Australian Eagle
Asset Management

Long-Short Fund Quarterly Report – Dec 2022

FOR WHOLESALE INVESTORS ONLY

Portfolio Performance

As at 31 December 2022	3mth	6mth	1yr	2yr p.a.	3yr p.a.	5yr p.a.	Net Return S/I p.a.
Aust. Eagle Long-Short*	**5.95%**	**10.11%**	**2.38%**	**16.90%**	**13.60%**	**14.48%**	**16.71%**
S&P/ASX 100 Acc**	9.32%	9.95%	0.63%	8.82%	6.07%	7.65%	9.29%
Out/(under) performance	-3.38%	0.17%	1.75%	8.08%	7.52%	6.82%	7.42%

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 +5.95% after fees for the December 2022 quarter versus the benchmark return of +9.32%. The Australian Eagle investment team has remained true to the investment process that has delivered long term outperformance of the S&P/ASX 100 Accumulation Index by +7.42% p.a. since July 2016.

The markets continued to experience significant volatility as investors tried to digest the significant volume of news flow regarding global economic and geopolitical events. The US Fed continued to hike interest rates, reaching 4.25% to 4.50% range by December as the Fed president admitted "we still have some way to go" in terms of interest rate rises. The US yield curve remained inverted, with the 12 month yield rising sharply from 3.97% to 4.69% for the quarter. China abruptly ended its zero COVID-19 policy, resulting in a surge of infections across the country. The iron ore price rose 16% to US$110 as the Chinese government reiterated their support for the domestic property sector. The oil price endured a volatile quarter but ended flat at US$80/bbl as higher US inventories, China's reopening and continued heavy military conflict in Eastern Europe caused intra-quarter volatility.

The Long portfolio detracted from relative performance as the underweight portfolio exposure to iron ore affected overall performance as the big miners outperformed. ResMed reported growth in the core Americas division but revealed a slowdown in European sales despite a large competitor product recall. Corporate Travel Management fell on concerns of a slowdown in global economic activity. Elders underperformed on news of the resignation of its long serving CEO.

The Short portfolio also detracted from performance after a period of outperformance. Virgin Money UK's FY22 report exceeded low expectations after a period of underperformance stemming from high costs and concerns about bad debts in a slowing UK economy. Evolution Mining rose with the gold price in addition to the company announcing the discovery of significant copper-gold extensions at its flagship Ernest Henry mine. Domino's Pizza rose after the market focused on the growth potential of its expansion into Malaysia, Singapore and Cambodia.

Portfolio Highlights

Positives:

Rio Tinto Ltd (Long) – The company's share price followed the iron ore price higher after continued government support for the Chinese property sector as well as the reopening of Chinese borders. The acquisition of Turquoise Hill has also increased its direct interest of the Oyu Tolgoi copper mine in Mongolia to 66%.

QBE Insurance Group Ltd (Long) – The share price rose after the US Fed continued to raise interest rates throughout the quarter. The recent trading update in November revealed continued high single digit gross written premium growth and a resilient performance by its North America crop insurance division despite tough external headwinds.

AMP Ltd (Long) – The share price outperformed in the quarter as management reiterated their capital management plans for FY23 as well as showing strong progress towards its future turnaround strategy targets. The latest quarterly report also revealed 1.4x system loan growth for AMP Bank as well as improved cashflows for its Wealth Management division.

Negatives:

Virgin Money UK (Short) – The share price rose after the company's FY22 result reported less loan impairments than expected. Despite large-scale cost cutting measures and rising revenue from higher interest rates, future cost-to-income ratio is still expected to be high compared to peers. Management have also reiterated their relatively low dividend payout policy for ordinary shareholders.

Evolution Mining Ltd (Short) – The share price rose with the gold price. The company also recently announced the planned transition of the CEO to executive Chairman as well as significant new copper-gold mine life extension areas at its flagship Ernest Henry mine.

Domino's Pizza Enterprises Ltd (Short) – After experiencing slowing sales in core Australian and European markets, the share price outperformed in the quarter as the market showed strong support for the equity capital raising to purchase the remaining German JV shares and repayment of debt. Management also reaffirmed FY23 guidance along with Malaysia, Singapore and Cambodia all trading in line with expectations.

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Market Overview

The Australian market moved with global markets as the RBA hiked interest rates by 25bps each month in the quarter. ASX announced a $245m-$255m derecognition of capitalised software and complete reassessment of its CHESS replacement project. Elders reported strong growth from all divisions for FY22. Nitro Software received multiple competing takeover bids from 2 private equity parties. The CEOs of CSL, Newcrest and Elders all announced their retirements during the quarter.

Portfolio Changes

Increased Exposure:

Newcrest Mining Ltd (+3.00%; Long): A multinational gold miner. The company's growing copper production is providing revenue diversification in addition to its high volume and low-cost gold operations.

Fisher & Paykel Healthcare Corporation (+2.25%; Short): A manufacturer and distributor of ventilators and obstructive sleep apnea equipment. The company is set to benefit further from higher demand for ventilators as China's recent easing of social and border restrictions has led to a surge in COVID-19 cases.

Pro Medicus Ltd (+2.00%; Long): A medical imaging solutions provider. The company has continued FY22's positive momentum with a recent long-term contract win. Management also indicated that funds generated will be used to develop their product suite in addition to capital management and potential acquisition opportunities.

Decreased Exposure:

Incitec Pivot Ltd (-3.00%; Long): A fertiliser and explosives manufacturer. Management announced a $400m buyback after a record FY22 net profit and despite commodity prices remaining at elevated levels, the buyback is yet to commence and demerger plans have also been delayed by 12 months.

Lendlease Ltd (-2.75%; Short): A multinational property developer and investment manager. New management has shifted the core operations towards partnerships and funds management but are still being affected by high construction costs, COVID-19 disruptions and supply chain constraints. Rising interest rates have also dampened appetite for new development activity.

Virgin Money UK (-2.50%; Short): A UK based bank. The company has not been able to fully utilise the tailwind of rising interest rates as it struggles to maintain market share. Management also announced heavy capital expenditure plans for technology capabilities in order to keep up with competitors.

Quarter-End Position & Portfolio Exposures

As at 31 Dec 2022, the fund had a net exposure of 95.85% and gross exposure of 195.83% to equities. Cash was 4.15%.

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

Crisis Management 101: How-To Guide

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

Corporate Travel Management Ltd (CTD) – Long Position

Growth Delta Argument: The Australian Eagle investment team has multiple ways to determine the quality of a business. In the case of Corporate Travel Management which operates in an established industry, assessing how the company managed their way through a crisis, forms a significant part of our determination of the stock's qualitative rating. As such, the past 3 years have been a well-documented crisis for the multi-trillion-dollar travel industry. During this uncertain period, management was able to operate the business without additional finance, remaining debt-free since 2020. Versus its listed peers, the company stood out as the only travel company to issue equity to finance an expansion and not raise capital purely for survival. The earnings accretive acquisition of a similar sized competitor during a difficult time significantly grew the size and capabilities of the existing group.

Trigger: During a period of industry-wide hardship, Corporate Travel Management acquired Travel & Transport and other smaller companies, thereby extending their geographic reach and expanding EBITDA under normal trading conditions by about 65% beyond pre COVID-19 levels. It is during a challenging period such as this, that quality companies seek to utilise their competitive advantage to enter the subsequent recovery phase with a larger market position. This, along with indications of the accelerating speed of return of business travellers firstly in New Zealand and subsequently in other geographies, provided the trigger that confirmed Corporate Travel Management's potential for much larger earnings growth in the coming years.

Outlook: With the addition of its recent acquisitions, the company has forecast that upon full resumption of travel, EBITDA should be about $265 million versus $165 million pre-pandemic. Despite the expanded customer base and market share, the share price remains 30% below pre-COVID levels while competitor enterprise values are at or above pre COVID-19 levels. The most recent trading update in October 2022 highlighted strong client retention, record level new client wins and continued EBITDA positive group operations. Recent concerns over tough trading conditions should pale in comparison to ones experienced during COVID-19 and are only likely to delay, not extinguish, a resumption to full earnings 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%	2.54%	-3.88%	-4.39%	**3.73%**
2022/23	1.92%	5.56%	-3.40%	3.69%	5.96%	-3.57%							**10.11%**

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/. 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.