Chester High Conviction Fund
Fund Update | 30 November 2020

Total returns

At 30 November 2020	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	Incep. % p.a. (27 Apr 2017)
Chester High Conviction Fund (after fees)	10.5	14.5	22.5	14.4	8.3	12.8
S&P/ASX 300 Accumulation Index	10.2	8.3	15.0	-1.6	7.1	7.1
Outperformance (after all fees)	**+0.3**	**+6.2**	**+7.5**	**+16.1**	**+1.2**	**+5.8**

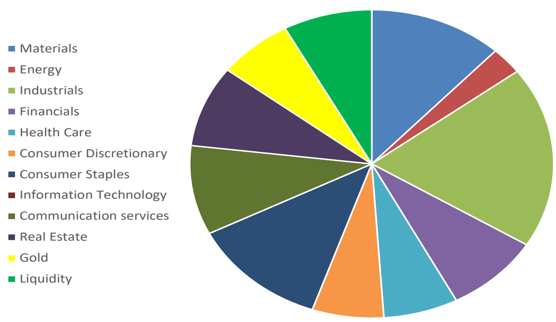
"Markets are constantly in a state of uncertainty and flux and money is made by discounting the obvious and betting on the unexpected."
George Soros

Month in review

We wrote recently that markets have an uncanny ability to make market participants feel foolish most of the time. We have learnt through years of investing that it's impossible to pick market tops, or bottoms for that matter. The sheer size of money supply or new money being issued in 2020 (M2 growth of 26% in the US and 25% in Australia) has ensured there is ample liquidity searching for returns, which has meant strong inflows into equity markets in the second half of 2020. We suspect this trend doesn't reverse quickly which is reason enough why momentum can continue into 2021.

Having said that, we expect the world to look different in 2021, while the COVID-19 pandemic rages through Europe and the US, the prospects of vaccines being rolled out quickly over the next 6 months has seen a sharp reversal in the 2020 trends. The beneficiaries of COVID (e-commerce, tech and safe havens) have made way for the prospect of a cyclical recovery and with that, materials, industrials, energy and financials have seen strong share price reversals over the past 5 weeks.
This has only inflamed the debate (which to our mind is overly simplistic) between "value" and "growth", whereby growth has been a long term structural winner as bond yields have fallen, effectively since the GFC. So the debate remains around the prospects for 2021. Is this the year where "value" finally outperforms as the money supply growth creates inflationary forces that sees bond yields rise?
This high level view (2020 has been dominated by macro influences) we can only hope, makes way for more stock specific outcomes in 2021, whereby we remain heavily focused on owning a portfolio of stocks that remain compelling on a bottom up cash flow basis. We suspect our style bias of cash flow analysis will stand the portfolio in good stead into the new year, particularly if valuations actually matter again.

Fund sector weights



While we still see a range of outcomes over the next 12 months, markets enjoy certainty, which is what a Biden administration will provide, combined with Janet Yellen (former Fed Chairperson) being appointed as the Treasury Secretary, which all but ensures monetary policy and fiscal policy will be intertwined.

Portfolio review

For the month of November, the fund returned 10.5%, relative to the ASX300 Accumulation Index return of 10.2%. For November, the strongest contributions for the fund were across the more value oriented names. We wrote up News Corp (NWS) in our last quarterly as a stock that remains significantly undervalued as a result of owning 62% of realestate.com.au and Dow Jones (owner of the Wall Street Journal and Barrons). Our sum of the parts still suggests significant upside to the NWS share price based on these assets alone, while a speculated offer to buy Foxtel for AUD2.0bn would only add to the valuation argument. Mineral Resources (MIN) was another stock we considered to be significantly undervalued, but has had the tailwinds of the iron ore price combined with better awareness of the significant organic growth in the MIN portfolio over the next 3 years. It remains our preferred exposure to both iron ore and lithium. Lynas Corp (LYC) is a stock we have owned for a significant period, with the simple thesis of its asset base being incredibly valuable as the only meaningful global producer of rare earths outside China. LYC remains highly leveraged to the NdPr price (the key elements of rare earths) which looks in short supply over the next 2-3 years.

The gold sector saw some profit taking through November. Aurelia Metals (AMI) was weaker after a capital raising for what we saw as a sensible purchase of a privately held gold mine in NSW with significant upside. We believe AMI is compelling value on both a cash flow basis and an asset backed basis in the low 40c range. We note that post month end OceanaGold (OGC) has been informed that the Office of the President of the Philippines wishes to finalise the renewal of the FTAA (Financial or Technical Assistance Agreement) for the reopening of the Didipio Gold mine. This FTAA expired in July 2019 and has contributed significantly to the share price underperformance of OGC over that time frame. The liquidity position at the end of November was 7.9%.

Top 3 holdings	Portfolio breakdown	
Downer EDI	Industrials	19.0%
Aussie Broadband	Consumer Staples	12.3%
CSL Limited	Materials	12.0%

Top 3 portfolio attribution	Bottom 3 portfolio attribution
News Corp Ltd	Aurelia Metals
Mineral Resources	Saracen Minerals
Lynas Corp	OceanaGold

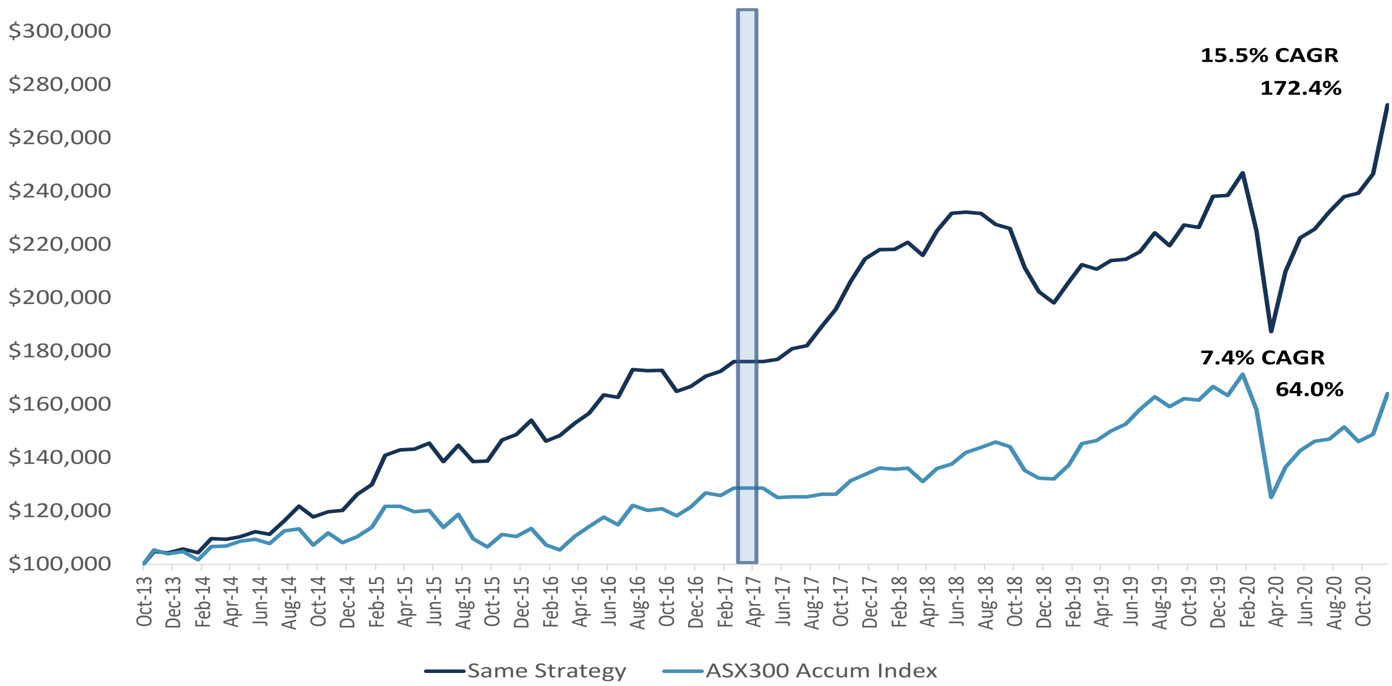
Accumulated Performance by Financial Year - Same Strategy

	FY14 (%)#	FY15 (%)	FY16 (%)	FY17 (%)*	FY18 (%)	FY19 (%)	FY20 (%)	FY21 (%)	Since Inception (%) p.a.
Same Strategy (after MER)	+11.2	+24.5	+17.4	+11.2	+28.3	-6.4	+3.9	+20.7	+15.5
S&P/ASX 300 Accumulation Index	+7.8	+5.6	+0.9	+9.1	+13.2	+11.4	-7.7	+12.2	+7.4
Value added (after MER)	**+3.5**	**+18.9**	**+16.4**	**+2.1**	**+15.1**	**-17.8**	**+11.6**	**+8.5**	**+8.1**

The inception date of SGH Australia Plus was the 8th of October, 2013, where Rob Tucker was the sole Portfolio Manager, until his departure on February 28th, 2017.
* The inception date of the Chester High Conviction Fund was April 26th, 2017, hence FY17 reflects 8 months of SGH Australia Plus and 2 months of the CHCF.

We note this is a statement of fact of the performance achieved by the fund during the time which Rob Tucker was the sole Portfolio Manager making active decisions on the SGH Australia Plus portfolio. We note performance is the record of the firm not the individual however past performance has been constructed from publicly available unit price data. Past performance is not necessarily indicative of future performance and should not be relied upon in making investment decisions.

Same Strategy - Accumulated performance



Note this graph is representative only of the combination of the same Portfolio Manager running the same strategy, and would only represent actual returns for unit holders that invested money at inception of SGH Australia Plus, withdrew those funds at the end of February 2017 and then invested all those initial funds again at inception of the Chester High Conviction Fund in April 2017. Note, this depicts returns after fees.

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