



# Australian Eagle Asset Management

## October 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	1.19%	-0.22%	9.13%	25.55%	19.27%	14.78%	15.10%	11.40%	11.85%
Benchmark	-0.36%	-0.66%	8.42%	20.13%	12.81%	8.48%	10.71%	8.56%	8.08%
Out/(under) performance	1.55%	0.44%	0.71%	5.42%	6.46%	6.31%	4.39%	2.83%	3.77%

### Top 3 and bottom 3 performing stocks

**Top 3:** Xero Ltd (XRO), ResMed Inc (RMD), OZ Minerals Ltd (OZL)

**Bottom 3:** Elders Ltd (ELD), Treasury Wine Estates Ltd (TWE), Japara Healthcare Ltd (JHC)

### Portfolio changes

#### Stocks joined or increased:

**Lendlease Ltd (+1.50%):** A property development, construction and funds management company. The company has recently won numerous large contracts for property development and received planning approval for its lucrative 3-tower project in Barangaroo.

**Invocare Ltd (+0.50%):** A funeral services company. The company's Protect & Grow refurbishment strategy has laid a strong platform for future organic growth.

#### Stocks removed or reduced:

**NextDC Ltd (-0.75%):** A data centre owner and operator. The share price is approaching our valuation target.

**ANZ Banking Corporation Ltd (-0.50%):** An Australian bank. The share price is approaching our valuation target.

### Market Commentary

World markets rose as US-China trade talks progressed to an announcement of a potential phase 1 deal during October. The US Fed cut interest rates by 0.25% for the 3rd time this year as economic growth slowed to +1.9%. The Chinese economy grew at 6% in 3Q19, its weakest level in 26 years due to the ongoing trade war with the US. The UK Parliament voted in favour of a snap general election for 12th Dec 2019 in order to find a way to break the Brexit stalemate. The oil price remained steady at US\$54 despite a build up of US inventories during the month. The iron ore price fell 8% to \$86 as iron ore stockpiles rose throughout the month due to a slight fall in Chinese steel production. The Australian dollar rose 2c from US67c to US69c.

The Australian market fell despite the RBA cutting rates by 0.25% to 0.75%. Consumer prices remained subdued in the Sep19 quarter, keeping the door open to further interest rate cuts. Iron ore miners announced pleasing quarterly production reports due to higher realised prices, with Fortescue generating strong cashflow to reduce net debt from \$2.1bn to \$0.5bn within 3 months. OZ Minerals quarterly report

showed a strong production profile, resulting in lowered FY19 C1 cost guidance. Oil Search and Treasury Wines announced that their CEOs would retire in late 2020, both with handpicked long-serving internal successors. ResMed's quarterly report showed continued double digit growth in all divisions with gross margins boosted by a strong contribution from the cloud business. AMP raised a record US\$6.2bn for an infrastructure debt strategy and recorded no material outflows from the loss of corporate super mandates in 3Q19. Sydney Airport announced low single digit growth in Sep 19 traffic numbers with Indian nationals recording double digit growth for the 2nd consecutive month. ANZ Bank's FY19 report reflected a difficult year with economic headwinds and increased remediation and compliance costs resulting in lower retail and commercial earnings. Cochlear, CSL and Treasury Wines all reconfirmed their FY20 guidance at their recent AGMs.

### 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	31/10/2019
Commonwealth Bank Ltd	7.48%
National Australia Bank Ltd	5.99%
Cochlear Ltd	5.92%
QBE Insurance Group Ltd	5.50%
Xero Ltd	5.39%
ASX Ltd	5.26%
Fortescue Metals Group Ltd	5.03%
OZ Minerals Ltd	4.98%
ResMed Inc	4.64%
CSL Ltd	4.56%

### Portfolio Commentary

#### Positives:

XRO - The share price rose in anticipation of a strong profit result.

RMD - The share price rose after a 1Q 2020 report showed strong growth in all divisions.

OZL - The share price rose as the company reconfirmed that the new Carrapateena mine remains on track for a Nov 2019 start.

#### Negatives:

ELD - The share price fell as the drought in Australia continues to intensify.

TWE - The share price fell after the CEO announced his resignation 1 year in advance.

JHC - The share price consolidated in the lead up to the release of the interim report for the Royal Commission into Aged Care.