



Australian Eagle Asset Management

May 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	1.38%	6.53%	18.03%	11.13%	18.79%	13.69%	15.79%	13.00%	11.64%
Benchmark	2.13%	5.31%	15.94%	12.08%	10.69%	7.70%	11.75%	10.25%	7.87%
Out/(under) performance	-0.74%	1.22%	2.10%	-0.94%	8.10%	5.99%	4.04%	2.75%	3.77%

Top 3 and bottom 3 performing stocks

Top 3: Fortescue Metals Group Ltd (FMG), Xero Ltd (XRO), Resmed Inc (RMD)

Bottom 3: Treasury Wine Estates Ltd (TWE), QBE Insurance Group Ltd (QBE), OZ Minerals Ltd (OZL)

Portfolio changes

Stocks joined or increased:

Nearmap Ltd (+1.00%, Entry): A cloud based aerial and location data company. The company has recently expanded in North America with plans for creation of more products.

Invocare Ltd (+0.75%): A funeral services provider. As the dominant player in the industry, the company has been the main beneficiary of the normalisation of market conditions, assisted by its growth capex program, Protect & Grow.

Stocks removed or reduced:

Carsales.com Ltd (-1.50%, Exit): An international car sales platform provider. The company has reached our valuation target.

Computershare Ltd (-2.00%, Exit): A multinational share registry and mortgage services company. The UK mortgage services division is facing restructuring and uncertainty in the face of Brexit while margin income growth slows with falling interest rates.

Market Commentary

World markets fell throughout the month as US-China trade tensions and increasing tariffs affected global sentiment. Bond yields fell as the markets prepared for an interest rate cut on weak inflation and slowing economic growth. China and US both increased tariffs on their counterpart's imported goods as negotiations broke down. The UK PM announced she will resign in June so that a new PM may be chosen to negotiate a successful Brexit deal. The iron ore price rose 8% to US\$101 as Chinese steel makers continued to drawdown inventories as Brazilian supply issues lingered. The oil price fell 17% to US\$52 as inventories grew as a sign of stalling demand. The Australian dollar fell 1c to US69c. The Australian market outperformed global markets as the market responded positively to the Coalition Federal election win. Unemployment rose 0.1% to 5.2% as participation rate increased to 65.8%. The major banks and Macquarie announced their results with NAB reducing its dividend. Retail bank divisions all had reduced cash earnings due to tighter lending criteria, margin pressure and increased customer remediation costs.

Fortescue announced accelerated distribution of franking credits before the federal election with a 60c fully franked special dividend. Treasury Wines confirmed record inventory depletions in Asia while reiterating 25% FY19 profit growth. Monadelphous was awarded a \$100m contract for a lithium mine in WA. Xero's FY19 result showed an acceleration in UK subscriber growth with expansion into new growth territories like South Africa, Hong Kong and Singapore. QBE provided an AGM trading update with continued growth in insurance premiums in all territories, combined with progress on cost cuts and recovering investment book performance. Sydney Airport reported negative domestic passenger growth offset by double digit international passenger growth from US and Filipino travellers in April. Wesfarmers' takeover bid for Kidman Resources was accepted after due diligence and should be complete by Sep 2019.

Portfolio Exposures

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

Current portfolio: Top ten holdings

Stock	31/05/2019
Commonwealth Bank Ltd	8.03%
Cochlear Ltd	6.03%
National Australia Bank Ltd	5.97%
Fortescue Metals Group Ltd	5.50%
QBE Insurance Group Ltd	5.49%
Xero Ltd	5.03%
OZ Minerals Ltd	4.68%
ASX Ltd	4.49%
Treasury Wine Estates Ltd	4.34%
Macquarie Group Ltd	4.08%

Portfolio Commentary

Positives:

FMG- The share price continued to rise with the iron ore price.

XRO - The share price rose after a strong FY19 result with positive free cash flow.

RMD - The share price rose after a pleasing 3Q19 report highlighting a solid contribution from its recent acquisitions.

Negatives:

TWE - The share price fell after the CEO announced he sold shares during the month.

QBE - The share price corrected as investors expect falling interest rates to reduce investment earnings.

OZL - The share price followed the copper price lower.