



Australian Eagle Asset Management

Long-Short Quarterly Report – June 2021

FOR WHOLESALE INVESTORS ONLY

Portfolio Performance

As at 30 June 2021	3mth	6mth	1yr	2yr p.a.	3yr p.a.	4yr p.a.	5yr p.a.	Net Return S/I p.a.
Aust. Eagle Long-Short*	15.62%	19.63%	26.24%	14.90%	15.36%	17.73%	19.05%	19.05%
S&P/ASX 100 Acc**	8.47%	13.31%	27.92%	8.57%	9.91%	10.44%	11.27%	11.27%
Out/(under) performance	7.15%	6.31%	-1.68%	6.33%	5.45%	7.28%	7.78%	7.78%

Performance is 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 +15.62% after fees for the June 2021 quarter, consolidating a rebound in performance after a disappointing December 2020 quarter. The Fund has completed 5 years of operations, with the team consistently implementing the same investment process to successfully navigate the portfolio through many different types of market conditions. The result of a stable investment team and process has generated positive outperformance over the benchmark of +7.78% p.a. since July 2016.

The market continued to rise in the June quarter as the Fed dismissed fears of rising inflation as transitory, resulting in long term bond yields falling, benefiting stocks with longer dated earnings. Stimulus measures started to yield results as Australian unemployment fell from 5.8% to 5.1% and the big banks continued to writeback impairment provisions on improving asset quality. Commodity prices trended up with the oil price rising in anticipation of increased demand as economies start to reopen.

The Long side of the portfolio contributed to performance as quality companies with strong competitive advantages outperformed. Japara Healthcare received unsolicited takeover bids from 2 competing parties with both proceeding to the due diligence stage. Altium also received and rejected a takeover bid from a large strategic US buyer, who remains a product collaboration partner. ResMed contributed to performance when a competitor announced a product recall, providing an opportunity to gain further market share as the market leader in the recovering sleep apnoea industry.

The Short side of the portfolio also contributed to performance as poorer quality stocks continued to endure company specific headwinds in tough operating environments resulting in pessimistic forecasts. A2 Milk downgraded its outlook in May as management revealed limited visibility from unfavourable external conditions has resulted in excess inventory with a further update on the situation in August. AGL Energy fell as it announced the demerger of its retail business and reiterated the continuing tough operating conditions would result in the withdrawal of its special dividend policy. Beach Energy downgraded their energy reserves after the company experienced declines in oil production and drilling results, sparking a review of its medium-term production targets.

Portfolio Highlights

Positives:

Japara Healthcare Ltd (Long) – The share price rose after the Company received 3 takeover bids from 2 non-profit organisations. Management’s recent trading update has revealed the recovering occupancy rate of its aged care facilities while conducting several profitable sale and leaseback transactions to highlight the undervalued nature of the land on its balance sheet.

Altium Ltd (Long) – The share price rose after the Company received an unsolicited takeover bid from a large US design software company valuing the company at over \$5bn. After rejecting the bid, management updated the flight path for their FY25 target of 100k subscribers and US\$500m revenue.

ResMed Inc (Long) – The share price rose after a major competitor faced a recall of one of its core sleep products. The Company’s recent quarterly results revealed continued SaaS growth as well as a turnaround in sleep device sales in developed nations as the global Covid vaccine rollout starts to take effect.

Negatives:

Incitec Pivot Ltd (Long) – The share price fell as the Company experienced a slow Waggaman manufacturing plant turnaround as well as unplanned outages. Management has forecast a positive 2H21 turnaround with the manufacturing improvement and operational excellence to coincide with a strong fertiliser division contribution.

OZ Minerals Ltd (Long) – The share price fell with the copper price after China released reserves of base metals into its domestic market. The Company’s operations have been hampered by a strong Australian Dollar and COVID-19 restrictions in Brazil. Group production guidance remain on track as costs remain well controlled in a tough operating environment.

AMP Ltd (Long) – The share price fell as the Company concluded takeover discussions with Ares and the CEO was ousted halfway through his 3 year turnaround plan. The Board decided to pursue a demerger of the Private Markets division and pursue an on-market share buyback as the best ways to enhance shareholder value.





Australian Eagle Asset Management

Market Overview

The Australian market rose during the June 2021 quarter as economies responded to the stimulus measures resulting in improving economic conditions. The big banks wrote back their impairment provisions, reflecting the improvement in asset quality. Xero announced record ANZ subscriber additions and an increase in sales & marketing spend. Corporate Travel revealed a break-even month in March and EBITDA to be positive in 4Q21. Elders announced strong profit growth but warned of rising costs for 2H21.

Portfolio Changes

Increased Exposure:

Woolworths Ltd (+3.75%; New Long): An Australian supermarket and discount department store retailer. The demerger of Endeavour Group has brought the balance sheet back to a net cash position and given management the opportunity to return capital to shareholders and solidify their market position.

Challenger Ltd (+2.75%; Exit Short): A multinational annuities provider and funds management business investor. Management has confirmed FY21 earnings after a reshuffle of management and a stabilisation of the operating environment. The acquisition and integration of MyLife MyFinance bank is set to enhance revenue prospects with a complementary product offering.

Beach Energy Ltd (+2.25%; Exit Short): A low-cost Australian oil & gas producer. The company has been actively acquiring assets during the downturn as well as expanding existing ones while the broad global economic recovery is providing a platform for rising oil and gas demand. Portfolio time stops have also caused an exit from this short position.

Decreased Exposure:

Orica Ltd (-4.25%; New Short): A multinational explosives and blasting systems supplier. The company has suffered a slowdown in demand due to continuing trade tensions between Australia & China. Despite new customer wins and the acquisition of Exsa, the company remains under pressure with a newly appointed CEO.

Nearmap Ltd (-3.25%; Exit Long): An aerial imagery and location data provider. Despite raising capital to expand operations and upgrading FY21 target numbers, the company remains under pressure due to a recently received legal complaint relating to a US patent infringement.

TPG Telecom Ltd (-2.50%; Short): A large Australian telecommunications infrastructure owner and service provider. The resignation of key personnel after the merger with Vodafone Australia has cast doubt on the company's ability to challenge Telstra, for market share.

Quarter-End Position & Portfolio Exposures

As at 30 June 2021, the fund had a net exposure of 96.30% and gross exposure of 196.31% to equities. Cash was 3.70%.

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

Stock Highlight

Superior versus the Competition

Commonwealth Bank Limited (CBA) – Long Position

Growth Delta Argument: While a change argument is required for a new portfolio position, the decision to increase an existing portfolio is more nuanced. Portfolio stocks need to sustain their quality advantage and additionally, exhibit a dynamism that potentially extends their superiority to justify any increase in portfolio weight. CBA's share price fall relating to the AUSTRAC investigation provided an entry point as the strength of its retail bank was evidenced by continued superior growth and margins versus all competitors. A track record of investments into core IT infrastructure upgrades also created increased flexibility in product development versus its peers, providing an additional area of dominance with the finance industry moving deeper into the digital world.

Trigger: The trigger for the team's investment or increase in portfolio weight in a company may arrive via a single piece of information or a mosaic of information. With CBA, the company had managed the COVID-19 downturn better than peers while implementing new products to gain market share off competitors. This has resulted in superior growth of business banking and home lending while maintaining strong margins in its low-cost retail banking book. The ongoing sale of non-core assets has also allowed for more capital to be fed into the investment pipeline for promising FinTechs, furthering their leadership in the digital age of banking.

Outlook: The consequence of such recent information is the increased portfolio weight to CBA along with a reduction or removal of other ASX listed banks. The continued dominance of CBA supported by superior IT infrastructure we expect will continue to be reflected in the market by a sustained premium rating relative to its competitors. This along with reduced provisions for bad debt and surplus capital from recent asset sales will support continued dividends and potentially other capital returns.





Australian Eagle Asset Management

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%	24.48%
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%	25.13%
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%	16.27%
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%	4.59%
2020/21	3.60%	1.83%	-3.53%	4.35%	-0.62%	0.00%	0.13%	1.86%	1.45%	7.26%	3.63%	4.02%	26.24%

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/. 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 who are residents in Australia or New Zealand. 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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