



Australian Eagle Asset Management

Long-Short Fund Quarterly Report – Dec 2023

Portfolio Performance

As at 31 Dec 2023	3mth	6mth	1yr	3yr p.a.	5yr p.a.	7yr p.a.	Net Return S/I p.a.
Aust. Eagle Long-Short*	2.88%	3.12%	4.43%	12.59%	14.72%	13.92%	14.99%
S&P/ASX 100 Acc**	8.35%	7.57%	12.65%	10.08%	10.78%	8.84%	9.73%
Out/(under) performance	-5.46%	-4.45%	-8.22%	2.51%	3.95%	5.08%	5.26%

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 +2.88% after fees for the December 2023 quarter underperforming the benchmark by -5.46%. The Fund endured a volatile quarter as falling bond yields caused lower quality names to be bought up. The Australian Eagle investment team remains positive about the portfolio while they continue to implement the investment process that has delivered positive long-term outperformance of the S&P/ASX 100 Accumulation Index by +5.26% p.a. since July 2016.

World markets surged from the middle of the quarter as bond yields fell after inflation numbers began trending down. The US Fed tried to maintain a cautious tone in the face of this news but markets were increasingly convinced that they would cut interest rates several times in 2024. European Union inflation also trended lower, also increasing speculation of ECB rate cuts in 2024. The Chinese economy remained under pressure after the release of weak trade data and negative CPI numbers. The iron ore price rose US\$22 to US\$140/t as the Chinese government continued to provide support for its ailing domestic property market. The oil price fell US\$17 to US\$72/bbl as OPEC+ production cuts and continued Middle East conflict failed to offset weak global demand.

The Long portfolio detracted from relative performance after company specific news resulted in sell-downs of certain stocks. AMP announced that net interest margins were under increasing pressure due to intense competition in the Australian residential mortgage loan market. IGO revealed a write-down of its Cosmos nickel project while its stake in Greenbushes struggles to deal with lower realised pricing. Woodside Energy endured a tough month from merger speculation with Santos as well as lower oil and gas prices.

The Short portfolio detracted from performance during the quarter as market rose strongly aided by lower bond yields, resulting in lower quality names being bought back up. Block Inc. rose with the bitcoin price while management announced more cost cuts. Charter Hall also rose as bond yields fell across the board, benefiting bond proxy stocks. Bank of Queensland rebounded with the broader market as perceptions changed regarding the future trajectory and size of non-performing mortgage loans.

Portfolio Highlights

Positives:

Cochlear Ltd (Long) – The share price rose after the company’s investor day presentation where management reiterated the large market opportunity in the under-penetrated adult and senior cochlear implants. The company has experienced positive momentum in this market segment with growing sales from its referral program as well as ongoing targeted awareness campaigns.

Rio Tinto Ltd (Long) – The share price rose with the iron ore price. The Chinese government has been quite vocal and active in its support for its property market, resulting in steel mills and ports restocking iron ore inventories. Management reaffirmed FY23 production guidance for all major divisions at the 3Q23 report.

Altium Ltd (Long) – The share price rose after management reiterated its FY26 long term targets of US\$500m revenue and 75,000 to 90,000 subscribers. Higher paying subscriptions continue to drive margin expansion in the core business while its Octopart business continues to dominate the search component industry while consistently generating double digit growth, regardless of industry conditions.

Negatives:

Block Inc (Short) – The share price rose after bond yields continued to fall, providing strong support to loss making and high growth stocks. Management also reported smaller losses from its buy now pay later operations while introducing further cost cutting measures. The bitcoin price also rose 50% during the quarter, providing a boost to its balance sheet.

AMP Ltd (Long) – The share price underperformed after the company announced that its bank net interest margins were under increasing pressure due to intense competition. The Buyer-Of-Last-Resort class action settlement amount was finalised at \$100m but the final tranche of the \$1.1bn capital management program has been paused pending regulatory approval.

IGO Ltd (Long) – The share price fell in the quarter as management wrote down the value of its Cosmos nickel project. The review of its recently acquired Western Areas nickel assets also remains ongoing. Lower lithium prices have prompted management of its lithium JV to stockpile spodumene until prices return to more lucrative levels.





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Market Overview

The Australian market followed international markets higher as inflation started to trend towards target levels. QBE's quarterly update revealed continued gross written premium growth and strong investment income returns. Xero announced a new leadership team and strategy to gain market share and subscriber growth in North America. Ramsay Healthcare completed the sale of its Asian JV, paving the way for repayment of debt.

Portfolio Changes

Increased Exposure:

Evolution Mining Ltd (+3.50%; Exit Short, Entry Long): A multinational gold and copper miner. Management's turnaround plan for Red Lake has shown signs of success while the recent acquisition of Northparkes mine will increase copper production by 50% in the first full year of ownership. The flagship Ernest Henry mine has also recovered from FY23 weather-related problems.

Dexus Ltd (+2.50%; Short Exit): A diversified Australian property trust. Falling bond yields have provided strong valuation support despite management recently announcing that its total portfolio valuation had dropped by over \$760m in value and weighted average capitalisation rates had increased by 34 bps since June 2023.

Pilbara Minerals Ltd (+1.25%; Entry Long): A vertically integrated low-cost lithium miner. Management have laid a strong platform for organic growth through growing spodumene production and lowering costs while still funding future growth projects and shareholder dividends through strong cashflow generation.

Decreased Exposure:

Newcrest Mining Ltd /Newmont Corporation (-6.00%; Exit Long): After the recent successful takeover of Newcrest Mining by the much larger Newmont Corporation, the copper production of the combined group is a much smaller proportion of earnings, therefore invalidating our investment thesis.

AMP Ltd (-3.00%; Long): A diversified financial services company. Despite settling the Buyer of Last Resort (BOLR) class action, management have paused the capital management program while bank net interest margins come under increasing pressure from intense competition.

Telstra Group Ltd (-2.25%; Long): A telecommunications and infrastructure provider. After successfully monetising its mobile towers assets at a very attractive price multiple, management's decision to stop the sale process of remaining infrastructure assets hidden on the balance sheet has invalidated the team's investment thesis.

Quarter-End Position & Portfolio Exposures

As at 31 December 2023, the fund had a net exposure of 96.7% and gross exposure of 168.2% to equities. Cash was 3.3%.

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

For only the second time since inception, the Australian Eagle team reduced the leverage of the portfolio by 25% to reduce exposure and risk prior to the FOMC meeting on December 12th. The team was concerned that macro events could drive a rebound in lower quality companies in the short portfolio. We expect to return to historical levels of leverage prior to the reporting season in February.

Balance Sheet Strength During Lean Times

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

Pilbara Minerals Ltd (PLS) – Long Position

As part of our process, we prioritise improving quality characteristics as a prerequisite for our investment. As one of Australia's lowest cost producers of lithium (spodumene), Pilbara Minerals has a 34 year mine life resource and \$3bn net cash balance to provide a strong foundation for the company particularly during a weak commodity price environment.

The company has significant upside growth options as a vertically integrated company with multiple operations along the lithium product cycle. Current upstream operations producing spodumene concentrate provide the majority of earnings while its promising mid-stream and downstream joint ventures are set to start contributing over the next 2 years.

The trigger to invest is not just a result of management actions but also timing of those actions. The company have been astute stewards of capital as they put aside over \$3bn cash on the balance sheet during the period of higher prices and lower interest rates to fund future production growth from 620 thousand tonnes to 1 million tonnes while paying their inaugural dividend to shareholders. This growth buffers the downside for earnings during a weak price cycle and prepares the company for strong earnings potential as prices recover.

Given the strong balance sheet and relatively strong profitability despite lower prices, the investment team sees limited downside in the short term and have initiated a position in Pilbara Minerals. The team has not increased the overall lithium exposure but replaced another lithium name to a better-quality asset and will closely monitor the situation to warrant any changes in exposure.

Lithium prices are currently at cyclical lows but we retain confidence that prices will rise in the medium term as the lithium market remains in long term undersupply as demand for Electric Vehicles (EVs) and battery storage increase over the medium term.





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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%	1.99%	-0.86%	1.66%	2.19%	-4.77%	1.25%	11.51%
2023/24	-0.32%	1.79%	-1.21%	-3.92%	3.22%	3.75%							3.12%

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/p9iy-ahr2783au.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.

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