



# Australian Eagle Asset Management

## Long-Short Quarterly Report – June 2020 FOR WHOLESALE INVESTORS ONLY

### Portfolio Performance

As at 30 June 2020	3mth	6mth	1yr	2yr p.a.	3yr p.a.	4yr p.a.	Net Return S/I p.a.	Total Net Return S/I
<b>Aust. Eagle Long-Short*</b>	<b>23.11%</b>	<b>1.67%</b>	<b>4.59%</b>	<b>10.27%</b>	<b>15.02%</b>	<b>17.32%</b>	<b>17.32%</b>	<b>89.41%</b>
S&P/ASX 100 Acc**	15.98%	-10.70%	-7.84%	1.88%	5.17%	7.45%	7.45%	33.32%
Out/(under) performance	7.13%	12.37%	12.43%	8.39%	9.85%	9.86%	9.86%	56.10%

Performance figures are net of fees and expenses

\*Inception date 1 July 2016

\*\* Performance benchmark, past performance is not an indicator of future performance

### Portfolio Commentary

The Portfolio returned +23.11% after fees for the June 2020 quarter versus +15.98% for the S&P/ASX 100 Accumulation Index. Despite increased volatility throughout the last 2 quarters due to the COVID-19 pandemic, the Fund has returned +1.67% for the last 6 months vs -10.70% for the ASX 100. This completes 4 years of operation and is the 3<sup>rd</sup> consecutive quarter of outperformance. The investment team has remained disciplined in the implementation of the investment process, generating +9.86% p.a. outperformance since inception.

The Australian market continued to recover from the end of the March 2020 quarter as developed countries started to reopen their economies and governments started loosening lockdown measures that tried to halt the spread of the contagious COVID-19 coronavirus. Governments and central banks around the world continued their strong fiscal and monetary stimulus measures to soften the impact of the pandemic on society. Iron ore and copper prices rose on higher demand from increased economic activity and supply concerns in South America.

The Long side of the portfolio continued to contribute to performance as Pushpay announced stronger than expected adoption of its software technology during COVID-19 restrictions, forecasting a doubling of profit for FY21. OZ Minerals announced an expansion study which will double production of its new Carrapateena mine in 2026. Fortescue benefited from a rising iron ore price while reporting no interruption to production or shipping functions during the 1<sup>st</sup> quarter of CY2020.

The Short side of the portfolio detracted from performance in the quarter as the market continued to recover from its late March lows. Boral rose on hopes of an economic recovery despite the company experiencing slowing sales and rising debt levels prior to COVID-19. Whitehaven Coal fell as trade tensions with China rose in the quarter with Chinese power plants being told to stop importing Australian coal. Unibail-Rodamco-Westfield reported progressive reopening of shopping centres in US and Europe with tenants reporting higher foot traffic and larger basket sizes.

### Portfolio Highlights

#### Positives:

*Pushpay Holdings Ltd* (Long) – The Company’s FY20 results showed strong operating leverage with margins increasing faster than revenue growth. Management have forecast a doubling of profit to over US\$50m for FY21.

*OZ Minerals Ltd* (Long) – The Company’s new Carrapateena mine is set for a doubling of copper production in 2026. The Company also announced the buying out of Cassini Resources to consolidate its ownership of the West Musgrave project to 100%.

*Fortescue Metals Group Ltd* (Long) – The Company’s 3Q20 report showed record quarterly shipments of 42.3mt while growth projects Eliwana and Iron Bridge remain on budget and on schedule. The iron ore price continued to rise from strong infrastructure stimulus by the Chinese government and weak Brazilian iron ore supply.

#### Negatives:

*Boral Ltd* (Short) – The share price rose from its March 2020 lows despite increasing debt levels and replacing its long-serving CEO with an external candidate. The Company’s mis-management of its North America division has resulted in writedowns, after acquiring it for over US\$2.6bn in 2017.

*CSL Ltd* (Long) – The share price consolidated after outperforming in the recent downturn. The Company’s medium to long term outlook remains favourable with its dominant market share of rare blood disease treatments and continued improvement of its vaccine business.

*Cochlear Ltd* (Long) – The share price underperformed as the Company announced a significant decline in implant surgeries across major markets due to COVID-19. The Company’s medium term outlook remains positive with the fast growing Chinese market having already recovered to pre-virus levels.





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## Market Overview

The Australian market rose during the June quarter as countries began loosening lockdown restrictions to restart their local economies. Companies continued to raise capital while providing COVID-19 trading updates. CBA and Westpac both added \$1.5bn in loan impairment provisions. Goodman Group 3Q20 update showed high occupancy rates with strong demand from logistics and digital sectors. Pushpay upgraded FY21 profit guidance at its AGM only 2 months after its FY20 result. Elders result showed a solid contribution from its AIRR acquisition along with growth in all other divisions. Xero announced its maiden profit for FY20 despite a recent slowing in subscriber growth.

## Portfolio Changes

### Increased Exposure:

*Chorus Ltd* (+2.25%; Long): A NZ telecommunications infrastructure owner and operator. The Company has continued to grow its client base while it winds down its capital expenditure program during the lockdown in New Zealand.

*Link Administration Ltd* (+2.00%; Exit Short): A multinational fund administrator and registry services company. The Company's search for growth has added to rising debt levels while diversifying away from its core share registry business.

*AMP Ltd* (+1.75%; Long): A diversified financial services provider. The Company has completed the long-awaited sale of AMP Life, providing management with the necessary capital to implement its wealth management transformation strategy and return to growth.

### Decreased Exposure:

*Downer EDI Ltd* (-3.00%; New Short): An engineering and mining services company. The Spotless Group business has come under pressure from exposure to catering and hospitality sectors. The mining services division also faces a slowdown with several contracted mines closing or suffering from a reduction in productivity.

*QBE Insurance Group Ltd* (-2.00%; Long): A global general insurance company. Record low interest rates and slow economic activity has stifled the Company's turnaround strategy. The Company was also named in the UK as 1 of 8 insurers facing potential legal action over COVID-19 business interruption policy payouts.

*Worley Parsons Ltd* (-1.50%; New Short): An Australian infrastructure operator. Due to recent volatility in oil prices, the Company has indicated it will seek more contracts away from their core business of oil and gas and more towards renewable energy projects.

## Quarter-End Position & Portfolio Exposures

As at 30 June 2020, the fund had a net exposure of 92.99% and gross exposure of 200.41% to equities. Cash was 7.01%.

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

## Stock Highlight

### Acceleration of the Trend to Digitisation

#### Pushpay Holdings Limited (PPH) – Long Position

*Growth Delta Argument:* Pushpay originated in New Zealand but its business of digitising church donations and engagement is predominantly focussed in the US. Pushpay operates a subscription model with churches and their parishioners as their customers. Their software enables communication, deeper engagement with congregations and easier collection of donations. Pushpay also charges a processing fee on donations collected via their software. The estimated market size is US\$2bn in revenue and the company made US\$98m in revenues when we started our position. The upside was significant should they be able to continue to grow.

*Trigger:* Pushpay stands apart in the tech sector not only because the company had strong revenue growth and no debt but despite being relatively immature, was profitable at both the operating cashflow and net profit level in the second half of FY19. It was this continued growth, along with the safety of earnings and potential upside of a 10x revenue opportunity by gaining market share from the existing analogue processes that was the trigger for investment. The market capitalisation of around NZ\$1bn being significantly below the company's stated Lifetime Value of US\$3bn highlighted valuation upside. There are only a few competitors in this space, most likely because churches are conservative in their choice of technology partners and Pushpay receives word of mouth recommendations to drive their market share.

*Outlook:* Since investing, Pushpay has expanded its potential offering by merging with Church Community Builder, another software company that enables some of the management processes of a church, such as organising activities, to be done online. This further deepens engagement with their clients and respective congregations and builds a deeper moat around the business by raising the barrier to switching. There is also cross promotional potential with customers who only have one of the two products. The COVID-19 crisis has increased the adoption of Pushpay's product suite as physical distancing accelerated the switch to digitisation by churches as they sought to maintain engagement with their parishioners. Confirmation of this was given at the June AGM where earnings in FY21 are expected to nearly double. This moves them towards achieving their current 10X revenue opportunity.





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## Australian Eagle Trust Long Short Fund - Net Monthly Returns

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY
2016/17	10.52%	0.99%	-1.08%	-4.14%	2.94%	5.16%	-0.25%	5.15%	-0.06%	1.94%	1.31%	0.36%	<b>24.48%</b>
2017/18	-1.70%	5.27%	0.20%	5.35%	1.05%	1.10%	2.41%	3.08%	-3.86%	4.18%	2.34%	3.60%	<b>25.13%</b>
2018/19	-1.09%	1.45%	-2.24%	-7.62%	-0.53%	2.23%	5.98%	3.70%	1.76%	3.65%	2.15%	6.57%	<b>16.27%</b>
2019/20	4.00%	-2.46%	-0.18%	-0.34%	3.80%	-1.78%	5.45%	-6.50%	-16.24%	8.32%	9.97%	3.34%	<b>4.59%</b>

Past performance is not an indicator of future performance

### **About the Australian Eagle Trust Long-Short Fund**

Australian Eagle Asset Management Ltd is an Australian boutique wholesale fund manager specialising in Australian equities. Australian Eagle's investment process seeks to deliver significant outperformance by identifying mispriced stocks with changing growth profiles and building concentrated portfolios of those stocks.

The Australian Eagle Trust Long-Short Fund aims to outperform the Australian equity market over a period of 5 years by allowing clients to access Australian Eagle's demonstrated historical strength in constructing Australian share portfolios applied to a long-short product.

### **How to Invest**

The Australian Eagle Trust Long-Short Fund is only available to investors via the Australian Eagle Trust Product Disclosure Statement (PDS) that is available on [www.austeagle.com/how-to-invest/](http://www.austeagle.com/how-to-invest/). The Product Disclosure Statement offers investors the opportunity to invest a minimum of \$25,000 in the Australian Eagle Trust (the Fund). The Responsible Entity has the discretion to waive or vary this minimum requirement.

The offer of units in the Fund are available to investors both residents in Australia, New Zealand and elsewhere receiving this document (including electronically) in Australia, New Zealand or elsewhere. Investors who are not residents in Australia can invest in the Fund where they are permitted by law to do so. The Trust Company (RE Services) Ltd ABN 45 003 278 831 AFSL 235150, part of Perpetual Ltd, is the responsible entity and issuer of units in the Australian Eagle Trust ARSN 632 568 846. The Investment Manager of the Fund is Australian Eagle Asset Management Pty Ltd ABN 89 629 484 840, a corporate authorised representative of Alleron Investment Management Pty Ltd AFSL 278856.

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