Australian Eagle Asset Management

Long-Short Fund Quarterly Report – June 2023

FOR WHOLESALE INVESTORS ONLY

Portfolio Performance

As at 30 June 2023	3mth	6mth	1yr	2yr p.a.	3yr p.a.	5yr p.a.	7yr p.a.	Net Return S/I p.a.
Aust. Eagle Long-Short*	**-1.47%**	**1.27%**	**11.51%**	**7.55%**	**13.46%**	**12.17%**	**15.65%**	**15.65%**
S&P/ASX 100 Acc**	1.17%	4.72%	15.13%	4.61%	11.87%	7.76%	9.32%	9.32%
Out/(under) performance	-2.66%	-3.45%	-3.62%	2.95%	1.59%	4.41%	6.32%	6.32%

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 -1.47% after fees for the June 2023 quarter versus the benchmark return of +1.17%. The end of the quarter marks 7 years of operation for the Australian Eagle Trust. 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 +6.32% p.a. since July 2016.

World markets continued to experience significant volatility due to negotiations for the extension of the US debt ceiling and central bank interest rate hikes. Technology stocks rallied on increased interest in Artificial Intelligence applications. The US Fed only raised rates by 25bps during the quarter to a 5.00% to 5.25% range as the economy needed time to absorb previous hikes. The inversion of the US yield curve became more pronounced with the 12 month and 2yr yields rising 50bps more than the 10yr yield throughout the quarter. Sino-Australian political relations showed signs of improvement as China removed import tariffs of some key Australian exports. The iron ore price fell US$15 to US$110/t as the Chinese government failed to announce any concrete economic stimulus measures. The oil price fell US$11 to US$70/bbl on fears of economic slowdown despite OPEC+ announcing larger production cuts.

The Long portfolio detracted from relative performance as company specific announcements produced short-term underperformance. Elders announced a weak result stemming from poor cost control and a fall in livestock prices. Treasury Wine Estates also detracted from performance as management downgraded FY23 earnings due to deteriorating demand for Premium Brands despite Penfolds delivering continued strong growth. The Rio Tinto share price followed the iron ore price lower.

The Short portfolio also detracted from performance as some positions recovered after a period of underperformance. Downer EDI outperformed after the company was awarded a few large government and defence contracts. James Hardie reported declining sales volumes and profitability but US housing remains resilient due to a supply shortage as mortgage holders are locked into low 30-year fixed rates. Reliance Worldwide rose as the company announced easing cost pressures despite lower volumes in its flagship Americas division.

Portfolio Highlights

Positives:

QBE Insurance Group Ltd (Long) – The share price rose after the company's quarterly performance update revealed continued high single digit and low double digit gross written premium growth as well as improved investment performance, stemming from higher bond yields. Management have reiterated the expectation for premium rate increases to remain at ~10% for FY23.

IGO Ltd (Long) – The share price rose after the company's quarterly report revealed a record earnings result while utilising improved cashflow to improve net debt to only $9m. Higher lithium pricing, consistent production and strong cost control at Greenbushes mine helped drive the result, offset by lower nickel volumes.

Xero Ltd (Long) – The share price outperformed after the company's FY23 result revealed solid growth in subscribers and free cash flow despite facing a challenging external environment. Management also announced strong progress towards the medium-term cost cutting target of 75% expense to revenue ratio.

Negatives:

Downer EDI Ltd (Short) – The share price rose after the company divested non-core assets and was awarded some large defence and government infrastructure contracts. However, the company is still struggling with adverse weather, labour shortages and other disruptions. Low-margin contracts in place from previous management will still affect profit for the foreseeable future.

Elders Ltd (Long) – The share price fell after the company's HY23 result disappointed the market. Despite revenue growing at 9%, profit fell 45% as operations were affected by lower livestock prices as well as challenging market and unseasonal conditions. The company also announced that the CEO is to continue in his role after announcing his retirement in November 2022.

James Hardie Industries plc (Short) – The share price outperformed in the quarter despite the company announcing falling volumes, sales and profits in almost all divisions as weak global housing markets affected demand for its products. Low single digit sales growth was aided by higher prices, stemming from passing on costs to customers.

Market Overview

The Australian market moved with global markets as the RBA also hiked interest rates by 50bps in the quarter. Transurban upgraded its annual distribution guidance for the second time in 6 months due to rebounding traffic numbers and lower finance costs. Corporate Travel Management was awarded a 4-year contract with the Australian Government which will contribute 30% of ANZ TTV in FY24. Newcrest Mining entered into a binding scheme implementation deed after accepting Newmont's script-only takeover offer.

Portfolio Changes

Increased Exposure:

Xero Ltd (+2.75%; Long): A cloud-based small business accounting software provider. The company reported subscriber growth despite facing a tough operating environment. The new CEO has already made material progress towards the goals of cutting costs and increased profitability.

Charter Hall Group (+2.50%; Exit Short): A diversified property trust. The position has reached our time restriction target and we have closed our short position. We await further indications regarding fund flow and valuations.

Virgin Money UK (+2.50%; Exit Short): A UK based retail bank. This position has reached our time-based stop and we have closed our short position. The company's expenses have managed to increase amid a cost-cutting drive while profits have also fallen due to a significant increase in impairment losses.

Decreased Exposure:

Incitec Pivot Ltd (-5.00%; Exit Long, Entry Short): A fertiliser and explosives manufacturer. The company entered a period of shareholder unrest due to unpopular plans to demerge the fertiliser business. The long-standing CEO also stepped down with immediate effect while commodity prices continued to fall on slowing demand.

Whitehaven Coal Ltd (-3.25%; Entry Short): An Australian coal miner. The company has been struggling to keep on top of costs as adverse weather, labour shortages and other operational constraints resulted in lower production. The company has also struggled to refinance its debt due to external pressure on banks having clients with large carbon footprints.

Elders Ltd (-3.00%; Exit Long): A diversified Australian agricultural company. The company has struggled to maintain control over costs while the external environment has showcased the volatile nature of the agricultural cycle.

Quarter-End Position & Portfolio Exposures

As at 30 June 2023, the fund had a net exposure of 94.7% and gross exposure of 194.7% to equities. Cash was 5.3%.

Major portfolio exposures were to medical devices & services and infrastructure with less portfolio weight in major banks and real estate.

A Conglomerate's Expansion: Retail & Resources

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

Wesfarmers Ltd (WES) – Long Position

As one of the few remaining conglomerates, Wesfarmers has a good track record of acquiring and divesting strategic assets. Headquartered in Perth, the company has cycled through many different types of energy assets, starting with agricultural distribution and extending to coal mines in the 1990s and 2000s and oil and gas assets through a minority stake in Quadrant Energy in 2015. Fast forward to today, Wesfarmers has a 50 per cent stake in a joint venture with one of the world's largest lithium producers, SQM, in Mount Holland lithium mine through its 2018 acquisition of Kidman Resources.

With an estimated 50 year mine life, Mount Holland is a high-grade hard rock deposit with mine operations scheduled to start by the end of this calendar year. The Kwinana refinery, which will produce battery grade lithium hydroxide, has production expected to start in the first half of calendar year 2025. With demand for lithium hydroxide projected to increase due to countries lowering their carbon footprint, the joint venture has also indicated their intention to double the lithium hydroxide production capacity to 100,000 tonnes once initial construction plans have been completed.

Due to recent inflationary pressures, Wesfarmers' share of the budget for Mt Holland has risen by 10-20 per cent compared with previous guidance to $1.2 to $1.3 billion in response to a tight labour market, supply chain issues and higher inflation. In isolation, this may sound like a capital-intensive project to undertake but Wesfarmers has funded its share through its strong cashflow generation over the last few years and the spend was barely noticeable to most market observers.

With the general market starting to price in an imminent slowdown in consumer discretionary spending, Wesfarmers seems well positioned to benefit from the eventual recovery with a strong portfolio of household retail brands, combined with the considerable optionality upside given the planned ramp up of spodumene and lithium hydroxide production to come in the next few years.

Observing the recent Wesfarmers share price versus pure-play lithium producers, there is little evidence to suggest that Wesfarmers is affected by the lithium price so the upside may be significant once the Mount Holland earnings start appearing on the financial statements in FY24.

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%	2.19%	-4.77%	1.25%	**11.51%**

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). 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/P9IYALR2783AU.pdf for the target market determination.

The PDS offers investors the opportunity to invest a minimum of $20,000 in the Australian Eagle Trust (the Fund). The Trustee has the discretion to waive or vary this minimum requirement. The offer of units in the Fund are available to investors who are resident in either 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 Limited, 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.