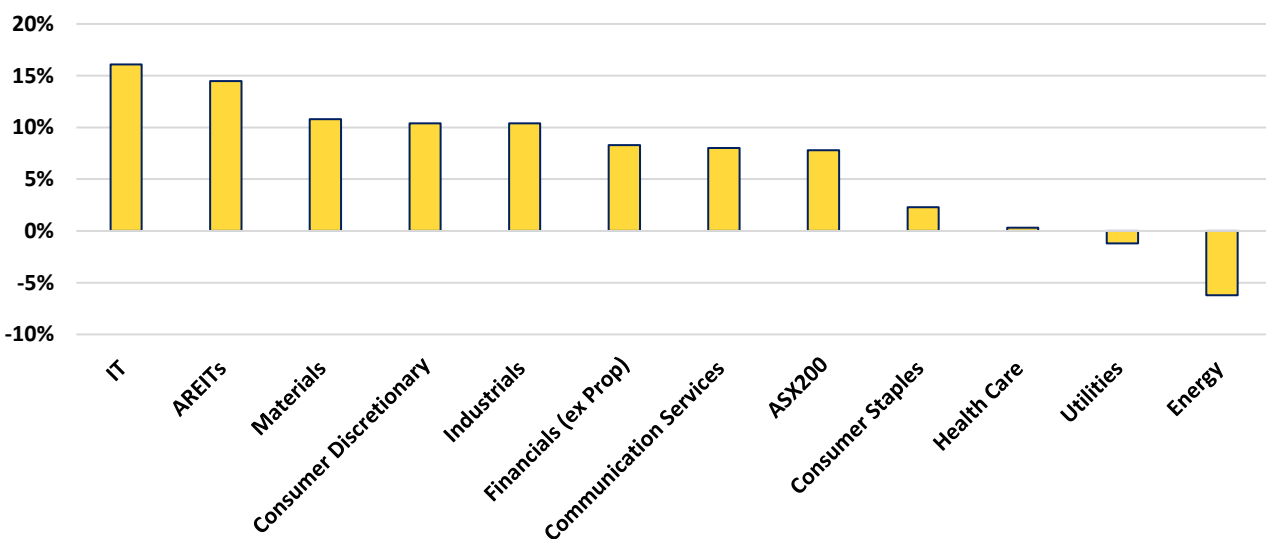
CSL’s result was slightly better than expectations but the outlook fell short of market forecasts. In our view the business is travelling well, particularly for the Behring division where gross margin expansion is expected to increase strongly into FY25 and beyond and growth is expected to continue across all indications. The Seqiris division (flu vaccinations) continues to hold share in a tough market and Vifor (used for the treatment of anaemia) is still recovering post the impact of CV19 and regulatory changes and appears to be stabilising. While the share price retraced during the quarter, we think CSL offers a strong growth outlook over the next 2-3 years and offers value at current prices.

## MARKET SUMMARY

### KEY POINTS

- **Australian shares rose strongly** – In local currency, the ASX200 (+7.8%) outperformed the MSCI World ex Australia TR index (+6.27%) and US S&P500 (+5.5%) but underperformed the Asia-Pacific ex Japan index (+10.7%) during the quarter. Asian markets were buoyed by the Chinese (+22.4%) and Hong Kong (21.7%) stock markets late in the quarter following announcements by Chinese authorities of new stimulus.
- **Sectors leveraged to low rates and China stimulus gained** – The best performing ASX200 sectors for the quarter were Information Technology (+16.1%), Property/AREITs (+14.5%) and Materials (+10.8%). The IT sector rose on strong earnings; Property rallied supported by lower bond yields and Materials gained late in the quarter on Chinese stimulus announcements. The worst performers were Energy (-6.2%), Utilities (-1.2%) and Healthcare (+0.3%).

**ASX200 Sectors - September Quarter change (%)**



Source: Equity Trustees

- **Stock moves** - The top five performers from the S&P/ASX 200 Index for the quarter were Zip Co. (+88.4%), Guzman Y Gomez (+45.7%), Charter Hall Group (+42.8%), Orora (+41.1%) and Wisetech Global (+36.9%). Conversely, the bottom five performers were The Star Entertainment Group (-39.8%), Audinate Group (-38.2%),



Megaport (-34.8%), Johns Lyng Group (-33.7%) and Lifestyle Community (-31.8%). Taking market capitalisation into account, the major contributors to the index gains included BHP, the major banks and Wisetech. Drags on the index included Energy stocks and large healthcare companies such as CSL and Cochlear.

- **Australian Economy** – The RBA held cash rates at 4.35%. Inflation continued to move lower, but the RBA pushed back on thoughts of immediate rate cuts. The Australian dollar (AUD/USD) rose 3.6% over the quarter to 69.13c.
- **Global economic activity** – The US Federal Reserve cut rates 50bp (0.5%) to 4.75% in September and guided to continued rate cuts over the next 12-18 months. Kamala Harris took over from Joe Biden as the Democrat representative for the US Presidency. As the quarter progressed polls became more evenly split between the Republicans and Democrats. Data out of Europe weakened during the quarter, especially Germany. Chinese economic data was worse than expected during the quarter leading the authorities to announce large scale stimulus measures at the end of September aimed at stabilising the ailing property market and lift consumer confidence.
- **Bonds rallied as yields fell** – The Bloomberg AusBond Composite 0+Y index rose 3.02%. Australian 10-Year bond yields fell 34bps to 3.97%, while US 10-Year bond yields fell by 61.5bps to 3.78%. Australian credit markets rallied 3.6%.
- **Commodities** – Base and precious metals rallied 2.7% and 9.8% respectively. Gold rose 13.2% supported by expectations of US rate cuts, a lower US Dollar and continuing geo-political conflicts. Iron ore eked out small gains (+2.6% to \$108/t) after falling back to \$90/t during the quarter. Oil (Brent) fell 15.6% while Lithium prices continued their slide down another 23% with both commodities affected by souring demand and rising supply.
- **ASX200 earnings and valuation** – Despite a solid reporting season in August, ASX200 earnings were revised down 4.7% over the September quarter driven down by the Materials, Energy and Utility sectors. The ASX200 Price-Earnings (PE) multiple closed at 18.2x (12-month-forward) trading in expensive territory versus its longer-term average of 15x.

## FUND ACTIVITY

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

## STOCKS BOUGHT FOR THE FUND

### TELIX PHARMACEUTICALS (TLX)

Telix Pharmaceuticals (TLX) is a fast-growing biopharmaceutical company operating in the burgeoning field of radiopharmaceuticals for diagnosis and treatment of cancers. TLX has successfully commercialized its prostate diagnostic product, Illucix and is currently taking market share from the incumbent player. It is also close to introducing diagnostic agents for renal and brain cancers. The real upside for the business will come from success in the more lucrative cancer therapeutic market. TLX is currently in a late-stage trial for its prostate therapeutic product TLX591 that has superior dosing and efficacy outcomes versus its rivals. Fundamentally, the company operates in a strong industry structure with high barriers to entry and generates 60% gross margins, 30% Return on Equity and offers a strong earnings growth outlook. Valued on a DCF basis the stock screens good value at current levels.

## STOCKS SOLD FROM THE FUND

### RAMSAY HEALTHCARE (RHC)

The recovery in earnings since Covid has been slower than expected and the company has been negatively impacted by a poor reimbursement and inflated cost environment. In our view there are still risks to earnings which include higher costs, lower tariffs affecting their French operations and less than expected hospital activity (in certain segments such as Psychiatric and maternity) domestically. With the new CEO started in early September 2024 there is the risk that earnings are rebased as Australian margins are permanently lowered in the new operating environment.



## RESPONSIBLE INVESTMENT SPOTLIGHT

### ESG Takeaways from Reporting Season

ESG (Environmental, Social & Governance) topics remained in focus for Australian companies during the August 2024 reporting season despite the anti-ESG sentiment we are seeing in the US. Below we have highlighted some of the key focus areas for ASX listed companies that reported results in August.

### Environment: Mandatory Climate Reporting

In August the Australian government passed legislation mandating climate-related financial reporting for Australian companies of a certain size requiring them to align with global best practices in climate disclosure. This was a major focus for many companies during reporting season, with most outlining that they were preparing to report in the coming years, kicking off for Australia’s largest companies from 1 January 2025.

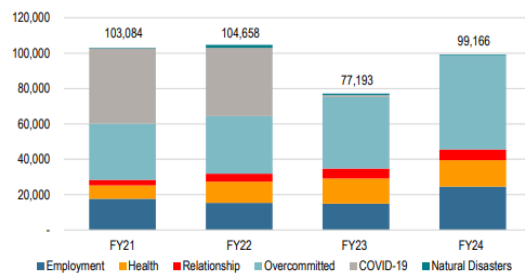
Some of the core requirements of the new reporting standards include the disclosure of: Scope 1, 2 and 3 emissions, climate risks and opportunities, capex, financing, or investment deployed towards climate-related risks and opportunities, internal carbon price (where used) and executive management remuneration linked to climate-related considerations.

We see this as a positive step forward in providing investors with more transparency and comparable information about a company’s exposure to climate-related financial risks and opportunities and how they are being managed.

### Social: Cost of Living Pressures

The impact of cost-of-living pressures on households was a prominent theme through reporting season with several companies across the banks, utilities, health insurers and telcos sectors highlighting an increase in cases of hardship leading them to increase their customer support packages and spend. For example, CBA made proactive contact with fixed rate roll-off and interest only customers facing hardship, expanded access to hardship support, and provided 132,000 tailored payment arrangements to those in need.

CBA Hardship Approvals by Reason



Source: J.P. Morgan Research

### Governance: Responsible AI

During reporting season, we saw an increase in mentions of artificial intelligence (AI), with many companies still in the early stages of understanding the potential value and use cases for AI across their businesses. Companies like Commonwealth Bank (CBA), Coles (COL) and Seek (SEK) are showing leadership in this area and are prioritising responsible AI. For example, SEK is conducting responsible AI reviews to ensure that their AI-based services align with their Responsible AI Principles. They are also developing a new AI role within their executive leadership team to oversee and guide responsible AI practices.

### Looking Ahead

As Australia moves to mandated climate reporting, we expect companies will continue to focus on progressing their decarbonisation efforts, and responsible AI will be an ESG topic in focus as more companies begin to integrate AI into their businesses.

### Corporate Engagement

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

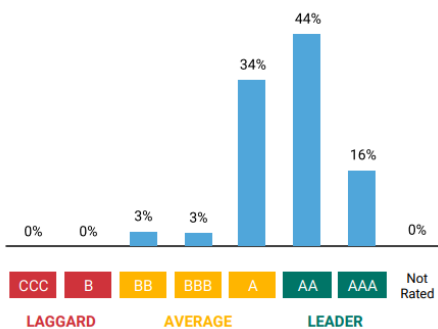


Company	ESG Topics	Engagement Focus
Commonwealth Bank (CBA)	Climate targets/customer hardship	<ul style="list-style-type: none"> <li>Likelihood of CBA meeting its climate targets given it is likely Australia won't meet 2030 renewable energy target.</li> <li>Approach to dealing with customer hardship.</li> </ul>

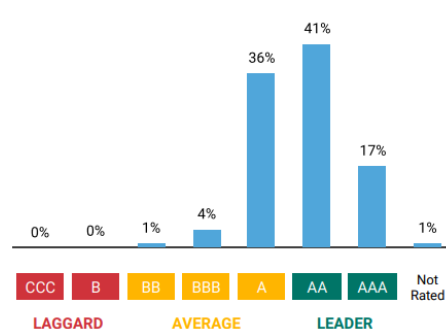
**FLAGSHIP FUND ESG METRICS AS AT 30 SEPTEMBER 2024\***

	PORTFOLIO	ASX 200
<b>MSCI ESG Scores</b>		
MSCI Weighted Average ESG Score (10 = highest, 0 = lowest)	7.6	7.5
Proportion (market value) from companies classified as ESG leaders (AAA and AA)	60%	58%
<b>Governance Metrics</b>		
Proportion (market value) from companies classified as governance leaders	86%	85%
Proportion (market value) from companies where women comprise at least 30% of the board of directors	90%	91%
Proportion (market value) from companies with a majority independent board	100%	99%
<b>Carbon Metrics</b>		
Companies with GHG emission reduction targets	90%	89%
Companies with targets across all scopes (Scope 1,2 & 3)	58%	55%

**Portfolio ESG Rating Distribution**



**Benchmark ESG Rating Distribution**



\*Data sourced from MSCI as at 30 September 2024



## OUTLOOK AND STRATEGY

As detailed in our market summary, most asset sectors and asset classes continued to grind inexorably higher over the September quarter. Consensus views are of ‘soft’ or ‘no’ landing scenarios, whereby economic growth slows just enough to sustainably curb inflation while avoiding recessionary conditions and a sharp uptick in unemployment. The commencement of interest rate cutting cycles in the US and Europe has helped fuel investor optimism and willingness to pay ever higher market multiples, notwithstanding weakening earnings forecasts.

The June 24 reporting period in the US and Australia was largely in line with expectations overall for earnings delivery. However, forward looking guidance from management teams was rather subdued and FY25 forecasts have continued to be modestly downgraded over the quarter.

The Australian equity market EPS growth is now forecast to be under 2% for FY25. Notwithstanding this lacklustre growth profile, inflation has yet to be fully contained due to ongoing cost of living pressures and service inflation, as well as pressures in the building sector and rental market. The RBA has understandably resisted political urgings to cut rates with our expectation that this positioning will extend into the new year.

One area of optimism for domestic equity markets is the mining sector, which received a boost in sentiment from a range of Chinese stimulus measures announced in late September. Chinese authorities have reinforced the importance of meeting economic growth targets of 5% pa and have announced significant monetary policy stimulus to revive the ailing property market and stimulate consumers to save less and spend more. Markets are also expecting Chinese fiscal stimulus to be substantial and have rallied aggressively. While it is dangerous to underestimate the will of Chinese policy, we believe that the structural overbuild and excess supply in the Chinese property market as well as emerging demographic challenges will mean that the impact of these measures will fail to meet market expectations over coming periods.

China economic growth challenges are being exacerbated by the trend to deglobalisation, with Chinese exports being pressured by a range of measures in the EU and if Donald Trump were to reclaim the Presidency, US tariff increases are highly likely.

Of course, other geopolitical issues continue with the conflict in the Middle East widening. We have no particular insights as to how these conflicts will resolve themselves but note that downside risks from further escalation do not appear discounted into market valuations.

While higher asset values are good news, we would note that many of our investors look to their investment assets as a source of income to meet obligations. For the reasons noted above, income expectations are set to be lower in FY25 than for FY24. This is mainly driven by falling dividend expectations from the historically higher yielding Australian equity market. The domestic market is suffering from anaemic earnings growth, particularly in the higher yielding, large index sectors of banks and miners.

We remain modestly underweight equity markets from a tactical asset allocation perspective due to the perceived asymmetry between the current positive sentiment versus the crystallising of any or all the risks identified above. The relative valuation appeal to bonds is also not as attractive as it has been in recent years.

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. The Australian equity market is trading moderately expensive at 18x price-earnings (PE) ratio, well ahead of long-term averages. The current income yield on Australian equities is ~3.6% (pre grossing up for franking credits).

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 in the right areas can contribute to strong overall returns.



## FUND HOLDINGS

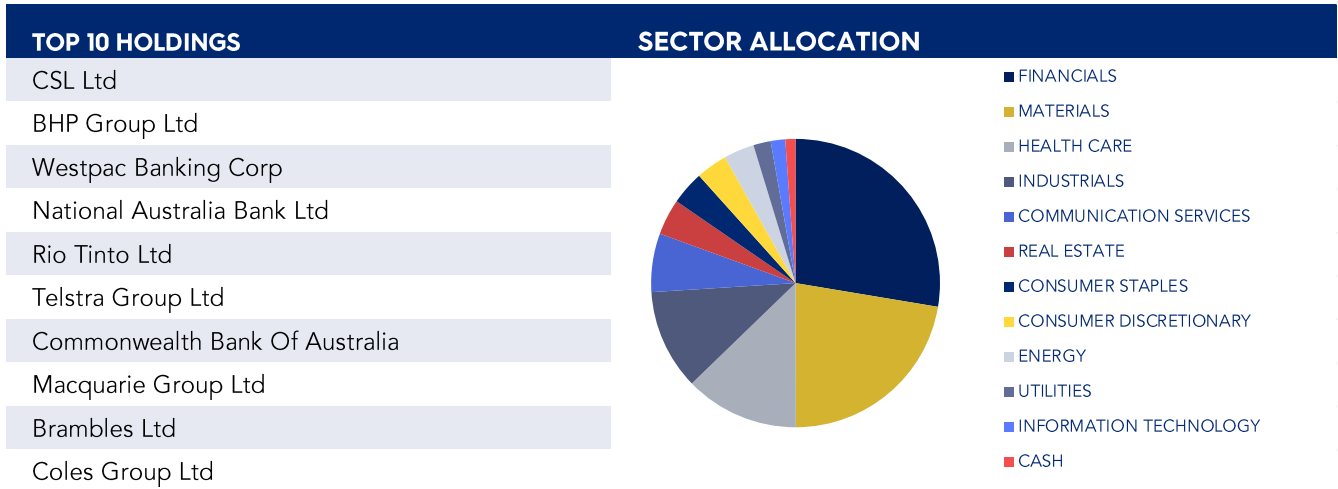


Table 3  
Source: Equity Trustees as at 30/09/24

Equity Trustees Wealth Services Limited (“ETWSL”) (ABN 33 006 132 332), AFSL 234 528, is the Responsible Entity for the EQT Flagship Fund – Retail 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.

Copyright © 2024 Equity Trustees, All rights reserved.