



## Fund Performance

At 28 February 2022	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	Incep. % p.a. (27 Apr 2017)
Chester High Conviction Fund (after fees)	3.0	1.2	3.1	19.0	16.5	14.2
S&P/ASX 300 Accumulation Index	2.1	-2.0	-4.2	10.3	8.7	8.0
<b>Outperformance (after all fees)</b>	<b>+0.9</b>	<b>+3.1</b>	<b>+7.3</b>	<b>+8.8</b>	<b>+7.8</b>	<b>+6.2</b>

*"All the great things are simple, and many can be expressed in a single word: freedom, justice, honour, duty, mercy, hope."*

**Winston Churchill**

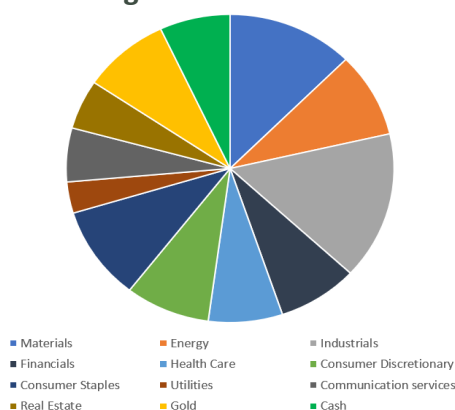
### Month in review

Reporting season has delivered a relatively strong set of results as cyclical tailwinds remained broadly supportive for 1H FY22. Our portfolio, in aggregate, saw pleasing cash flow growth, independent of share price movements. Inside we have expanded on some of our thinking post reporting season.

Of course, the investment landscape was swept up by the Russian invasion of Ukraine, which becomes a known unknown. The event has now happened, but the duration, severity, sanctions and the humanitarian ramifications of this are unknown. Unfortunately it does appear to have heralded in an era of elevated geopolitical tension, given the combined speculation of China's ambition to reunify Taiwan. We fear the world changed over the past 2 weeks.

Hence, investing is never uneventful. The most obvious economic outcome of the Russian aggression is the cost of energy increasing given the European reliance on Russian fuel sources. The extension of this becomes ongoing cost inflation which extends our thinking to the Federal Reserves response to this. Do they accelerate US interest rate tightening, or adopt a more patient approach given the global uncertainty? Asset prices are highly sensitive to this move clearly, as evidenced by the sharp reversal in long duration (high growth) companies over the past 3 months. With our broad expectation for elevated inflation to persist, we see more reason to be vigilant over the stock selection framework throughout 2022. Valuation discipline (asset backing, cash flows and dividend support) we believe will be the most appropriate way to preserve capital in 2022, which remains our primary focus.

### Fund sector weights



### Portfolio review

For the month of February the fund returned 3.0%, relative to the ASX300 Accumulation Index return of 2.1%. We added Nufarm (NUF) to the portfolio in Q3 2021, as it was trading below book value, with a strong agricultural cycle and an underappreciated R&D portfolio researching sustainable fuels and farming practices. This has translated into both near term earnings upgrades due to the current cycle, but more importantly, validation of the R&D portfolio with BP signing a 10 year agreement to take Nuseed's Carinata product for aviation fuel. Nuseed Carinata is a non-food cover crop that can be used to produce low-carbon biofuel feedstock that is sustainable and scalable. At the February investor day, NUF projected ambitious targets for both the crop protection business, and the Nuseed business. If they can execute on this strategy, NUF has a very strong 2-3 years ahead of it. Woodside (WPL) has been a laggard over 2021 due to growth capex concerns, but has tailwinds in the ongoing tightness in global LNG pricing. The upcoming independent assessment of the BHP Petroleum business we believe will highlight just how high quality the WPL portfolio will be post merger. It also paid a 5% dividend in February, which helped. OceanaGold (OGC) appears to us to be finally turning a corner. Relative to peers, it has compelling valuation support, predictable production growth and exciting resource extensions across its major assets. Gold remains a core portfolio allocation, as do certain commodity exposures.

Mineral Resources (MIN) suffered from cost escalation in labour and shipping, while seeing materially lower realised iron ore prices during 1H FY22. This led to material FY22 eps downgrades, which were actually offset by material FY23 upgrades led by a far stronger lithium price environment into 2022. Hence the strength of the MIN business model is on display, while having a range of growth projects to set the business up for longer term cash flow growth. We continue to back Chris Ellison to allocate capital effectively. Imdex presented a strong set of results that were sold on peak cycle concerns. We disagree, with 50% revenue exposure to the gold sector in drilling and exploration services. Austal (ASB) is well placed thematically as a shipbuilder exposed to defence spending. A re-rating will occur on evidence of new contracts wins. We believe there are multiple opportunities in 2022 for this to occur, while trading below book value with net cash.

Top 3 holdings	Portfolio breakdown	
CSL Ltd	Industrials	15.7%
Woodside Petroleum	Materials	12.5%
Nufarm Ltd	Consumer Staples	10.0%
Top 3 portfolio attribution	Bottom 3 portfolio attribution	
Nufarm Ltd	Mineral Resources	
Woodside Petroleum	Imdex Ltd	
OceanaGold	Austal Ltd	



## Post February observations

<p><b>GEOPOLITICS</b></p>	<p>The unknown known. We know a war has started, we don't know how it will play out. The duration, sanctions, implications, response from NATO, response from China? Optically the easiest trend to observe is the energy shortage into Europe, which suggests oil and gas prices stay higher than they would otherwise. Putin may be simply trying to reclaim what he thinks is ideologically Russian territory, or it may be a broader, longer term plan over food security. Commodity producers with significant tailwinds? <b>WPL, STO, BHP, RIO, MIN, S32, IPL, NUF</b></p>
<p><b>THE OUTCOME BEING HIGHER INFLATION THAN PREVIOUSLY FORECAST</b></p>	<p>The implications of the above suggest both food and energy prices remain structurally higher than previously thought, which will flow through to cost of living increases, on top of the prospect for higher monthly mortgage rates. The extension of this being consumers have far less discretionary income going forward as more monthly income is put towards things they need (food, shelter and energy) as opposed to things they want: <b>suggests caution on the consumer discretionary sector</b></p>
<p><b>HOW DO CENTRAL BANKS RESPOND?</b></p>	<p>Whilst still focusing on the macro landscape, the Fed now has to balance the risks of tightening into a slowing economy with rising inflationary pressures continuing. Do they remain patient due to the uncertainty of war, or accelerate due to higher inflation, which are largely due to forces beyond their control (energy). Does an accelerated interest rate cycle significantly diminish demand to lower inflation? <b>CPU, QBE, Banks are the traditional interest rate cycle beneficiaries</b></p>
<p><b>ACCESS TO CREDIT AND COUNTER-PARTY RISK</b></p>	<p>Credit spreads must now be watched closely for the prevailing credit environment sentiment. Contagion of counterparty risk in dealing with economic sanctions has just started in the European financial system. Given the very early days of these sanctions, it is very difficult to assess where the problem might arise, but the risks are clearly growing. The downside to the massive liquidity injections post the COVID-19 central bank response was the free capital available to everyone, and with that came almost unprecedented speculation. The promotion of "narrative stocks" meant a great story would see some share prices and market capitalisations pushed to exorbitant levels. That game is over.</p>
<p><b>PRICE PASS THROUGH</b></p>	<p>Many companies were able to hold margins during the half as there appears to be a wide acknowledgment that cost escalation is real, hence very little push back was received for raising prices, with one (Orora) raising prices 8 times over the past 12 months. We don't think genuine pricing power has been tested yet as there are still many cyclical tailwinds playing out. Energy companies are the clear beneficiary of the cycle, while traditional CPI pass through mechanisms see Toll Roads, certain Property exposures and Healthcare companies well insulated. Rent, insurance and labor costs are the major cost pressures facing many businesses, with access to the right talent a common issue. <b>ORA, CSL, SEK</b></p>
<p><b>"JUST IN CASE" INVENTORY VS CASH REALISATION</b></p>	<p>A very popular expression during reporting season. Retailers and manufacturers holding higher levels of inventory than they otherwise would have due to the unreliability of supply chains. Broadly speaking, a feature of reporting season was the disparity between reported EBITDA and operating cash flow (OCF), the difference being a build up of working capital "just in case". Does this mean that inventories will be unwound as supply chain bottlenecks decrease? We will be watching very carefully in August for OCF to increase. Inventory destocking into a slowing growth environment doesn't lend itself to higher prices. <b>BXB, ANN, GUD, SUL, IMD</b></p>
<p><b>PEAK CYCLE EPS?</b></p>	<p>It became apparent through reporting season that many management teams were bemused at share price reactions to the published results. With many upgrades in earnings actually being sold. This continues the trend of a changing landscape as in a low interest rate environment, eps upgrades normally herald in PE expansion (the share price rises more than the earnings would suggest). In this new environment, eps upgrades saw PE compression as the share were sold off. Our stocks weren't immune to this. The question simply remains are we comfortable with the underlying business? <b>NWS, MQG, IMD, NEC, SEK</b></p>
<p><b>STAYING CONNECTED</b></p>	<p>A hangover from the COVID lockdowns, but the trend towards localisation we think only gets stronger as supporting local communities remains a key thematic for business leaders keen to re-engage customers. Localisation of supply chains where possible is also front of mind to ensure security of supply. Companionship is also an interesting trend with pet ownership rising from 61% of households, to 69% over the past 2 years. <b>RIC, LIC, EGH, INA, MTS, MGR, LLC, EBO, MVF, BBN</b></p>



### Accumulated Performance by Financial Year - Same Strategy

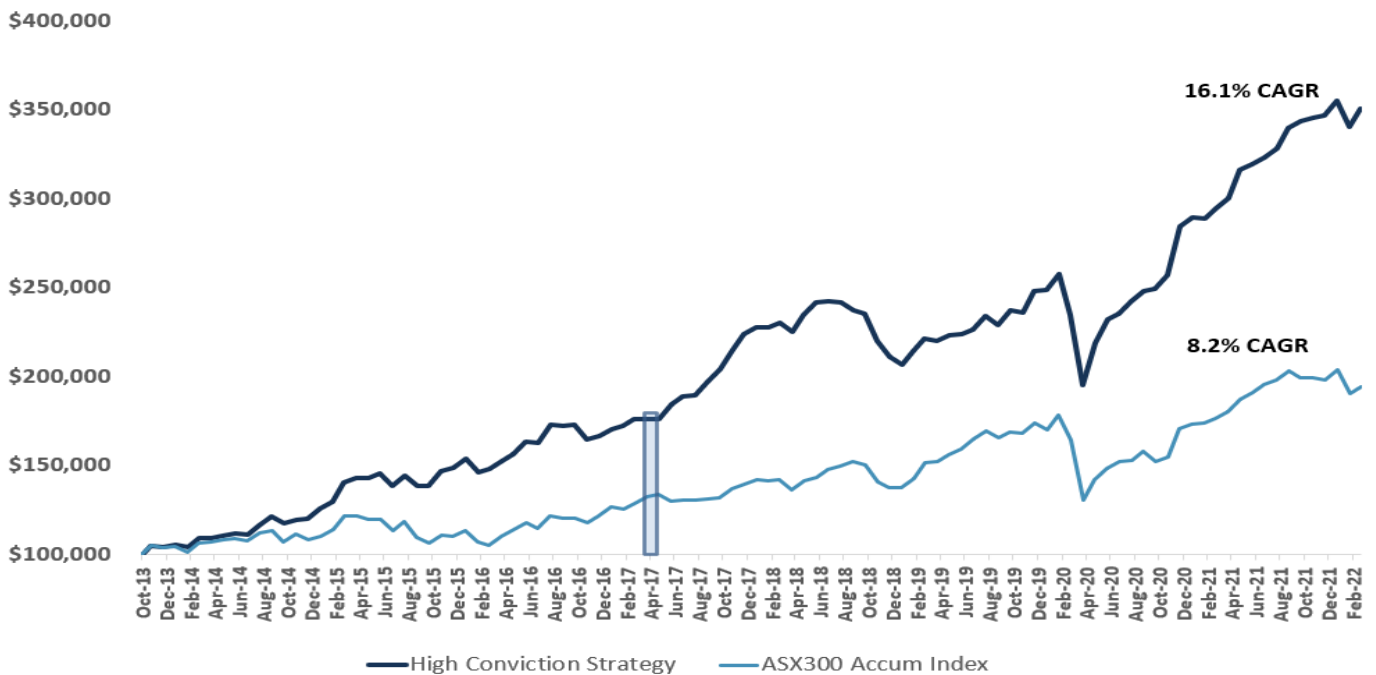
	FY14 (%)#	FY15 (%)	FY16 (%)	FY17 (%)*	FY18 (%)	FY19 (%)	FY20 (%)	FY21 (%)	FY22 (%)	Since Inception (%) p.a.
Same Strategy (after MER)	+11.2	+24.5	+17.4	+11.2	+28.3	-6.4	+3.9	+37.2	+8.5	+16.1
S&P/ASX 300 Accum Index	+7.8	+5.6	+0.9	+9.1	+13.2	+11.4	-7.7	+28.5	-0.7	+8.2
Value added (after MER)	+3.5	+18.9	+16.4	+2.1	+15.1	-17.8	+11.6	+8.7	+9.2	+7.9

# 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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