

At 28 February 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)	-1.1	-0.1	2.4	7.6	17.1	10.4	13.1
S&P/ASX 300 Accumulation Index	-2.5	0.2	5.9	6.5	7.9	7.9	7.8
Outperformance (after all fees)	+1.4	-0.3	-3.5	+1.1	+9.2	+2.5	+5.3

\* 27 Apr 2017

*“The main vice of capitalism is the uneven distribution of prosperity. The main vice of socialism is the even distribution of misery.”* Winston Churchill

### Month in review

Inflation psychology is an interesting concept, which we really haven’t experienced since the 1970s. If prices are rising, consumers pull forward spending to avoid higher prices in the future. We ponder this notion, as economic data has remained stronger than most pundits have been expecting over the past 4 weeks. This in turn has led to bond yields rising across the OECD, as higher for longer interest rates start being priced in. Central banks rhetoric remains hawkish, as to this point, it appears the US (and Australian) economies have weathered higher interest rates relatively easily. We remain of the view that consumer behaviour hasn’t changed yet, as it has only been 8 months since the first interest rate rises in Australia, while loan growth is starting to slow. The obvious impact of higher terminal rates (measured by the US 10 yr bond at 4%) is how asset prices are valued, which remains a headwind for equity markets.

China has provided much of the “reopening” narrative over the past 4 months leading to strength across the mining complex. We note the National Peoples Congress (NPC) session has recently focused far more on stability (particularly in the property market) than a re acceleration of growth, while GDP forecasts were subdued. We have long been of the view that China will not save the world in 2023 as per 2009, while note the 7.2% increase in defence spending doesn’t allay any fears of escalating global conflicts.

The February reporting season has seen minor eps revisions in aggregate, but an aggregate metric always hides the dispersion between the upgrades and downgrades. Our biggest takeaway from reporting season is the focus on the balance sheet, where much like individual mortgage holders facing higher rates, a focus on balance sheet leverage, debt maturity profiles and interest coverage will be critical moving forward. Fundamental analysis may be making a renaissance. Whilst a simplistic observation, capital is now being constrained, and hence any company that does not have access to capital (and can’t generate sufficient cash flow themselves) will find the next 2-3 years extremely challenging.

### Portfolio review

During the month the fund returned -1.1% relative to the -2.5% fall in the ASX300. Our broad assessment of this outcome being, we got the micro drivers right (individual company positions), while we felt the impact of macro headwinds (rising USD hurt our gold positions). Origin Energy (ORG) led the outperformers, after informing the market of a revised bid from the Brookfield consortium at AUD8.90 per share. Heading into this outcome we had felt the equity market had all but given up on a formal bid (trading at AUD7.00 per share), which seemed at odds with all previous public commentary from Brookfield regarding

their commitment to the energy transition of the Australian electricity grid. Brambles (BXB) appears to us to be in a sweet spot, for it offers a very basic service (pallets) facilitating the logistics of FMCG distribution. Given how capital constrained the world is, owning 360m pallets globally with a replacement cost of USD30-35 per pallet is an asset base that is incredibly hard to replicate. BXB has demonstrated pricing power with pallet shortages from its competitors, leading to higher demand for its reliable service. This pricing power has seen earnings revised upwards, with the strong tailwinds having further to play out over the next 12-18 months. The Lottery Corp (TLC) also delivered a strong result leading to eps upgrades. While TLC is well understood, the scope for pricing levers to continue over the next 12-18 months suggest a very predictable cash flow profile ahead of it.

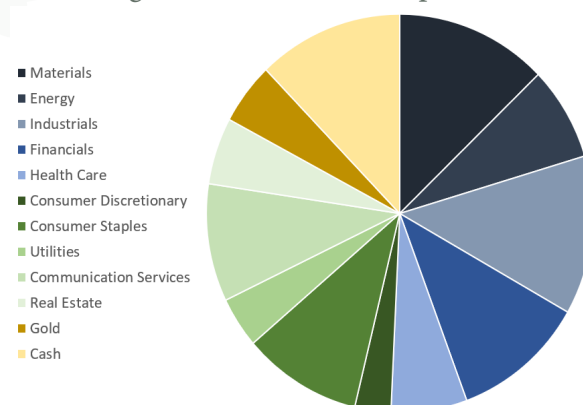
Jervois (JRV) has been problematic for the fund over the past 4 months, which has been heavily influenced by the 35% fall in the cobalt price over this period. Given more than 70% of cobalt is produced from the DRC (Democratic Republic of Congo) and less than 9% is produced by OECD nations, the visibility of what drives the short term pricing dynamics is opaque. Our thesis for JRV was predominantly driven by its strategically relevant position as having the largest cobalt mine in the US. A USD16/lb cobalt price is unhelpful, hence our focus is the cobalt market dynamics from this point. Westgold (WGX) retraced much of its January strength through February, as the USD gold price softened on USD strength. We understand the logic of this relationship, but keep one eye firmly on the upcoming US debt ceiling debate, the increase in deficit spending in the US, and the Eastern Bloc’s firm desire to remove the influence of the USD on global trade.

Top 3 holdings	Portfolio breakdown	
CSL Ltd	Industrials	12.9%
Origin Energy	Materials	12.5%
Brambles Ltd	Financials	11.1%

Top 3 portfolio attribution	Bottom 3 portfolio attribution	
Origin Energy	Jervois Global	
Brambles Ltd	Westgold Resources	
The Lottery Corp	Develop Global	

### Fund weights - diverse sector exposure



### Accumulated Performance by Financial Year - Same Strategy

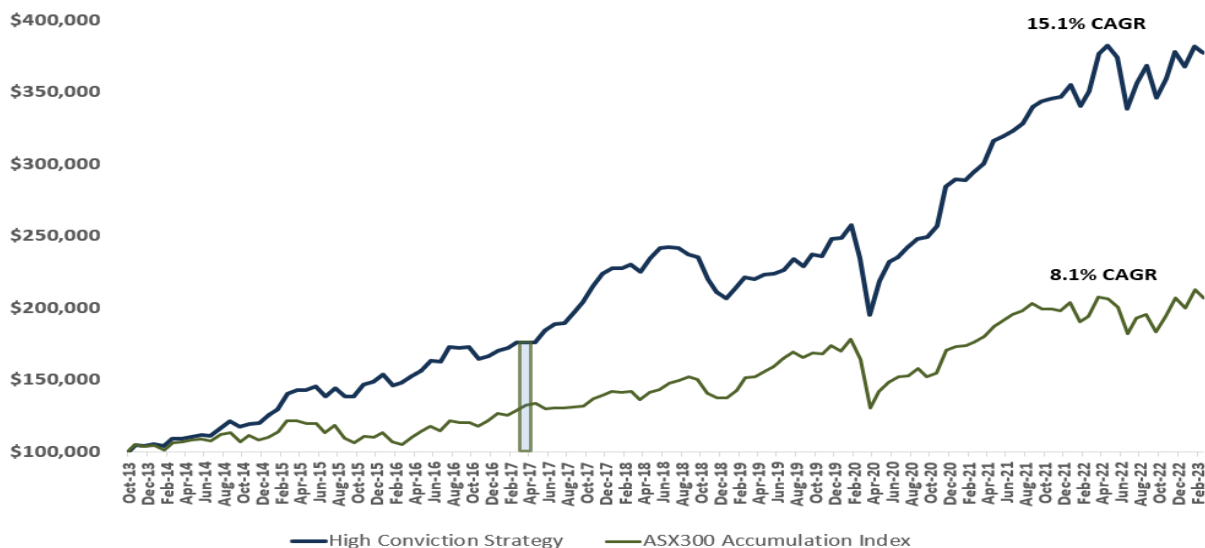
	FY14 (%) <sup>#</sup>	FY15 (%)	FY16 (%)	FY17 (%) <sup>*</sup>	FY18 (%)	FY19 (%)	FY20 (%)	FY21 (%)	FY22 (%)	FY23 (%)	Since Inc (%)
Same Strategy (after MER)	+11.2	+24.5	+17.4	+11.2	+28.3	-6.4	+3.9	+37.2	+4.8	+11.5	+15.1
S&P/ASX 300 Accum Index	+7.8	+5.6	+0.9	+9.1	+13.2	+11.4	-7.7	+28.5	-6.8	+13.5	+8.1
Value added (after MER)	+3.5	+18.9	+16.4	+2.1	+15.1	-17.8	+11.6	+8.7	+11.6	-2.0	+7.0

<sup>#</sup> 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.

<sup>\*</sup> 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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