



Australian Eagle Asset Management

Long-Short Fund Quarterly Report – March 2022

FOR WHOLESALE INVESTORS ONLY

Portfolio Performance

As at 31 March 2022	3mth	6mth	1yr	2yr p.a.	3yr p.a.	5yr p.a.	Net Return S/I p.a.
Aust. Eagle Long-Short*	-1.32%	5.23%	27.28%	30.82%	17.92%	17.00%	18.33%
S&P/ASX 100 Acc**	2.99%	5.29%	15.99%	25.97%	11.02%	9.36%	11.02%
Out/(under) performance	-4.31%	-0.06%	11.29%	4.85%	6.90%	7.64%	7.32%

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 -1.32% after fees for the March 2022 quarter. After a negative start to the quarter, the Fund rebounded strongly in March, returning +9.89% for the month. With less than 3 months to complete 6 years of successful operations for the Australian Eagle Trust, the consistent process implementation by the investment team has generated positive outperformance over the benchmark of +7.32% p.a. since July 2016.

The market continued to experience volatility in the March quarter as Russia declared war on Ukraine in February in addition to persistently high COVID-19 case numbers around the world. Inflation remained a concern for markets as companies continued to struggle with labour shortages and rising cost inputs. Major central banks turned increasingly hawkish as the US Fed paved the way for larger and faster interest rate hikes in a bid to control inflation. Global energy prices surged throughout the quarter as the markets digested the impact of sanctions on Russian goods. The oil price rose 33% to US\$101/bbl and European gas prices followed a similar trajectory.

The Long portfolio detracted from performance due to underperformance of technology and longer dated earnings stocks. Despite announcing strong fundamental results during reporting season, technology shares fell due to rising bond yields. Altium's revenue rebounded strongly after a period of underperformance during the initial stages of COVID-19. Nitro also experienced strong top line growth as businesses continue to adapt to a remote working environment. ASX reported strong trading volumes but announced the resignation of its CEO as well as a further delay of its eagerly awaited CHES replacement project.

The Short portfolio also detracted from performance as low-quality commodity producers benefited from rising prices despite continued inferior company fundamentals. AGL Energy was subject to an opportunistic takeover bid after struggling in 2021 with falling power prices leading to a proposed demerger in June. Beach Energy's poor production numbers and downgrade of gas reserves were more than offset by rising oil and gas prices. Worley's work backlog increased due to rising oil and gas prices despite management taking an extended period of time to adapt to COVID-19 conditions.

Portfolio Highlights

Positives:

Woodside Petroleum Ltd (Long) – The share price followed oil and gas prices higher as sanctions on Russian energy put global supplies under further pressure. In addition to the merger with BHP which will double annual production, the company's low cost of production and strong free cashflow have laid a strong platform for future organic growth.

Incitec Pivot Ltd (Long) – The share price rose with rising fertiliser prices. Despite some production difficulties with unplanned shutdowns at its manufacturing plants, the company is benefiting from commodity tailwinds as ammonia, DAP and urea prices have all experienced recent strong price upswings.

IGO Ltd (Long) – The share price rose after reporting improving performance in 2Q22. In addition to improved profitability of its Lithium JV, higher nickel prices have provided a welcome tailwind for recent earnings growth. The company expects its Kwinana Refinery Train 1 to produce battery grade lithium hydroxide in March 2022.

Negatives:

Altium Ltd (Long) – The share price fell despite reporting a strong recovery in sales and earnings growth for 1H22. The company's transition to a largely recurring revenue model has been faster and smoother than expected. Long term targets remain on track as the company continues to gain market share off larger competitors.

Nitro Software Ltd (Long) – The share price fell as bond yields rose throughout the quarter, largely affecting valuations of long dated earnings companies. The company reported double digit revenue growth, aided by complementary acquisitions and strong subscriber retention metrics. The increasingly digital nature of the world presents an attractive growing market for the company to gain market share with its superior product offering.

AGL Energy Ltd (Short) – The share price rose after being subject to an opportunistic takeover bid which was promptly rejected by the board of directors. Management narrowed FY22 earnings guidance to the upper range as the company's recovery started taking shape, experiencing stronger spot and forward wholesale electricity pricing.





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Market Overview

The Australian market rose during the March 2022 quarter despite the start of the Russia-Ukraine war. Central banks began to hike interest rates to bring inflation under control. Commonwealth Bank announced market share gains in both retail and business banking despite shrinking net interest margins. CSL revealed plasma donation volumes are recovering to pre-COVID-19 levels. Wesfarmers acquisition of API was successful after Woolworths withdrew its competing bid.

Portfolio Changes

Increased Exposure:

Rio Tinto Ltd (+5.75%; Exit Short, New Long): A globally diversified commodities producer. The Company's substantial cashflow has placed it in a strong position to fund future growth projects around the world as it transitions operations to more future facing minerals.

Magellan Financial Group Ltd (+4.25%; Exit Short): A global equities fund manager. The Company experienced poor performance and management instability as the Chairman/CIO took an indefinite leave of absence. Our risk management controls determined that the steep funding costs outweighed the potential benefits of our holding, resulting in closing our short position in February.

Transurban Ltd (+1.50%; New Long): A multinational toll roads owner and operator. In addition to the imminent traffic volume recovery post COVID-19, the recent acquisition of WestConnex has bolstered the Company's growth profile. Management have also refinanced their cost of debt to remain materially below the contracted growth rate of revenue.

Decreased Exposure:

Star Entertainment Group Ltd (-2.75%; New Short): An Australian casinos owner and operator. As persistent industry headwinds continue to hamper its recovery, the Company has been undergoing intense scrutiny of its past behaviour involving dealing with criminals, ultimately resulting in the resignation of the CEO.

Domino's Pizza Enterprises Ltd (-2.75%; New Short): A multinational pizza franchise distributor. The COVID-19 tailwind of increased demand for food delivery has shown signs of subsiding as recent same store sales and profit metrics begin to fall and normalise.

Goodman Group Ltd (-1.25%; Exit Long): A industrial property developer, owner and operator. Management has maintained the same distribution for 4 years despite continually upgrading earnings expectations. Rising construction costs may also compress future margins for growth projects.

Quarter-End Position & Portfolio Exposures

As at 31 March 2022, the fund had a net exposure of 96.10% and gross exposure of 190.80% to equities. Cash was 3.90%.

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

Australian Eagle Portfolio Management – A Deeper Dive

The Recycling of Risk?

The stock focus sections of past quarterly reports have demonstrated investment cases for companies that exhibit nascent changes in their business profiles that should result in a significant change in their earnings growth profile. We reduce the risk and improve the quality of the position by identifying investment triggers, which are objective pieces of evidence that confirm that changes are taking place in the company.

However, entering or increasing a position in the portfolio is only half of the story. Our portfolio management decisions aim to improve the quality of the portfolio by replacing existing positions with what we see as a similar exposure but with lower risk. Companies exiting or decreasing in weight in the portfolio are ones where the investment trigger has been invalidated or where the expected upside from fundamental change is complete and/or reflected in the share price.

As a result, we are constantly assessing and improving the quality of the portfolio while managing the risk and exposure levels in accordance with market conditions. Reallocation of capital sometimes occurs within a sector, e.g. replacing 2 separate positions in FMG (iron ore miner) and OZL (copper miner) with an equivalent but higher quality resources exposure in RIO (diversified miner with iron ore, copper and aluminium). Other stocks with emerging change may replace companies in a different sector where we see similarities in earnings growth profiles.

Over the past 6 months, this bottom-up process of identifying emerging change in companies has resulted in a shift in overall portfolio exposures, with increasing large cap positions and specific resources companies replacing some information technology and smaller cap exposures that had produced strong returns for the portfolio over the past 4 years.

The Australian Eagle investment process focuses on careful management of both entry and exits of the portfolio. Our underlying aim with managing the portfolio is to recycle capital into higher quality stocks with a lower downside risk profile while maintaining exposure and upside potential.





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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%	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%	-9.77%	-0.47%	9.88%				10.09%

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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