



Australian Eagle Trust (Long-Short Fund) Quarterly Report – June 2024

While this is a quarterly report, it might be worth addressing the underperformance of the Fund over the last year. While disappointing, longer-term investors in the Fund may remember that the investment team has overcome similar sized underperformance in the past, just that this period has been longer than previous episodes. The main driver of underperformance in the last year was that the Fund's strategy of short selling lower quality or overvalued companies did not deliver as the easing of interest rates in the US and Australia led to an upwards re-rating of certain stocks in our short portfolio.

Despite owning some of FY24's best performing stocks in the Long portfolio (Altium +84%, Cochlear +45% and Telix Pharmaceuticals +66% excluding dividends), the Fund still underperformed its benchmark. Long resources positions in lithium stocks and Woodside Energy have disappointed and the 28% rise in the big banks (which the Fund is underweight) has been a difficult headwind to overcome. We maintain our positions in Woodside Energy and resource stocks in general and do not expect the banks to continue to deliver such a strong level of outperformance in FY25.

We continue to diligently apply our investment process of uncovering companies with a medium-term change thesis and are comforted, knowing that the Fund has previously recovered from underperforming periods and subsequently delivered returns in line with its historical track record.

Portfolio Performance

As at 30 Jun 2024	3mth	6mth	1yr	3yr p.a.	5yr p.a.	7yr p.a.	Net Return S/I p.a.
Aust. Eagle Trust*	-3.30%	1.41%	4.58%	6.55%	9.81%	12.80%	14.20%
S&P/ASX 100 Acc**	-0.79%	4.34%	12.24%	7.09%	7.68%	8.99%	9.68%
Out/(under) performance	-2.51%	-2.92%	-7.66%	-0.54%	2.14%	3.81%	4.51%

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 Fund returned -3.30% after fees for the June 2024 quarter underperforming the benchmark by -2.51%. The Fund endured a volatile quarter with big banks rallying as mortgage asset quality remained high while the big miners fell, triggered by weak Chinese data. The Australian Eagle Trust has now completed 8 years of operation and the investment team continues to implement the investment process that has delivered positive long-term outperformance of the S&P/ASX 100 Accumulation Index by +4.51% p.a. since July 2016.

World markets were mixed as AI stocks continued to drive technology stocks higher while others reported struggles with cost inflation and weak demand. Volatile US bond yields ended relatively flat as markets adjusted projections of the timing of interest rate cuts. The FOMC chairman stated that recent data confirmed that inflation has trended lower, paving the way for rate cuts later in 2024. The Chinese economic data continued to paint a mixed picture with manufacturing growth offset by weak inflation, sliding imports and a declining residential property market. The iron ore price rose US\$5 to US\$107/t despite Chinese portside inventories building up towards recent highs. The lithium carbonate price fell 15% to CNY91,500/t as increased demand for EVs failed to meet the surge of recent additional supply.

The Long portfolio detracted to relative performance due to commodity price volatility and some company specific announcements which were unfavourably received by the market. Pilbara Minerals fell with the lithium price despite announcing a potential tripling of low-cost production. Deterra Royalties fell after announcing the acquisition of Trident Royalties as well as an amendment to the dividend payout policy. ASX underperformed after giving FY25 guidance which improved on FY24 performance but did not meet market expectations.

The Short portfolio also detracted from performance during the quarter as commodity price volatility drove some positions higher. South32 rose with the aluminium price despite reporting poor production in the March quarter. Alumina conditionally accepted a takeover offer earlier in the year and the share price followed Alcoa's share price higher. AGL Energy rose after upgrading FY24 guidance due to improved operating performance and higher consumer demand over the summer period.



Portfolio Highlights

Positives

Telix Pharmaceuticals Ltd (Long) – The share price rose after announcing that its ProstACT SELECT trial for the treatment of prostate cancer had produced improved quality of life outcomes for patients and less radiation exposure compared with existing methods. Management had also previously highlighted the acceleration of revenue growth, along with FDA fast track designation for its brain cancer and kidney cancer imaging products.

Mineral Resources Ltd (Short) – The share price fell with the lithium and iron ore price. Despite selling a minority stake of its Onslow Iron dedicated haul road for \$1.3bn, the company's balance sheet is still under pressure from higher input costs, margin pressure from falling commodity prices and continued labour shortages. Management also recently announced the closure of its Yilgarn iron ore mine.

Charter Hall Group Ltd (Short) – The share price fell as recent valuation write-downs have put pressure on management to avoid breaching their lending covenants. Rising capitalisation rates as well as dwindling demand for office assets have forced management to sell assets to reduce gearing levels.

Negatives

South32 Ltd (Short) – The share price rose with the aluminium and copper price. The recent quarterly report revealed pockets of poor production output due to adverse weather conditions at Australia Manganese and lower recoveries and grades at its Sierra Gorda copper mine.

Alumina Ltd (Short) – The share price rose with the aluminium price. The company also received an all-script takeover offer from its joint venture partner Alcoa earlier in the year. 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.

Pilbara Minerals Ltd (Long) – The share price followed the lithium price lower. The company recent announced a pre-feasibility study which would more than triple current production to 2mtpa. Despite the low current lithium price, the low-cost operations are still generating strong cashflow, supporting the future upstream, mid-stream and downstream growth options.

Portfolio Changes

Increased Exposure

TechnologyOne Ltd (+3.00%; Long): A software solutions provider to government and education organisations. The core Australia business continues to provide double digit growth while the expansion into the UK has finally shown signs of business momentum.

Alumina Ltd (+3.00%; Exit Short): An investment holding company of AWAC, a JV with Alcoa. After enduring a tough period marred by a low aluminium price, high operating costs and environmental issues, the board of directors agreed to an all-script takeover bid by Alcoa earlier in 2024.

The A2 Milk Company Ltd (+2.75%; Exit Short): An infant milk formula manufacturer and distributor. Despite still trending lower, the recent uplift in newborn babies due to the auspicious year of the Dragon in China has provided some relief to infant milk formula providers.

Decreased Exposure

Sonic Healthcare Ltd (-4.25%; Entry Short): A multinational laboratory and health analytics service provider. After experiencing a strong tailwind during COVID-19, management have geared up the balance sheet with acquisitions to maintain earnings. Higher than expected costs, inflationary pressures and integration issues have forced management to dampen expected earnings.

Altium Ltd (-4.00%; Exit 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.

Orora Ltd (-2.00%; Short): A global packaging manufacturer and distributor. After acquiring a large French high end bottling company in 2023, combined group performance has failed to meet expectations due to weaker sales. The highly geared balance sheet will also be tested by weaker cashflow.

Quarter-End Position & Portfolio Exposures

As at 30 June 2024, the Fund had net exposure of 95.7% and gross exposure of 194.5% to equities. Cash was 4.3%.

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

Stock Highlight: Treasury Wine Estates Ltd (TWE) – Long Position

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

Cheers to Change – Turning Tariffs into Triumph

The investment team has had a long history with Treasury Wine Estates. The most recent holding was for several years prior to the pandemic with positive performance supported by growing profit and margins generated by the success of Penfolds in China. This time around, the team sees another opportunity for medium-term change thesis that may drive a material re-rating of the share price.

The deterioration of Sino-Australian relations during the pandemic led to the imposition of Chinese tariffs on Australian-made wine. In response, the company diversified its customer base and implemented a multi-country of origin strategy to produce Penfolds. There was little expectation that only a year later, these tariffs would be removed and the company would be gearing up for re-entry into the lucrative Chinese market.

In a June 2024 update, the company announced it is increasing its headcount in China by 67% to 200 and provided a forecast of double-digit profit growth for the critical Penfolds brand for the next 3 years. Penfolds is expected to deliver this growth through a record 2024 vintage which will be released progressively over the next 3 years. Treasury Wines is confident that demand for Penfolds in China has not diminished while they have been out of the market as the multi-country of origin strategy established Penfolds winemaking operations domestically in China and initial demand from Australian-made exports has been reported to be very strong.

Aside from Penfolds, Treasury Wine Estates purchased DAOU Vineyards in the US for US\$900m in late 2023. This increased the weighting of luxury wines in the US portfolio from 38% to 53% of revenue and provides a cushion in difficult times where luxury (>A\$30 per bottle) continues to grow. The broadening of the luxury brand category allows Treasury Wine Estates the optionality of establishing separate luxury and premium wine (retail price between A\$10 and A\$30 per bottle) operations. Should this come to pass, it may lead to a potential demerger of the premium wine operations with Treasury Wine Estates focusing on Penfolds and a smaller portfolio of high performing luxury brands.

The investment team believes that this could lead to a re-rating of the shares closer to a global luxury brand multiple of 25x earnings from the current 20x PE multiple on FY25 earnings expectations.



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%	-3.94%	-0.08%	0.74%	4.58%

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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