Long-Short Fund Quarterly Report – Mar 2024

Portfolio Performance

As at 31 Mar 2024	3mth	6mth	1yr	3yr p.a.	5yr p.a.	7yr p.a.	Net Return S/I p.a.
Aust. Eagle Trust*	**4.88%**	**7.90%**	**6.56%**	**13.09%**	**13.25%**	**13.92%**	**15.18%**
S&P/ASX 100 Acc**	5.17%	13.95%	14.46%	10.32%	9.64%	8.85%	10.12%
Out/(under) performance	-0.29%	-6.04%	-7.90%	2.77%	3.62%	5.07%	5.06%

Performance is net of fees and expenses, *Inception date 1 July 2016, **Performance benchmark
Past performance is not an indicator of future performance

Portfolio & Market Commentary

The Portfolio returned +4.88% after fees for the March 2024 quarter underperforming the benchmark by -0.29%. The Fund endured a volatile quarter as the big miners fell on weak Chinese data while the big banks rallied on expectations official interest rates will be cut later in 2024. The Australian Eagle investment team continues to implement the investment process that has delivered positive long-term outperformance of the S&P/ASX 100 Accumulation Index by +5.06% p.a. since July 2016.

World markets continued to rise as AI stocks continued to drive the market higher on earnings upgrades. Volatile US bond yields trended higher as investors adjusted projections of the timing of interest rate cuts. Economic data continued to point to a resilient consumer and jobs market. The FOMC chairman confirmed that he expects to pivot to rate cuts later in 2024. The Chinese economy remained under pressure, faced with a falling population, weak consumer spending and a struggling residential property market. The iron ore price fell US$38 to US$102/t as infrastructure and property development activity failed to meet expectations after Lunar New Year. The oil price rose US$12 to US$84/bbl as OPEC+ production cuts and continued Middle East and Eastern European conflict offset projected weak Chinese demand.

The Long portfolio contributed to relative performance aided by a takeover for Altium, a significant portfolio holding and a re-rating of select health care stocks and QBE. Meanwhile, some resource holdings underperformed such as Rio Tinto which fell with the iron ore price while IGO reacted negatively after management announced a review of their nickel assets due to a prolonged price slump. The pace of recovery in Corporate Travel's key North America market failed to meet expectations while a large UK government contract proved to be less profitable than first thought.

The Short portfolio detracted from performance during the quarter as unexpected company specific news affected certain positions. Alumina received a takeover offer which was conditionally accepted by its largest shareholder despite struggling with cashflow and balance sheet issues. The A2 Milk Company rose despite a disappointing result showcasing continued margin pressure and a shrinking addressable market. Charter Hall Group rose as the company continued to offload assets to combat its growing debt pile in the face of shrinking property valuations.

Portfolio Highlights

Positives:

Altium Ltd (Long) – The share price surged after the board of directors recommended a takeover offer from Renesas, a large Japanese semiconductor company. The $9.1bn all-cash bid was 78% higher than a previous bid made by an American software company in 2021 and should complete in the second half of 2024, pending shareholder and regulatory approval.

QBE Insurance Group Ltd (Long) – The share price rose after a strong FY23 result. The company announced continued high single digit gross written premium growth while reporting favourable catastrophe claims experience. Investment income more than doubled, supported by higher interest rates and positive mark to market impact from tighter credit spreads.

Cochlear Ltd (Long) – The share price rose after the HY24 result confirmed growing cochlear implant growth in the under-penetrated adult and senior cochlear implants due to increased referrals from auditory clinics. The company's new manufacturing plant in China started ramping up production of sound processors while implant production is slated to begin within 18 months.

Negatives:

Alumina Ltd (Short) – The share price rose after receiving an all-script takeover offer from its joint venture partner Alcoa. The company's balance sheet was highly geared while the joint venture was experiencing environmental approval difficulties and high input costs for alumina and bauxite production.

The A2 Milk Company Ltd (Short) – The share price rose despite a mediocre HY24 result. The company reported margin pressure from higher input costs while infant milk formula sales fell due to lower numbers of babies born in China. The company also delayed its long-term target of $2bn revenue to 2027 due to the slower-than-expected recovery of the core Chinese market.

Rio Tinto Ltd (Long) – The share price followed the iron ore price lower despite reporting a strong FY23 result with growth projects in Mongolia and Africa proceeding as planned. Recent economic data revealed that the Chinese government has chosen to favour a recovery in the manufacturing and industrial sectors rather than its struggling residential property market.

Portfolio Changes

Increased Exposure:

Pilbara Minerals Ltd (+2.25%; Long): A vertically integrated low-cost lithium miner. Management have made significant progress towards lower unit costs through upstream expansion projects. Mid-stream and downstream projects with well-regarded JV partners are progressing well, positioning the company to benefit from higher demand for electric vehicles and battery storage.

Xero Ltd (+2%; Long): A cloud-based small business accounting software provider. New management have been consistent with their goals as they chase a balanced approach to growth to maximise earnings and grow their market position in the key geographies they operate in.

ARB Group Ltd (+1.50%; Entry Long): An original equipment manufacturer (OEM) and retailer of 4x4 parts and accessories. Strong sales with existing contracts and the Australian aftermarket underpinned a solid result while the US expansion plans have progressed steadily, opening a much larger addressable market opportunity.

Decreased Exposure:

Altium Ltd (-2.75%; Long): After receiving a takeover offer in early February, the investment team has decided to reallocate this capital to other portfolio positions. The share price surged to within 5% of its takeover offer, now offering limited upside to shareholders in the short term.

Qantas Ltd (-2.50%; Short): An Australian airline and loyalty rewards provider. Despite a clean-out of top executives and an aggressive public relations campaign, the company has been forced to decrease airfares due to increasing flights from competitors while cost inflation and fuel prices have put further pressure on margins.

Atlas Arteria Group (-2.00%; Entry Short): A North American and European toll road owner and operator. The French government introduced a new tax on transport infrastructure in Dec 2023, putting pressure on earnings on the APRR toll road, Atlas' most profitable asset.

Quarter-End Position & Portfolio Exposures

As at 31 March 2024, the Fund had net exposure of 96.3% and gross exposure of 192.3% to equities. Cash was 3.7%.

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

After reducing the leverage of the portfolio by 25% to reduce risk prior to the FOMC meeting in December 2023, the team restored the leverage ratio to 150/50 in January 2024 prior to February reporting season as markets start to focus more on company specific fundamental news.

The Company With Cancer in its Sights

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

Telix Pharmaceuticals Ltd (TLX) – Long Position

At times, a company's history may not be extensive enough for us to discern a clear turning point in its growth journey, a factor we typically seek when making investment decisions. Consequently, we often draw upon historical parallels from our past investments or those we are familiar with, to identify pivotal benchmarks to monitor. In the case of Telix Pharmaceuticals, their relatively short tenure on the ASX does not overshadow their remarkable achievement. Achieving over $100 million in revenue during the March 2023 quarter, up from zero in less than a year, underscores the exceptional promise of their offerings.

Telix Pharmaceuticals, self-described as a "theranostics" entity, specialises in developing radiopharmaceuticals for both diagnostic and therapeutic applications in cancer care. Their flagship product, Illuccix, is an innovative diagnostic tool for accurately detecting prostate cancer. The rapid attainment of the $100 million quarterly revenue milestone in a competitive landscape, is a testament to the management's proficiency in transitioning from research and development to licensing, production and navigating complex supply and distribution networks. This achievement has bolstered our confidence in the company's potential for significant growth, particularly through expanding the product's reach beyond the U.S. and introducing additional products.

For Australian Eagle, the anticipated surge in growth is closely tied to Telix's expansion into radio-diagnostic products targeting kidney and brain cancers — markets currently devoid of direct competitors and collectively valued at an estimated US$1.3 billion per annum. Additionally, the forthcoming launch of a radiotherapy for prostate cancer could surpass the market potential of their initial diagnostic offering.

The synergy of Telix's promising product lineup and the management team's demonstrated execution capabilities suggests a strong prospect for robust cash flow growth and significant valuation appreciation. Moreover, the radiopharmaceutical sector's increasing visibility among global pharmaceutical giants, evidenced by a series of recent acquisitions, positions Telix favourably for potential strategic interest from larger industry players, highlighting its potential as an attractive acquisition target.

Australian Eagle Trust - 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%	1.19%	3.22%	0.41%				**8.15%**

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-alr2783au.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.