



Australian Eagle Asset Management

September 2022 Monthly Report - Australian Eagle Long-Only Equity

Portfolio performance

	1 Month	3 Month	6 Month	1 Year	3 Year	5 Year	7 Year	10 Year	Inception p.a.
Portfolio	-5.27%	2.14%	-7.46%	-1.87%	9.73%	13.19%	15.23%	13.58%	11.47%
Benchmark	-5.68%	0.58%	-10.62%	-5.89%	3.21%	7.21%	8.24%	8.77%	7.30%
Out/(under) performance	0.41%	1.56%	3.16%	4.02%	6.52%	5.98%	6.99%	4.81%	4.17%

Top 3 and bottom 3 performing stocks

Top 3: ResMed Inc (RMD), IGO Ltd (IGO), Rio Tinto Ltd (RIO)

Bottom 3: Incitec Pivot Ltd (IPL), Corporate Travel Management (CTD), Cochlear Ltd (COH)

Portfolio changes

Stocks joined or increased:

Pro Medicus Ltd (+0.25%): A healthcare imaging software company. The company's accelerating contract wins have increased margins and laid a platform for further organic growth.

ResMed Inc (+0.25%): A sleep apnea and digital healthcare management company. An additional competitor product recall has provided a further opportunity for management to accelerate market share gains.

Stocks removed or reduced:

CSL Ltd (-0.25%): A global human blood product and vaccine manufacturer. The contribution of its Vifor acquisition may not reach short term expectations due to excess COVID-19 mortality rates of its target customers.

Market Commentary

World markets continued to fall as central banks around the world accelerated interest rate hikes. The US Fed maintained its tight fiscal policy stance, raising rates by 75bps with annual inflation easing for a 2nd straight month but still significantly above target levels. The inversion of the US yield curve increased as the 2yr yield climbed above 4%. The new UK government announced a large fiscal package and their biggest tax cuts since 1972, triggering the BoE to buy long-dated UK government bonds to restore orderly market conditions. China's economy continued to struggle with multiple headwinds as the PBoC cut its foreign exchange reserve ratio to support the falling yuan. The iron ore price fell 5% to US\$96/t as the Chinese government's COVID zero policy continues to cripple its domestic economy. The oil price fell 11% to US\$80/bbl despite OPEC+ producing below target levels. The Australian dollar fell from US68c to US64c. The Australian market fell with global markets as the RBA increased interest rates by another 50bps to 2.35%. The unemployment rate increased slightly to 3.5%. The Federal Government increased its migration quota to 195k for FY23 in a bid to solve ongoing labour shortages.

ResMed competitor Respiroics suffered a product recall of its masks, adding to the trouble with the previous recall of its flow generators in June. AMP received a \$14.5m fine by the Federal Court for charging fees for no service. Rio Tinto's Oyu Tolgoi JV partner Turquoise Hill accepted Rio's best and final all cash offer of C\$43 per share. Incitec Pivot revealed higher gas costs are impacting margins despite continued above long term average prices for ammonia, urea and DAP. Hurricane season began in North and Central America, resulting in increased pressure on insurers with regional exposure. Fortescue announced US\$6.2bn capital investment by 2030 to eliminate fossil fuel risk and reduce operating costs by US\$818m per year. Commonwealth Bank won a reprieve to remove the final \$500m operational risk capital charge requirement enforced from 2018 due to concerns over governance and accountability frameworks and practices. The ACCC announced it will seek further views on the Telstra-TPG regional mobile network sharing proposal. Major relative portfolio exposures were medical devices and non-bank financial stocks with less portfolio weight in major banks and industrials.

Australian Eagle Portfolio: Top ten holdings

Stock	30/09/2022
Commonwealth Bank Ltd	7.50%
Incitec Pivot Ltd	6.00%
QBE Insurance Group Ltd	6.00%
CSL Ltd	5.50%
Cochlear Ltd	5.50%
Macquarie Group Ltd	5.25%
Rio Tinto Ltd	5.25%
Woodside Energy Group Ltd	5.00%
AMP Ltd	4.50%
Transurban Group Ltd	4.50%

Portfolio Commentary

Positives:

RMD - The share price rose after release of news concerning a competitor product recall.

IGO - The share price followed the lithium and nickel prices higher.

RIO - The share price rose after making some progress on its growth projects in copper and lithium.

Negatives:

IPL - The share price fell after a period of outperformance.

CTD - The share price fell as aggressive central bank interest rate hikes hampered consumer sentiment.

COH - The share price fell as growth stocks suffered relative losses from rising bond yields.