



Australian Eagle Asset Management

March 2019 Monthly Report - Australian Eagle Growth High Conviction Equity

Portfolio performance

	1 Month	3 Month	6 Month	1 Year	3 Year	5 Year	7 Year	10 Year	Inception p.a.
Portfolio	1.24%	12.12%	2.07%	12.22%	19.21%	12.99%	13.95%	13.09%	11.39%
Benchmark	0.84%	10.72%	2.16%	12.50%	11.42%	7.33%	10.26%	10.43%	7.64%
Out/(under) performance	0.40%	1.40%	-0.09%	-0.28%	7.79%	5.66%	3.69%	2.66%	3.75%

Top 3 and bottom 3 performing stocks

Top 3: Fortescue Metals Ltd (FMG), Xero Ltd (XRO), Wisetech Global Ltd (WTC)

Bottom 3: Oil Search Ltd (OSH), Elders Ltd (ELD), Invocare Ltd (IVC)

Market Commentary

World markets rose, led by China and the UK with US markets rising 2% in the best quarter for the S&P since 2009 despite softer US and Chinese economic data. Bond markets rose as US 10 year yields fell from 2.7% to 2.4% with the yield curve inverting briefly. Markets were supported by the US Fed postponing any further interest rate rises in 2019 and expecting to end Quantitative Tightening. Brexit negotiations dragged on as UK politicians could not agree on an appropriate exit deal, paving the way for a deadline extension. Iron ore prices rose 2% as Brazilian supply issues persisted. The oil price rose 5% to US\$60 due to lower OPEC production.

The Australian market lagged other markets due to the banks underperforming as Westpac increased the costs of customer remediation. Resources and yield stocks outperformed. The RBA maintained interest rates at 1.5% and does not expect the housing correction to have an immediate influence on interest rates. QBE began its next \$333m share buyback. NAB appointed Philip Chronican as the next Chairman.

Retailers Myer and Premier Investments reported better than expected earnings providing support to the Reserve Bank view that the labour market remains supportive of current monetary policy settings. OZ Minerals announced a scoping study for block cave expansion for its Carrapateena mine from 2026, potentially doubling the throughput and reducing costs while increasing mine life and resources. Japara Healthcare received 358 new operational bed licences for 2018/19, compared to Regis and Estia receiving 66 and 124 respectively. Invocare completed its institutional placement at \$14, above the \$13.30 underwritten price. Monadelphous secured its 2nd contract at BHP's South Flank Project, worth \$212m with work to start immediately. Wesfarmers made a non-binding proposal to buy Lynas Corporation, a significant producer of rare earth metals while also announcing a full Bunnings e-commerce offering within 18 months.

Portfolio Exposures

Major portfolio exposures were medical devices & services and technology stocks with less portfolio weight in major banks and retailers.

Portfolio changes

Stocks joined or increased:

Fortescue Metals Ltd (+0.50%): An Australian iron ore miner. The payment of a special dividend highlighted management's confidence in cashflows and the company's outlook.

IDP Education Ltd (+0.50%): An online English testing and education placement company. The company is able to leverage off its strong position in English language testing to expand its university placements business.

Stocks removed or reduced:

Computershare Ltd (-1.00%): A share registry and mortgage services business. The first half result was driven mainly by higher interest rates on client cash balances.

Reliance Worldwide Corp Ltd (-0.50%, Exit): An Australian plumbing supplies company. The first half result was more cyclical than anticipated and the sell down by the founders signals a lack of confidence in the recent UK acquisition.

Current portfolio: Top ten holdings

Stock	31/03/2019
Commonwealth Bank Ltd	7.49%
National Australia Bank Ltd	5.99%
QBE Insurance Group Ltd	5.82%
Cochlear Ltd	5.44%
Treasury Wine Estates Ltd	4.90%
Xero Ltd	4.89%
Fortescue Metals Group Ltd	4.73%
OZ Minerals Ltd	4.34%
ASX Ltd	4.13%
Macquarie Group Ltd	4.06%

Portfolio Commentary

Positives:

FMG - The share price rose as Fortescue received higher prices for its product due to the supply restriction in Brazil.

XRO - The share price rose after a period of consolidation.

WTC - The share price rose as the company raised \$300m to acquire competitors.

Negatives:

OSH - The share price consolidated after recovering in the previous few months.

ELD - The share price fell after the company downgraded earnings due to the drought.

IVC - The share price fell as the company raised \$85m to invest in growth projects.