



Australian Eagle Asset Management

Long-Short Quarterly Report – December 2021

FOR WHOLESALE INVESTORS ONLY

Portfolio Performance

As at 31 December 2021	3mth	6mth	1yr	2yr p.a.	3yr p.a.	5yr p.a.	Net Return S/I p.a.
Aust. Eagle Long-Short*	6.64%	11.56%	33.45%	19.64%	22.94%	18.42%	19.52%
S&P/ASX 100 Acc**	2.24%	3.83%	17.65%	8.90%	13.74%	9.79%	10.94%
Out/(under) performance	4.40%	7.73%	15.80%	10.75%	9.21%	8.62%	8.58%

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 +6.64% after fees for the December 2021 quarter to finish off 2021 with +15.80% outperformance over the last 12 months. The past five and half years of operations with the same investment team and consistent process implementation has generated positive outperformance over the benchmark of +8.58% p.a. since July 2016.

The market continued to experience volatility in the December quarter as a new highly contagious but less deadly strain of COVID-19 engulfed the world despite growing vaccination rates. Inflation concerns lingered as supply chain difficulties and employment shortages affected businesses globally. Major central banks began winding back stimulatory monetary policy with interest rates forecast to rise in 2022. Iron ore prices endured a volatile quarter, falling below \$90/t in November before recovering to \$122/t as concerns over the Chinese property market were eased through government negotiations despite many property developers missing debt and interest repayments.

The Long portfolio contributed to performance as quality companies with strong competitive advantages outperformed. OZ Minerals reported a decrease in production costs and expansion of gold production along with long term growth projects progressing as planned. Altium's hard pivot to its cloud platform received a strong response, with subscriber numbers growing ahead of expectations. Fortescue added to performance as the company announced a change in leadership along with increased resources allocated to its clean energy division.

The Short portfolio also contributed to performance as poorer quality stocks were affected mostly by their existing problems. Magellan's fund outflows accelerated with announcement of a large client terminating its mandate in December. The all-scrip takeover of Afterpay by Block Inc was delayed after running into regulatory delays in Spain, with the share price following the Block price lower over the quarter. Westpac reported a disappointing FY21 result with higher costs and lower net interest margins affecting profits in addition to multiple court cases involving scandals, poor risk management systems and charging fees to deceased customers.

Portfolio Highlights

Positives:

Magellan Financial Group Ltd (Short) – The share price fell as a large customer representing 12% of annual revenue notified the Company of its termination of its mandate with Magellan. Internal management problems also surfaced during the quarter with the CEO leaving with immediate effect and the executive Chairman/CIO revealing his marriage breakdown to the market.

OZ Minerals Ltd (Long) – The share price rose after the Company lowered their FY21 cost guidance and increased gold production guidance. The Company has maintained a net cash balance despite funding numerous growth projects including the commencement of the expansion of the Prominent Hill mine shaft.

Altium Ltd (Long) – The share price rose after management revealed the subscriber uptake for its new Altium365 cloud platform had already received an overwhelmingly positive response. The Company also reaffirmed its FY22 guidance of 16-20% revenue growth as well as its longer-term objective of dominating and transforming the electronics industry.

Negatives:

Nitro Software Ltd (Long) – The share price fell as larger global competitors revealed slower than expected growth outlooks. Management have maintained their longer-term focus by completing the acquisition of a European competitor, adding over 12,000 business customers and increasing strategic market coverage.

Pushpay Holdings Ltd (Long) – The share price fell after the Company revealed a disappointing HY22 result and outlook statement with a recent slowdown in processing volume growth. Recent acquisitions are yet to add to group performance while management's new Catholic segment strategy is also in relatively early stages of execution.

Link Administration Holdings Ltd (Short) – The share price rose after being subject to multiple takeover offers for the entire group as well as specific assets or divisions. Prior to takeover activity, the Company had suffered from regulatory changes, COVID operating headwinds and lack of strategic direction.





Australian Eagle Asset Management

Market Overview

The Australian market rose during the December 2021 quarter as investors digested the emergence of a new highly contagious COVID-19 strain while central banks transitioned to more hawkish commentary. Macquarie Group raised \$2.8bn from shareholders to fund further growth projects. AMP divested its Resolution Life stake as well as its infrastructure debt platform during the quarter. BHP and Woodside Petroleum entered into a share sale agreement to merge oil and gas operations to create over US\$400m in cost synergies.

Portfolio Changes

Increased Exposure:

Origin Energy Ltd (+3.25%; Exit Short): A diversified energy producer and retailer. The Company has signaled its intention to shift away from mature carbon-intensive oil and gas assets with the sell-down of its APLNG stake. Management have recently acquired WINconnect as well as a strategic stake in Octopus Energy to increase focus on energy retail customers.

Ausnet Services Ltd (+3.00%; Exit Short): An Australian energy company. The Company has accepted a takeover bid after being subject to multiple bids from 2 separate suitors. The Company recently impaired its Geospatial business as the project struggled to gain traction.

IGO Ltd (+2.00%; Long): An Australian clean energy metals producer. The performance of IGO's Lithium JV has started well with overall better than expected production so far. The Company also acquired Western Areas to add higher grade nickel mines and reserves to its growing clean energy exposure.

Decreased Exposure:

Ansell Ltd (-4.25%; New Short): An Australian personal protection equipment manufacturer and distributor. The Company has struggled to adapt to a rapidly changing environment as supply chain disruptions and cost inflation have negatively affected margins.

Afterpay Ltd (-2.50%; New Short): A global buy now pay later service provider. The Company has accepted an all-scrip takeover bid by a larger US payments business but regulatory delays have provided a temporary setback for progression of growth and integration plans.

Worley Ltd (-2.25%; New Short): An Australian energy and resources engineering company. The Company has experienced many problems due to COVID with volume restrictions, deferred projects and lower margin construction work negatively impacting top and bottom line growth.

Quarter-End Position & Portfolio Exposures

As at 31 December 2021, the fund had a net exposure of 95.48% and gross exposure of 194.00% to equities. Cash was 4.52%.

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

Stock Highlight

A Constantly Evolving Money Machine

Macquarie Group Limited (MOG) – Long Position

Growth Delta Argument: Macquarie Group had previously featured in our portfolio, contributing to returns before the GFC. However this time around, conviction levels and its portfolio weight have both increased significantly, especially in the past year due to the successful deployment of capital into its “Green Bank”. A deeper analysis of Macquarie Group’s history provides some helpful information for the investment team’s thesis.

After exiting our initial holding in 2007, our second entry into the stock occurred in 2013 when Macquarie spun out their holding in Sydney Airport to recycle this money into less capital intensive but higher returning assets. Essentially, our trigger was the change in corporate focus and improving ROE metrics for the company. This redeployment of capital confirmed management’s ability to meaningfully adjust the company’s medium-term strategy when opportunities arise.

In recent years, Macquarie has arguably become the market leader in infrastructure projects for both financial advice and as a fund manager. With the acquisition of Green Bank in 2017, the potential for Macquarie to accelerate earnings became more apparent, given their growing infrastructure expertise and the external tailwinds of lower interest rates and an increasing focus on environmentally friendly solutions.

Trigger: As with many companies mentioned in previous reports, the trigger to invest or increase a portfolio position came from numerous pieces of evidence to confirm that our change thesis is taking place. In 2020, the Company had raised \$1.7bn equity to partly fund 250 green infrastructure pipeline deals. By year end, an additional \$20bn was raised in new infrastructure FUM and the group CEO was one of the few handpicked global banking CEOs chosen to speak at an international conference about financing energy transition. These provided confirmation that Macquarie’s strategy pivot towards energy infrastructure would be able to generate an additional growing earnings stream.

Outlook: With over \$29bn in committed equity awaiting deployment, Macquarie’s Real Asset FUM has the potential to grow by 20% as pipeline deals come to fruition. Given the stable but growing nature of renewable energy infrastructure earnings, we expect the share price to start to positively reflect the improving quality of the company from both a recurring earnings and ESG perspective.





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%
2021/22	3.37%	3.02%	-1.76%	2.64%	0.63%	3.25%							11.56%

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 \$20,000 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.

The PDS and target market determination can be obtained by calling 02 8252 7559 or visiting our website <http://austeagle.com/how-to-invest/> for the PDS or <https://documents.feprecisionplus.com/Tmd/PCT/TMD/P9IY-ALR2783AU.pdf> for the target market determination.

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