



Australian Eagle Asset Management

February 2020 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	-7.51%	-5.36%	1.87%	14.04%	14.96%	12.86%	12.38%	10.97%	11.54%
Benchmark	-7.66%	-5.14%	-0.51%	9.64%	8.68%	6.16%	8.15%	8.20%	7.76%
Out/(under) performance	0.15%	-0.22%	2.38%	4.41%	6.28%	6.70%	4.22%	2.76%	3.78%

Top 3 and bottom 3 performing stocks

Top 3: Invocare Ltd (IVC), IDP Education Ltd (IEL), QBE Insurance Group Ltd (QBE)

Bottom 3: Altium Ltd (ALU), Cochlear Ltd (COH), Oil Search Ltd (OSH)

Market Commentary

World markets fell as coronavirus outbreaks started travel bans and forced cities around the world into lockdown, disrupting global supply chains. Chinese LNG and copper importers declared force majeure due to the shutdown. US President Trump was acquitted of impeachment charges by the US Senate. Investors continued to buy safe haven assets as global bond yields fell to record lows. Europe industrial production fell 3.5% in December. The oil price fell 13% to US\$46 on continued concerns of slower economic activity. The iron ore price fell 10% to \$84 as Chinese steel mills decreased production. The Australian dollar fell 2c to just below US65c.

The Australian market fell with increased fears of a global pandemic. The unemployment rate rose from 5.1% to 5.3%. Companies issued cautious outlook statements, concerned with the impact of business shutdowns on economic activity levels. The iron ore miners announced increased dividends as they distributed the benefits of higher iron ore prices from the last 6 months. Altium announced a slight slowdown due to lagged effects of the US China trade war but reaffirmed their 2025 targets.

OZ Minerals' new Carrapateena mine has shortened its ramp up period from 18 months to 12 while increasing its underground ore reserves by 77%. AMP's FY20 result showed strong double digit growth in AMP Capital earnings in addition to pleasing progress in its turnaround program. Cochlear announced the release of two new products but warned that a delay in elective implant surgeries will impact Greater China sales. CSL had strong growth in its core immunoglobulin division, driven by solid volume and 20 new collection centres. ResMed Inc announced continued increase in gross margins due to a larger contribution from its fast growing SaaS businesses. Treasury Wine Estates downgraded earnings with shutdowns significantly impacting its high margin China business. Japara Healthcare expects a 10% drop in FY20 EBITDA but has maintained its plan to open over 1,100 net new places by 2022. National Australia announced an unexpected 1% rise in first quarter profits.

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:

IDP Education Ltd (+0.75%): An international student placements and English testing company. The company's continued move to digital centres for English testing is driving margin and volume growth.

AMP Ltd (+0.25%): A wealth management and funds management institution. The company's turnaround plan is progressing well while its fast growing funds management division is displaying continued strong organic growth.

Stocks removed or reduced:

Sydney Airport Holdings Ltd (-1.00%): An international and domestic airport operator. The share price is approaching our valuation target.

Treasury Wine Estates Ltd (-0.25%): A wine maker, distributor and marketing company. The share price is approaching our valuation target.

Current portfolio: Top ten holdings

Stock	29/02/2020
Commonwealth Bank Ltd	7.99%
QBE Insurance Group Ltd	6.32%
Fortescue Metals Group Ltd	5.73%
Cochlear Ltd	5.60%
ResMed Inc	5.36%
CSL Ltd	5.17%
ASX Ltd	5.07%
National Australia Bank Ltd	5.05%
OZ Minerals Ltd	4.78%
Xero Ltd	4.75%

Portfolio Commentary

Positives:

IVC - The share price rose as the death rate increased while its Protect & Grow strategy has delivered growth.

IEL - The share price rose after strong growth in its English testing earnings.

QBE - The share price rose after rising insurance premiums had contributed to a strong FY19 result.

Negatives:

ALU - The share price fell as earnings were downgraded to the lower end of guidance from Coronavirus.

COH - The share price fell after there were delays in cochlear implant surgeries due to the Coronavirus.

OSH - The share price fell after Papua LNG talks with the PNG Government were formally suspended.