



Australian Eagle Asset Management

Long-Short Fund Quarterly Report – June 2022

FOR WHOLESALE INVESTORS ONLY

Portfolio Performance

As at 30 June 2022	3mth	6mth	1yr	2yr p.a.	3yr p.a.	5yr p.a.	Net Return S/I p.a.
Aust. Eagle Long-Short*	-5.78%	-7.02%	3.73%	14.44%	11.05%	14.79%	16.35%
S&P/ASX 100 Acc**	-11.13%	-8.47%	-4.97%	10.26%	3.86%	7.17%	8.38%
Out/(under) performance	5.34%	1.45%	8.69%	4.18%	7.19%	7.61%	7.97%

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 -5.78% after fees for the June quarter. After 6 years of operations, the Australian Eagle Trust has outperformed at every time period in the table above, generating outperformance over the benchmark of +7.97% p.a. since July 2016. The Fund outperformed the S&P/ASX 100 Accumulation Index in April and June as the recent transition of the portfolio into larger capitalisation companies resulted in portfolio positions that were less affected by the recent market downturn.

The market's downward trend accelerated throughout the quarter, led down by high growth and longer dated earnings companies as investors grappled with rising interest rates, higher inflation and labour shortages. The US Fed continued its hawkish rhetoric increasing interest rates by 75bps as it remained steadfast in its fight to control inflation. Western sanctions on Russian goods continued to disrupt global supply chains. China stuck to its COVID-19 zero policy but showed signs of easing social and travel restrictions towards the end of the quarter. Commodities experienced a volatile quarter with copper falling to 16 month lows of US\$3.68/lb while the oil price remained above US\$100 on global undersupply issues and Russian sanctions.

The Long portfolio added to performance as the economy experienced deteriorating conditions in the form of supply chain difficulties, higher inflation and interest rate increases. Commonwealth Bank led the market down after a period of outperformance as recent rate rises created unease about potentially higher levels of mortgage stress. Macquarie Group fell as markets digested a massive FY22 earnings result and a more subdued outlook. IGO also followed the nickel price lower after management increased their bid price for their ultimately successful acquisition of Western Areas.

The Short portfolio contributed to performance as high PE and unprofitable companies were increasingly sold down as bond yields trended higher. Some commodity producers also suffered as recent labour constraints proved difficult to overcome. Block Inc fell as cryptocurrency prices collapsed during the quarter while bond yields also remained volatile while trending higher. Northern Star Resources fell on concerns of rising costs and labour shortages. Evolution Mining also fell as management downgraded production and delayed its Red Lake project timetable.

Portfolio Highlights

Positives:

Block Inc (Short) – The share price fell as the cryptocurrency market fell, reportedly destroying around US\$2 trillion of wealth in the process. Rising interest rates resulted in news of growing bad debts in the Buy Now Pay Later sector. Technology and high growth stocks were also punished by the market due to bond yields trending higher in a volatile quarter.

Northern Star Resources Ltd (Short) – The share price followed the gold price lower during the quarter as commodity producers all reported cost input inflation due to falling production and labour shortages. Management has also flagged increased FY22 cost guidance after a tough March 2022 quarter.

Evolution Mining Ltd (Short) – The share price fell with the gold price in the June quarter as management reported a decrease in production due to input cost inflation and lack of labour availability. Progress at the Company's highly touted growth project Red Lake has been delayed by an additional 12 months.

Negatives:

Commonwealth Bank of Australia Ltd (Long) – The share price fell as the Reserve Bank of Australia hiked interest rates twice in consecutive months whilst also maintaining a hawkish stance. Fears of increased levels of mortgage defaults affected the big banks during the quarter as official rates rose from 0.10% to 0.85%.

Macquarie Group Ltd (Long) – The share price fell as management released a cautious outlook statement at its FY22 results announcement which also included a lower dividend payout ratio. The group's Commodities & Global Markets division should continue to benefit from recent market volatility.

IGO Ltd (Long) – The share price fell as fears of future oversupply in the lithium market brought about a downturn in the sector despite current prices reaching new all-time highs. The Company's low-cost high-grade nickel operations have been enhanced with the completion of the acquisition of Western Areas while their Lithium JV also produced its first battery grade lithium hydroxide during the quarter.





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Market Overview

The Australian market fell with global markets during the June 2022 quarter as central banks continued to hike interest rates to bring inflation under control. BHP and Woodside Energy completed the merger of their oil and gas assets. AMP sold its Collimate Capital businesses and announced strong growth in AMP Bank. ASX announced their CHES replacement project is to be delayed till April 2023 due to delays in the delivery of application software.

Portfolio Changes

Increased Exposure:

Transurban Group Ltd (+5.50%; Long): A multinational toll roads owner and operator. Management have refinanced their cost of debt to be substantially below contracted annual toll increases, the majority of which are inflation-linked. The Company also has strong exposure to traffic volume growth as COVID-19 becomes endemic.

Rio Tinto Ltd (+4.25%; Long): A multinational diversified miner. The Company's low-cost operations and substantial cashflow have placed it in a strong position to fund future growth projects around the world as it transitions operations to more future facing minerals.

Block Inc (+2.75%; Exit Short): A US based financial services and digital payments company. The Company's recent troubles in cryptocurrency valuation falls and its acquisition of Afterpay reached expectations. This short position also fulfilled its proposed time duration in the portfolio and was closed at the end of the quarter.

Decreased Exposure:

OZ Minerals Ltd (-3.25%; Long): A low-cost multinational copper and gold miner. The Company has been struggling to contain input cost inflation as well as labour shortages. Falling copper and gold prices have shrunk recent cashflow which may threaten the cash funding of current and future growth projects.

ARB Corporation Ltd (-2.75%; New Short): A multinational 4x4 accessories manufacturer and distributor. The COVID-19 tailwind of increased demand for domestic road/off-road travel has shown signs of subsiding as countries relax their international traveller entry requirements. Management have also recently flagged labour challenges and material cost pressures.

Xero Ltd (-4.25%; Exit Long, New Short): A cloud-based SME accounting software platform provider. The Company's recent results for US market share expansion have come up short of expectations. Management have also failed to buy any meaningful acquisitions with the US\$700m convertible notes issued in November 2020.

Quarter-End Position & Portfolio Exposures

As at 30 June 2022, the fund had a net exposure of 96.03% and gross exposure of 195.73% to equities. Cash was 3.97%.

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

Inflation-Linked Growth Without the Added Cost

This stock highlight is not an investment recommendation and is intended to be read in the context of the Australian Eagle portfolio.

Transurban Group Limited (TCL) – Long Position

Growth Delta Argument: The urban toll road network in Sydney is the most extensive and expensive in the world and Transurban holds concession rights to a large majority of these lucrative toll roads. The company's portfolio also includes similar vital road infrastructure assets in Melbourne, Brisbane and North America and over the past decade, the company expanded them relatively well during the backdrop of falling interest rates. While the stock price had fallen since the beginning of 2020 due to the impact of COVID-19 lockdowns, Transurban has benefited from the subsequent return to relative normalcy in society. Operating cashflows and shareholder distributions have also benefited from the rebound in traffic growth alongside the purchase of Sydney's WestConnex. As domestic and international inflation reaches multi-decade highs, insertion of clauses in recently renewed government contracts enforcing quarterly inflation-linked toll rises has provided another welcome tailwind to revenue growth. These factors have resulted in the growing importance of Transurban Group as a high conviction portfolio position.

Trigger: The business profile of Transurban involves considerable interest expense to service the large debt pile that was used to purchase the high-quality infrastructure toll roads. While this information is commonly known in markets, the interaction of these factors in the current environment provided an evolving situation of significant interest. In the past few years, Transurban management took advantage of low interest rates and extended its debt maturity profile to lock in these rates for at least 3 years. Fixing a large expense at cyclical lows while experiencing rebounding traffic growth and toll rates provides an opportunity for shareholders to receive growing distributions without the unwanted effects of inflation.

Outlook: While any of the points discussed above would provide value to shareholders, the combined effect of these internal and external factors may provide the opportunity for earnings to grow at a faster rate in the short term should inflation-linked toll increases outpace increases in their largest expense. Despite higher interest rates globally, the recent purchase of Sydney Airport and telecom mobile towers highlight the continued demand for infrastructure assets. The rare combination of growing organic volumes, fixed short term cost base and accelerating revenue make Transurban an attractive company exhibiting improving quality in a difficult operating environment.





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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%	2.54%	-3.88%	-4.39%	3.73%

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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