



# Australian Eagle Asset Management

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

### Portfolio Performance

As at 30 September 2020	3mth	6mth	1yr	2yr p.a.	3yr p.a.	4yr p.a.	Net Return S/I p.a.
<b>Aust. Eagle Long-Short*</b>	<b>1.76%</b>	<b>25.28%</b>	<b>5.11%</b>	<b>12.31%</b>	<b>14.30%</b>	<b>14.95%</b>	<b>16.69%</b>
S&P/ASX 100 Acc**	-0.79%	15.06%	-10.79%	0.70%	4.74%	5.97%	6.80%
Out/(under) performance	2.55%	10.21%	15.90%	11.61%	9.56%	8.98%	9.89%

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 +1.76% after fees for the September 2020 quarter versus -0.79% for the S&P/ASX 100 Accumulation Index. Over a rolling 12 month period, the Fund has managed to earn a positive return of 5.11% vs -10.79% benchmark return, highlighting the strength of the Portfolio's quality bias in times of market stress. This aspect of the investment process along with our focus on changing/expanding growth profiles has driven the +9.89% p.a. outperformance since inception.

The Australian market endured continued volatility in the quarter as Victoria went into lockdown from a spike in COVID-19 cases in addition to second waves of cases starting to appear around the world. Governments and central banks continued efforts to stimulate their economies. Geopolitical tensions rose between China and Western countries with continued protectionist rhetoric and policies focused on curbing Chinese technology companies.

The Long side of the portfolio contributed to performance as Fortescue announced a record profit for FY20, stemming from higher iron ore prices. OZ Minerals announced increased copper and gold production, resulting in reduced C1 costs. Technology stocks such as Xero and Altium both contributed as long term favourable outlooks remained intact despite recent market volatility. Chorus announced strong uptake of Ultra-Fast Broadband connections during COVID-19 and reiterated intentions to increase future dividend payouts despite an evolving regulatory environment.

The Short side of the portfolio contributed slightly to performance despite two small shorts, WiseTech Global and Boral, detracting from performance. Our stop loss process reduced the positions of these two stocks in the portfolio over the quarter. Unibail-Rodamco-Westfield contributed to performance as large downward revaluations at the FY20 result forced the company to announce a EUR9bn "Reset" plan, including a EUR3.5bn capital raise.

### Portfolio Highlights

#### Positives:

*OZ Minerals Ltd* (Long) – The Company's ramp up of its Carrapateena mine has exceeded initial estimates, resulting in reduced C1 and All-In-Sustaining Costs for FY20. The Company also consolidated its ownership of its West Musgrave project to 100% by acquiring its minority JV partner.

*Fortescue Metals Group Ltd* (Long) – Significant operating leverage from high iron ore prices enabled management to declare a record \$1.00 final FY20 dividend. Future growth projects in Eliwana and Iron Bridge also remain on track for delivery in FY21 and FY23 respectively.

*Xero Ltd* (Long) – The recent AGM update revealed that all geographies achieved positive net subscriber additions throughout the first 4 months of FY21. The Company also completed an acquisition of an invoice lending platform for \$80m to strengthen the offering of its ecosystem for small business owners and stakeholders.

#### Negatives:

*AMP Ltd* (Long) – The share price fell as leadership and governance problems arose, resulting in 2 non-executive directors resigning and the demotion of the new AMP Capital CEO. The new chairperson announced a portfolio review where all expressions of interest in company assets will be considered.

*WiseTech Global Ltd* (Short) – The share price rose as the Company continued to experience a moderate recovery in customer demand by the end of FY20. Management also revealed plans to focus on integrating the large number of recent acquisitions into its existing operations to reap cost synergy benefits and slow down acquisition activity which had increased debt levels.

*ResMed Inc* (Long) – The share price consolidated after a period of outperformance. The Company announced that recent growth in ventilator sales due to COVID-19 will ease as countries bring the spread of the coronavirus under control. Management have maintained their long term focus on respiratory health while also developing robust solutions for out-of-hospital care and digital health.





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## Market Overview

The Australian market experienced volatility to end the September quarter flat. The big banks rallied as the Federal Government announced intentions to relax Responsible Lending Rules when fiscal stimulus measures start phasing out. The August reporting season continued to see companies raise equity to support stretched balanced sheets. AMP announced the return of \$544m excess capital to shareholders while continuing its 3 year transformation plan. Altium reached its 50,000 subscriber target but revealed there may be a 6 to 12 month delay to reach its long term revenue target of \$500m.

## Portfolio Changes

### Increased Exposure:

*Incitec Pivot Ltd* (+1.50%; New Long): A fertiliser and explosives producer & distributor. The Explosives business has continued to exhibit strong organic growth while the Fertiliser division has shown signs of growth with increasing demand due to improving conditions.

*Goodman Group* (+1.50%; Long): A global logistics and industrial property developer & manager. The Company has experienced strong growth for e-commerce, digital and big data sites due to COVID-19. The development pipeline grew to \$6.5bn at FY20, recently signing a 20 year lease with US tech giant, Amazon.

*South32 Ltd* (+2.25%; Exit Short): A diversified multinational miner. The Company is exiting lower returning businesses and focusing on further reducing operating unit costs over remaining operations. Management recently sold off South Africa Energy Coal to relieve pressure off the balance sheet.

### Decreased Exposure:

*Challenger Ltd* (-2.75%; New Short): An annuities provider and fund manager investor. The Company reported a slump in annuity sales due to COVID-19 and structural changes in the wealth management industry. Management also downgraded FY21 earnings by \$100m, citing tough trading conditions.

*Qantas Ltd* (-3.00%; Short): An Australian aviation and loyalty partner company. Strict domestic & international restrictions have impeded the Company's operations for the foreseeable future, resulting in two thirds of its workforce stood down and a \$1.4bn impairment of its aircraft assets.

*Invocare Ltd* (-1.50%; Long): A multinational funerals and cemetery operator. Despite being the clear market leader in Australia, New Zealand and Singapore, mandatory social distancing requirements have stifled the Company's modern funerals "Protect and Grow" strategy.

## Quarter-End Position & Portfolio Exposures

As at 30 September 2020, the fund had a net exposure of 95.66% and gross exposure of 186.73% to equities. Cash was 4.34%.

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

## Stock Highlight

### **A Growing Infrastructure Asset Exploring New Markets**

#### ASX Limited (ASX) – Long Position

*Growth Delta Argument:* The ASX has a privileged asset, being the main stock and futures exchange and providing the only clearing exchange for stocks traded on either their own exchange or their main competitor's. This has enabled consistent above average growth over decades from not only the growth in total assets within the economy but also the regulated direction of asset allocation towards financial assets via superannuation growth. The extraordinary margins and thus cash flows have enabled strong dividends whilst maintaining a very conservative strategy. More recently, ASX have invested large amounts of capital into new products which could expand their available market and/or profit pool.

*Trigger:* Australian Eagle has had a long history of owning shares in ASX, however, it was both changes taking place in the market as well as those orchestrated by management that provided potential and hence increases in our portfolio exposure. The first change was the difficulties experienced by large fund platforms owned by banks where the ASX could be seen as an easy alternative via the listing of LICs, LITs and MFunds. While not of the scale of some of the other platforms, it provided incremental earnings growth options for ASX. The second change is the offering of a new property settlement exchange in competition with PEXA, which will leverage existing infrastructure for incremental growth. Finally and what may become greater in importance, is the building of the distributed ledger for stock settlements. This will not only cement their position as the only settlement provider but potentially reduce or remove the need for registries as the distributed ledger will be the single source of truth.

*Outlook:* As a result of its privileged position in the market infrastructure and sustained expansion in Australia's Superannuation system, earnings growth will be well supported and it is in our opinion that the stock will retain a premium valuation. However, the potential upside is the increase in earnings growth rates from any or all of the three Triggers mentioned above. Management's expansion of offering has added a level of optionality to earnings growth not seen in many years.





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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>
2020/21	3.60%	1.83%	-3.53%										<b>1.76%</b>

Past performance is not an indicator of future performance.

Net monthly returns are calculated using exit prices after taking into account all of the Australian Eagle Trust's ongoing fees as disclosed in the PDS and assuming reinvestment of distributions. No allowance has been made for entry fees, the buy sell spread or taxation.

### **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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