# Chester High Conviction Fund

## Fund Update

April 2023

APIR OPS7755AU
ARSN OPS7755AU

| At 30 April 2023 | 1 mth % | 3 mths % | 6 mths % | 1 yr % | 3 yrs % p.a. | 5 yrs % p.a | Incep. % p.a. * |
|---|---|---|---|---|---|---|---|
| Chester High Conviction Fund (after fees) | 0.9 | -2.4 | 3.8 | -2.6 | 19.4 | 9.7 | 12.5 |
| S&P/ASX 300 Accumulation Index | 1.8 | -1.0 | 8.4 | 2.1 | 14.0 | 8.2 | 7.9 |
| Outperformance (after all fees) | -0.9 | -1.4 | -4.6 | -4.7 | +5.4 | +1.5 | +4.6 |

* 27 Apr 2017

> *"If something can not go on forever, it will stop"*
>
> Herbert Stein

## Month in review

There has been an enormous amount of potential bad news thrown at the market over the past 8 weeks, yet the market holds up. The most recent being the looming US debt ceiling crisis. It is widely quoted that as of the 1st of June, the US government will potentially run out of money, unless an agreement to increase the debt ceiling is reached. Mr market has decided that like every other debt ceiling debate, an 11th hour agreement will be reached, and we can all worry about something else. But what if this time, the US does default on its debt obligations? The risk is greater than zero. Throw in the regional US banking crisis, which at the very least, will act as a constraint on growth given rapidly shrinking credit availability from these affected banks.

Despite the regional banking crisis, we are pondering the paradox of better than expected April data, some strong US reporting season results, and ever rising interest rates. The better the results and the data, the more likely the Fed is to stay "hawkish". This narrative is at odds with the bond market which continues to price in 4 rate cuts in the next 8 months (yes, 100 bps of rate cuts!). Hence the paradox of investing in today's climate. Perhaps, investors are taking heed of the fragility in the bond markets (sovereign debt risks) and preferring equities? Or simply fighting the Fed, by taking the bond markets price signaling as more accurate than the Fed. It seems to fit why the relationship between the gold price and the real US bond yield has broken down, at least temporarily. The gold price action is both interesting for gold bulls, but perhaps more concerning for the financial system and the role of the USD as the reserve currency. We do think of the above quote when we consider the US deficit spending over the next 10 years. Something must give.

The RBA surprised most market participants with a rate hike after a one month pause. The reprieve for mortgage holders was short lived, and snuffed out the likelihood of animal spirits returning anytime soon. The well publicised immigration influx into Australia is both a cause for optimism and alarm. It theoretically should alleviate some wage pressure in certain pockets, but renews the debate around the availability of affordable housing.

## Portfolio review

During the month the fund returned 0.9% relative to the 1.8% rise in the ASX300. We have continued to see 90% of the portfolio behaving as we would hope, while the past 4-6 months has seen several idiosyncratic challenges with our stock selection. The strong performers in April were led by Genesis Mining (GMD), which restructured its acquisition of St Barbara's Gwalia gold mine in the Leonora district. While optically this has both strong shareholder support from GMD shareholders and the SBM board has endorsed the deal (scheduled for a June EGM), we note that in recent days Silver Lake (SLR) has made an offer to SBM for the same assets at (optically at least) a superior bid. We will watch carefully as this unfolds, but again, given the SBM board's approval of the GMD bid, we are hopeful that the necessary approvals are met by the end of the quarter. CSL had a stronger month with the tailwind being a site visit to the CSL European operations, which demonstrated strong fixed cost leverage with the new fractionation processing facility and the operational readiness for the new CSL-112 product, which promises to be an exciting cash flow driver over the medium term.
Synlait (SM1) had another tough month after reporting a further downward revision to infant formula demand from key customer A2M causing a further (NZD20m) hit to profit guidance, placing them at approximately breakeven for FY2023. Management remain confident in SAMR approval for A2M in Q4 FY23 and delivery of strong double digit growth in Advanced Nutrition sales volumes when the new multinational customer commences. SM1 is now trading on 0.4x book value per share and 6x FY25 PE, with optionality around its asset base. One for deep value contrarians. Mineral Resources (MIN) also underperformed with the quarterly showing challenges in all 3 divisions leading to downgrades. Mining Services production volumes were lower following completion of 2 external mining contracts. Iron Ore costs were revised to the top end of guidance and lithium production at Mt Marion suffered higher costs and lower spodumene and hydroxide sales. MIN's quarterly is somewhat a reflection of the tougher labour market in WA, a softer period seasonally for lithium and some timing issues. Develop (DVP) was also softer on the back of weaker commodity prices despite some impressive drill results at Woodlawn.

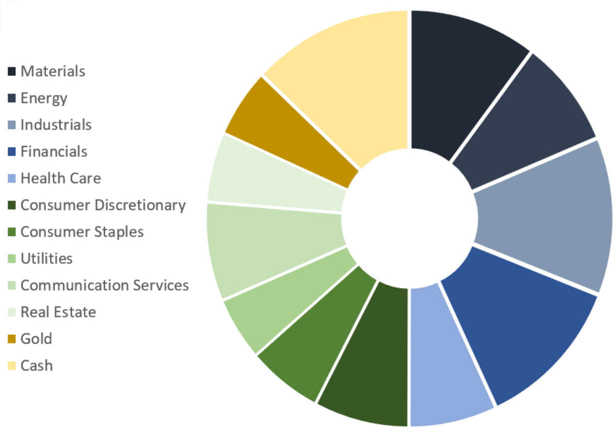
| Top 3 holdings |
|---|
| CSL Ltd |
| QBE Ltd |
| Aurizon Holdings |

| Portfolio breakdown | |
|---|---|
| Industrials | 12.3% |
| Financials | 12.1% |
| Materials | 10.7% |

| Top 3 portfolio attribution |
|---|
| Genesis Mining |
| Westgold Resources |
| CSL Ltd |

| Bottom 3 portfolio attribution |
|---|
| Synlait Milk |
| Mineral Resources |
| Develop Global |

## Fund weights - diverse sector exposure



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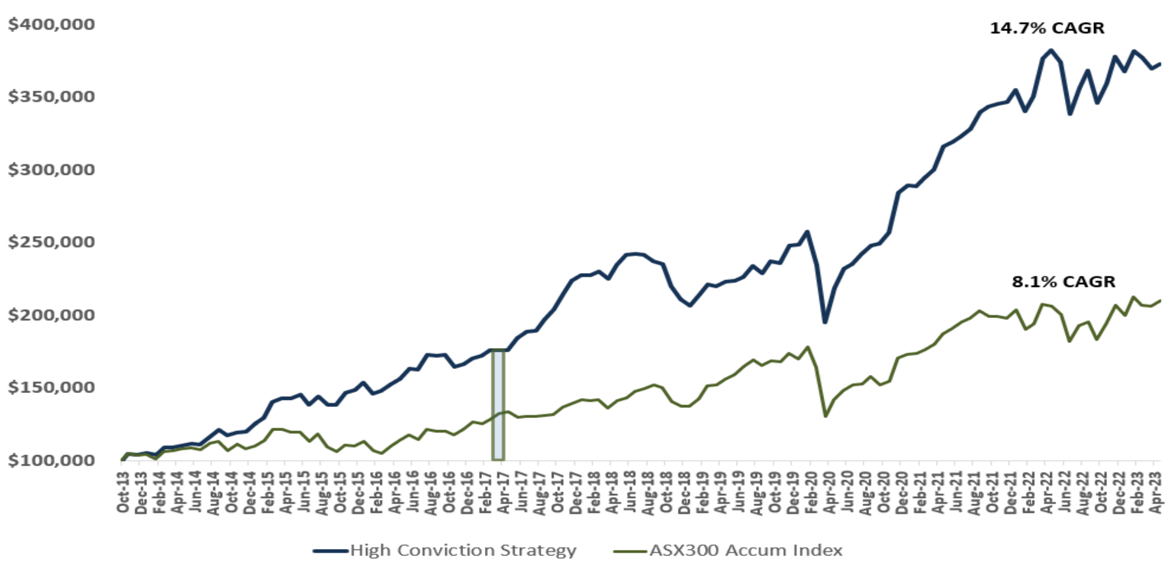
## Accumulated Performance by Financial Year - Same Strategy

| | FY14 (%)# | FY15 (%) | FY16 (%) | FY17 (%)* | FY18 (%) | FY19 (%) | FY20 (%) | FY21 (%) | FY22 (%) | FY23 (%) | Since Inc (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Same Strategy (after MER) | +11.2 | +24.5 | +17.4 | +11.2 | +28.3 | -6.4 | +3.9 | +37.2 | +4.8 | +10.2 | +14.7 |
| S&P/ASX 300 Accum Index | +7.8 | +5.6 | +0.9 | +9.1 | +13.2 | +11.4 | -7.7 | +28.5 | -6.8 | +15.4 | +8.1 |
| Value added (after MER) | +3.5 | +18.9 | +16.4 | +2.1 | +15.1 | -17.8 | +11.6 | +8.7 | +11.6 | -5.2 | +6.6 |

# Per Annum. 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.

## High Conviction 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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