



Australian Eagle Asset Management

Long-Short Fund Quarterly Report – Mar 2023

FOR WHOLESALE INVESTORS ONLY

Portfolio Performance

As at 31 March 2023	3mth	6mth	1yr	2yr p.a.	3yr p.a.	5yr p.a.	Net Return S/I p.a.
Aust. Eagle Long-Short*	2.78%	8.90%	6.64%	16.52%	22.21%	14.77%	16.53%
S&P/ASX 100 Acc**	3.51%	13.15%	1.14%	8.32%	17.08%	9.26%	9.49%
Out/(under) performance	-0.73%	-4.25%	5.50%	8.20%	5.13%	5.50%	7.03%

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 +2.78% after fees for the March 2023 quarter versus the benchmark return of +3.51%. The Australian Eagle investment team has diligently implemented the investment process that has delivered long term outperformance of the S&P/ASX 100 Accumulation Index by +7.03% p.a. since July 2016.

The markets continued to experience significant volatility as significant unexpected events and their flow-on effects exacerbated the increasing uncertainty felt by investors. A number of banks collapsed in March, causing regulators to intervene to prevent financial contagion. The US Fed hiked interest rates by 50bps during the quarter to 4.75% to 5.00% range as inflation remained above target range. The US yield curve fell after the collapse of banks but remained inverted, with the 10yr yield falling 40bps to 3.47%. China lowered its 2023 growth target from 5.5% to 5.0%. The iron ore price rose 13% to US\$125 as the Chinese government continued efforts to stimulate the economy. The oil price endured a volatile quarter but ended flat at US\$81/bbl due to fears of economic slowdown and tightening Russian sanctions.

The Long portfolio contributed to relative performance as our recent increased portfolio weights reported strong results in the February 2023 reporting season. Newcrest Mining received a takeover bid from Newmont Corporation, a large US based gold miner after reporting strong production and higher distributions to shareholders. Cochlear outperformed after reporting a recovery in most operating regions. QBE also contributed after announcing continued growth and profitability in its underwriting operations and a growing return from its investment book.

The Short portfolio detracted from performance as company specific announcements produced short-term outperformance. ARB Corporation reported improvement in performance towards the end of calendar year 2022 after experiencing a sharp slowdown in the September 2022 quarter. Xero's new CEO announced her plan to turnaround the company after a disappointing period under her predecessor. James Hardie also detracted from performance despite downgrading earnings guidance after reporting declining sales and profitability.

Portfolio Highlights

Positives:

Newcrest Mining Ltd (Long) – The share price rose after the company reported higher revenue from higher commodity prices and growing production. The company also received and subsequently rejected, a second non-binding indicative all-scrip takeover bid from Newmont Mining during the quarter.

Cochlear Ltd (Long) – The share price rose after reporting a return to growth in cochlear and acoustic implant units for both developed and emerging markets. Management also maintained FY23 guidance with revenue and earnings growth, supported by the release of a new Nucleus 8 Sound Processor and continued improvement in trading conditions.

QBE Insurance Group Ltd (Long) – The share price outperformed after the company revealed continued strong profitability in all of its underwriting divisions, supported by a growing return on its \$28.8bn investment book with an FY22 exit yield of 4.10% due to rising global interest rates.

Negatives:

AMP Ltd (Long) – The share price underperformed in the quarter as management's turnaround plan encountered unforeseen difficulties while the completion of the sale of its real estate and domestic infrastructure business has continued to experience regulatory delays. Management have also softened their stance on achieving self-imposed profitability and growth targets.

ARB Corporation Ltd (Short) – The share price rose after the company announced that its cost base coped well with inflationary pressures towards the end of 1H23 and second quarter sales recovered after a 10% decline in 1Q23. Management have maintained a positive outlook and increased distribution and manufacturing capacity to accommodate future growth.

Xero Ltd (Short) – After taking over the top job in November 2022, the new CEO has announced her plan to focus on balancing growth and profitability after a testing period under previous management. Part of her plan involves reducing headcount, cutting costs and exiting non-performing acquisitions, most of which should take place by the end of FY24.





Australian Eagle Asset Management

Market Overview

The Australian market moved with global markets as the RBA also hiked interest rates by 50bps in the quarter. The board of directors of Nitro recommended shareholders accept Potential's takeover offer at \$2.17 per share after an extensive bidding process. Corporate Travel reported that North America had record booking volumes in January while the European division is expected to be the largest contributor in 2H23. Wesfarmers announced a turnaround in Kmart Group performance along with pleasing progress in the construction of the Mt Holland lithium project.

Portfolio Changes

Increased Exposure:

Xero Ltd (+4.00%; Exit Short, Long Entry): A cloud-based small business accounting software provider. After a period of underperformance, the company has recently installed new management, already showing progress towards the goals of cutting costs and profitability.

Newcrest Mining Ltd (+3.75%; Long): A multinational low-cost gold-copper miner. The company's growing production profile in both copper and gold is establishing a strong platform for future organic growth.

ARB Corporation Ltd (+2.75%; Short): A 4x4 vehicle accessories retailer and original equipment manufacturer. The company's expected post-COVID-19 slowdown in sales has been less than expected in addition to a well-handled cost base despite inflationary pressures.

Decreased Exposure:

Incitec Pivot Ltd (-3.75%; Long): A fertiliser and explosives manufacturer. Despite management announcing the long-awaited sale of its Waggaman plant for US\$1.68bn, no update has been given regarding the previously announced \$400m on-market buyback and demerger plans.

AMP Ltd (-3.75%; Long): A diversified financial services company. Management has had trouble in executing its turnaround plan in addition to suffering continuous regulatory delays for approvals. Recent asset sales proceeds and capital management initiatives have provided short-term downside protection.

Downer EDI Ltd (-3.50%; Short): A diversified transport, utility and facilities services company. After announcing the discovery of accounting irregularities in its financial statements and rapid turnover of management, the company failed to neutralise headwinds of rising costs and labour shortages while also suffering negative media attention with ex-staff publicly questioned by the ICAC over alleged bribes and corruption.

Quarter-End Position & Portfolio Exposures

As at 31 March 2023, the fund had a net exposure of 95.54% and gross exposure of 195.17% to equities. Cash was 4.46%.

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

History of Success Increases Future Confidence

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

CSL Ltd (CSL) – Long Position

Australian Eagle's investment philosophy and process has been operating for over 18 years and the investment team have been tracking companies in its investment universe for even longer. Looking a bit further back into the history of the company provides us with something to compare the current state of the company to and most importantly, assess the likelihood of further future success.

After starting out as a vaccine manufacturer, CSL acquired two large blood products businesses to become one of the world's largest manufacturers of plasma products in the early 2000's. These purchases allowed them to not only be large but improve shareholder returns by extrapolating Australian efficiencies and R&D to their now global base.

The focus on vaccines came back to the spotlight with the acquisition of one of the world's largest influenza vaccine businesses from Novartis in early FY16. Despite the business losing over US\$300m each year as part of Novartis, management achieved a fast integration with their existing influenza vaccine division (bioCSL) and broke even less than 2 years later in FY18. Management have repeatedly demonstrated their ability to successfully acquire new expertise in addition to building on existing capabilities.

Most recently, CSL completed the acquisition of Vifor Pharma in August 2022. At first glance, Vifor Pharma is seemingly unrelated to CSL's existing operations with products focused mainly on kidney diseases, dialysis and iron deficiency. However, the growth opportunity presented by acquiring the industry leader in an under-penetrated and growing market presents an attractive addition to the stable of existing, innovative products offered by CSL. Now called CSL Vifor, the division is expected to grow at over 10% each year and have access to the group's strong commitment to constant improvement through research and development.

Given CSL's excellent track record with integrating large acquisitions and its exciting pipeline of new and existing products in multiple growing markets, we trust that management will continue to be good stewards of capital and provide strong returns for shareholders for many years to come.





Australian Eagle Asset Management

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%	1.99%	-0.86%	1.66%				13.18%

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 and a corporate authorised representative of Montgomery Investment Management Pty Ltd AFSL 354564.

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.

Disclaimer: This communication is prepared and issued by Australian Eagle Asset Management Pty Ltd ABN 89 629 484 840, a corporate authorised representative of Montgomery Investment Management Pty Ltd AFSL 354564 Suite 5.01, Level 5, 17 Castlereagh Street, Sydney NSW 2000. This information does not constitute a recommendation, offer or solicitation to buy or sell any securities. It reflects Australian Eagle's Portfolio at the end of the month stated and Australian Eagle's views at the date of preparation. Both the Portfolio and Australian Eagle's views are subject to change without notice. This communication was prepared for general information only and does not take account of any person's objectives, financial situation or needs. Any persons considering action on the basis of this communication must seek individual professional advice relevant to their particular circumstances. Past performance figures are no guarantee of future returns. Date of preparation: 18 May 2023.

