



# Australian Eagle Asset Management

## Long-Short Fund Quarterly Report – Sep 2022

### FOR WHOLESALE INVESTORS ONLY

#### Portfolio Performance

As at 30 September 2022	3mth	6mth	1yr	2yr p.a.	3yr p.a.	5yr p.a.	Net Return S/I p.a.
Aust. Eagle Long-Short*	3.93%	-2.07%	3.05%	15.65%	12.02%	14.84%	16.36%
S&P/ASX 100 Acc**	0.58%	-10.62%	-5.89%	11.02%	3.21%	7.21%	8.13%
Out/(under) performance	3.35%	8.54%	8.94%	4.64%	8.81%	7.63%	8.23%

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 +3.93% after fees for the September 2022 quarter versus benchmark return of +0.58%. The Australian Eagle Trust has outperformed its benchmark by +8.23% p.a. since July 2016. The Fund has continued to outperform the S&P/ASX 100 Accumulation Index in a particularly volatile period as both the improving quality of the long portfolio as well as the deteriorating quality of the short portfolio contributed during the quarter.

The markets continued to experience significant volatility as many global economic and geopolitical events caused markets to whipsaw. The US Fed increased interest rates by 75bps as it remained committed to bring inflation back to target levels. The US yield curve inverted, with the difference between the 10yr and the 2yr yield moving from +6bps to -40bps within 3 months. The new UK PM's announcement of a large stimulus plan and unfunded tax cuts forced immediate market intervention from the BoE to restore orderly market conditions. The iron ore price fell 21% to US\$96 as the China's economy slowed due to a property crisis, severe drought, COVID-19 zero policy and energy shortages, despite large government stimulus packages.

The Long portfolio added to relative performance despite the recent RBA and other central bank interest rate hikes hampering investor sentiment. IGO announced a strong FY22 result as their lithium JV started ramping up its highly lucrative lithium hydroxide production. Altium's result showed the company's products have gained significant traction with their target market. AMP commenced a \$350m on-market share buyback with a further \$750m return of capital planned for FY23.

The Short portfolio also contributed to performance as high PE and long dated earnings companies were increasingly sold down as bond yields trended higher. Domino's Pizza fell as management revealed the food delivery tailwind enjoyed during COVID has disappeared as the virus becomes endemic. Evolution Mining fell with the gold price as interest rate hikes gathered pace in addition to top management turnover. Reliance Worldwide Corporation also fell after announcing a relatively weak trading update after experiencing weak cashflows from higher inventory levels to combat supply chain delays during FY22.

#### Portfolio Highlights

##### Positives:

*IGO Ltd* (Long) – The share price rose throughout the quarter as the company announced record EBITDA for FY22 due to a strong Nova result and the first profit contribution from its lithium joint venture. Greenbushes experienced a record production year and the lithium hydroxide plant at Kwinana produced its first battery grade supply.

*Altium Ltd* (Long) – The share price rose after upgrading its long-term targets. The company experienced strong uptake in higher value software subscriptions as well as its cloud ecosystem, Altium365. Management anticipates reaching their FY26 \$500m revenue target on 75k-90k subscribers instead of 100k should the current trend continue.

*Domino's Pizza Enterprises Ltd* (Short) – The share price fell as consecutive months of central bank hikes started to hamper consumer sentiment. The tailwind the company enjoyed during COVID lockdowns has continued to dissipate as most governments ease social restrictions. Management announced a gloomy trading update with negative same store sales for the first 6 weeks of FY23 and a slowing rate of new store roll outs.

##### Negatives:

*Transurban Ltd* (Long) – The share price fell as the company announced FY23 costs to increase faster than FY22 due to new asset costs and higher corporate & operational expenses. Previous tailwinds of recovering traffic volumes, inflation linked toll rises and fixed rate debt remain in place for the foreseeable future.

*The A2 Milk Company Ltd* (Short) – The share price rose as the company announced a \$150m buyback. The company's previous headwinds of falling Chinese fertility rates, tense Sino-Australian relations and higher input & shipping costs continue to affect short-term profitability. Management have also reiterated their intention to further increase marketing costs for FY23.

*Ansell Ltd* (Short) – The share price recovered after a period of underperformance. The company continues to suffer from higher input costs, labour shortages and mismanagement of inventory. Management still has not dealt with the high profile coverage of the company knowingly profiting off the labour of slaves in a Malaysian glove factory.





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## Market Overview

The Australian market moved with global markets as the RBA hiked interest rates by 150bps in the quarter. Reporting season showed companies continue to struggle with higher cost inputs, labour shortages and supply chain issues. ResMed's competitor Respironics suffered a second product recall within the space of 3 months. Nitro Software received an unsolicited takeover proposal from a private equity consortium. Chorus upgraded future distribution payouts due to lower capital expenditure.

## Portfolio Changes

### Increased Exposure:

*AGL Energy Ltd* (+2.25%; Exit Short): A vertically integrated energy services provider. This short position was closed during the quarter as a time stop. The future of the company still remains uncertain. A new but large external shareholder has already dismantled the previous plan for a demerger, resulting in management resigning.

*Ansell Ltd* (+2.00%; Short): A multinational industrial and medical glove manufacturer. The share price has started to recover despite the August 2022 result highlighting multiple headwinds and cost pressures which will cause immediate term margin pressure.

*AMP Ltd* (+1.50%; Long): A diversified financial services provider. The company's turnaround strategy has started to gain traction as cost cutting and slowing fund outflows have laid the platform for management to return the company to a stronger market position and return excess capital to ordinary shareholders.

### Decreased Exposure:

*Charter Hall Ltd* (-3.00%; New Short): A diversified property investor, developer and investment manager. Recent rising interest rates have had a detrimental effect on property valuations in addition to lower occupancy rates for offices due to a growing work from home movement, stemming from the COVID-19 pandemic.

*Seek Ltd* (-2.50%; Short): A multinational human resources and recruitment platform provider. Valuations for high growth and long dated earnings companies have been adversely affected by rising bond yields. Rising interest rates have also raised concerns over a future economic slowdown which will be harmful to the labour market.

*OZ Minerals Ltd* (-0.75%; Exit Long): A multinational low-cost copper and gold miner. Slowing global economic growth has presented short term headwinds for the copper price as high inflation has meant increased margin pressures for companies through labour shortages, higher input costs and surging energy prices.

## Quarter-End Position & Portfolio Exposures

As at 30 Sep 2022, the fund had a net exposure of 93.06% and gross exposure of 190.63% to equities. Cash was 6.94%.

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

## A Genuine Disrupter with a Long Growth Runway

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

### Pro Medicus Limited (PME) – Long Position

*Growth Delta Argument:* The Australian Eagle team have held quality healthcare companies for many years due to faster-than-GDP growth and their resilience through most economic environments. In saying that, the investment team is always on the lookout for the next 'Cochlear'. Recently, Pro Medicus attracted our attention as a world leader in software and digital infrastructure for on-site and remote access medical imaging databases. Over a number of years, the company has grown revenues at +20 per cent per annum, penetrating markets by disrupting existing products with their highly efficient and scalable product.

*Trigger:* The consistent and strong revenue growth, and the disruptive nature of the company, have been known for some time, but it was the improved operating leverage reported in the latest results which really stood out. Revenue rose +38 per cent to \$98 million and surprisingly required no increase in costs of goods sold (COGS), meaning each dollar of additional revenue fell directly to the gross profit line. Operating leverage continued to be evident through the entire company. Despite the reopening of marketing and conference activity after the pandemic, staff and marketing expenses increased by only \$6m, thereby driving significant net profit margin expansion.

*Outlook:* From our perspective, the company's operating leverage and minimal marketing expense (three per cent of FY22 revenue) demonstrates the importance and the influence of word-of-mouth marketing from satisfied customers. A disrupter, Pro Medicus's journey is still in its infancy, with only five per cent of the U.S. market penetrated. The company is also expanding internationally with minimal extra expense incurred thus far. With new contract wins and zero customer churn, Pro Medicus has built a strong foundation to develop a multi-year runway of strong revenue and earnings growth.





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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%	<b>24.48%</b>
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%	<b>25.13%</b>
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%	<b>16.27%</b>
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%	<b>4.59%</b>
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%	<b>26.24%</b>
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%	<b>3.73%</b>
2022/23	1.92%	5.56%	-3.40%										<b>3.93%</b>

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.

This fund is appropriate for investors with a "Very High" risk and return profiles. A suitable investor for this fund is prepared to accept high risk in the pursuit of capital growth with a medium or long investment timeframe. Investors should refer to the [TMD](#) for further information.

### **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/](http://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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