Chester High Conviction Fund
Fund Update | 30 November 2021

Fund Performance

At 30 November 2021	1 mth %	3 mths %	6 mths %	1 yr %	2 yrs % p.a.	3 yrs % p.a.	Incep. % p.a. (27 Apr 2017)
Chester High Conviction Fund (after fees)	0.4	1.9	8.4	22.0	18.1	18.0	14.8
S&P/ASX 300 Accumulation Index	-0.5	-2.3	3.6	16.0	6.8	12.9	9.0
Outperformance (after all fees)	**+0.9**	**+4.2**	**+4.8**	**+6.0**	**+11.3**	**+5.1**	**+5.8**

"By three methods we may learn wisdom: First, by reflection, which is noblest; Second, by imitation, which is easiest; and third by experience, which is the bitterest."

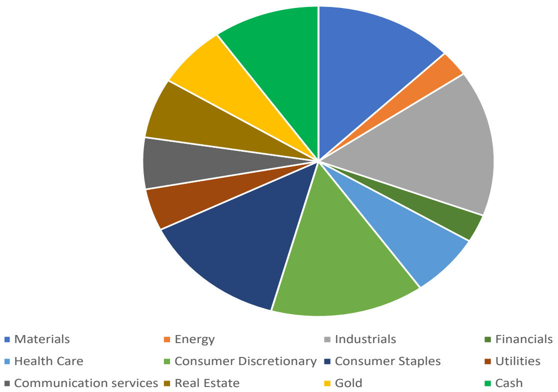
Confucius

Month in review

Conspiracy theorists will no doubt read something into the sharp change in tack from the Federal Reserve chairman Jay Powell after having his chairmanship renewed for another 4 years. Relatively dovish and sanguine over inflation until his re-appointment, then suddenly hawkish post re-election? We merely observe these events rather than postulate on the political relevance of them. But this change in language, much like late 2018, has seen a sharp reversal in various asset classes. Of all the macro indicators we watch, the most interesting is the sudden flattening of the yield curve. Since Powell has changed his language, the US 30 yr bond has promptly rallied aggressively (bond yield falling from 2% to 1.7%). This price action is normally reserved for a sharp slowdown in economic growth. This has been combined with a sharp rally in the USD, which by way of extension, has seen the AUD sold aggressively, which again historically signals a changing economic landscape of slower growth into 2022.

We have been of the view that the investment landscape is likely to get harder to navigate from here, as the ultra loose monetary settings deployed in 2020 are slowly unwound. The difference being now, the Fed is very much focused on the inflationary forces at play, as opposed to being sanguine about them. The reaction function to this sees a different portfolio environment for 2022, while still remaining focused on the idiosyncratic risk of each stock in the portfolio. Of all the risks we see in running equity portfolios currently, the risk of overvaluation still appears to us to be the most significant, and hopefully one we can navigate with prudent cash flow analysis and appropriate portfolio diversification. Stock picking will be more important than ever in 2022.

Fund sector weights



Portfolio review

For the month of November the fund returned 0.4%, relative to the ASX300 Accumulation Index return of -0.5%. In what has been a volatile period for Mineral Resources (MIN), it recovered in November post falling over 40% due to its iron ore exposure, which left the company trading below our assessed valuation of the mining services and lithium businesses, effectively implying the value of the iron ore business was worth less than zero. It remains our preferred resource name because of the diversity of the revenue streams, with strong cash flow growth to come from the lithium and mining service businesses, with iron ore being effectively a free option at circa AUD40. Aurelia Metals (AMI) we have held for a period of time whilst being very favourably disposed to the current cash generation (<3.0x EV/EBITDA) while drilling out a very exciting discovery called Federation, geographically very close to existing infrastructure. It is predominantly a gold producer, but the ore body is polymetallic, which provides a source of diversification with copper, lead, silver and zinc by-product credits. The production profile will double with the introduction of Federation in 2024, while it trades at roughly 50% of our assessed NAV.

Betmakers (BET) has been a recent investment, which is currently a small position. The investment thesis behind BET sees an Australian technology provider of fixed odds horse racing capabilities that is to be rolled out across the US once regulatory approvals are in place. With very limited US experience (and competition) in providing fixed odds services to the horseracing industry, BET is well placed to be the provider of choice across multiple betting companies in multiple jurisdictions in US horseracing fixed odds betting. It has a very well connected management team. Origin Energy (ORG) effectively reversed a strong October, while the end markets (East Coast electricity price and global gas markets) has only provided more confidence in the earnings recovery underway. We think it is well placed for a strong 2022. Downer (DOW) effectively retraced some of its outperformance after a cautious AGM that simply highlighted the extent of the lockdowns across the Eastern seaboard which shouldn't have been a surprise. It was possibly impacted by the upcoming float of another urban services business (Ventia) that was priced at a discount to DOW as it has none of the listed history of DOW. It remains very cheap on a cash flow basis.

Top 3 holdings
Tabcorp Holdings
News Corp Ltd
Origin Energy

Portfolio breakdown	
Industrials	15.3%
Consumer Disc	14.2%
Consumer Staples	13.4%

Top 3 portfolio attribution
Mineral Resources
Aurelia Metals
OceanaGold

Bottom 3 portfolio attribution
Betmakers Technology
Origin Energy
Downer EDI

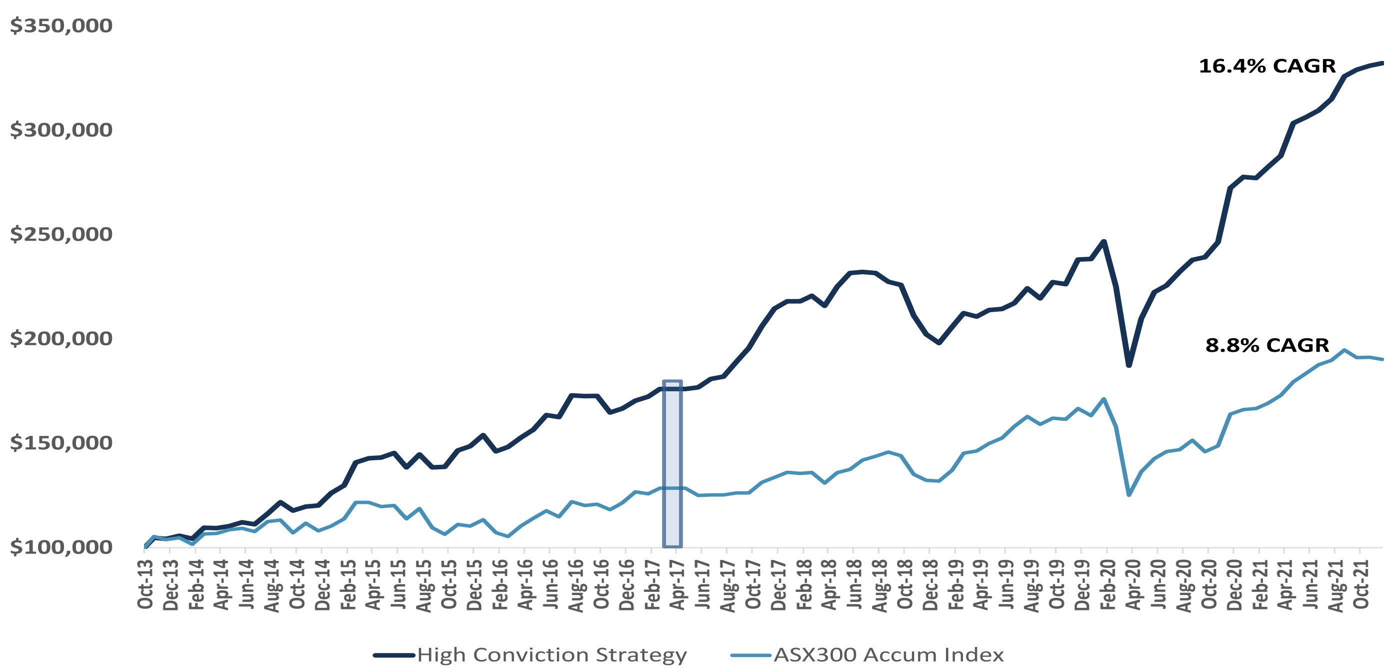
Accumulated Performance by Financial Year - Same Strategy

	FY14 (%)#	FY15 (%)	FY16 (%)	FY17 (%)*	FY18 (%)	FY19 (%)	FY20 (%)	FY21 (%)	FY22 (%)	Since Inception (%) p.a.
Same Strategy (after MER)	+11.2	+24.5	+17.4	+11.2	+28.3	-6.4	+3.9	+35.7	+7.4	+16.4
S&P/ASX 300 Accumulation Index	+7.8	+5.6	+0.9	+9.1	+13.2	+11.4	-7.7	+25.7	+1.4	+8.8
Value added (after MER)	**+3.5**	**+18.9**	**+16.4**	**+2.1**	**+15.1**	**-17.8**	**+11.6**	**+10.1**	**+6.0**	**+7.6**

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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