

At 31 January 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)	3.8	6.3	7.2	12.2	14.0	10.9	13.5
S&P/ASX 300 Accumulation Index	6.3	9.5	10.0	11.6	6.0	8.5	8.4
Outperformance (after all fees)	-2.5	-3.2	-2.8	+0.6	+8.0	+2.4	+5.1

* 27 Apr 2017

“This is the hardest environment I have ever encountered to try to have any confidence in a forecast 6-12 months ahead”

— Stan Druckenmiller

Month in review

We humbly agree with Stan Druckenmiller’s recent musings. Risk appetite has been far stronger in early 2023 than we had expected and thus hindsight suggests our caution hasn’t served us well.

Simplistically we frame the start of the year into two camps. The “China reopening” narrative, which has seen the strongest sentiment/inflows into China for 3-4 years. While this wasn’t necessarily unexpected post the relaxation of COVID zero, we have been surprised by the strength in the iron ore price, up 47% since October, leading to significant outperformance of the major miners. The reason we are surprised is that scrap steel (used in electric arc furnaces) had grown from 10% in 2006, to 25% of all Chinese steel production in 2021. Given the lockdowns effectively shutdown the scrap industry, scrap use fell from 25% in 2021, to 15% in 2022. Our own logic therefore is that as China reopens, scrap use as a percentage of total Chinese steel production, should recover back to 25% (or pre Covid levels). This would remove around 170mt of seaborne iron ore demand, thus at some point in 2023, suggests that iron ore will in fact weaken. Let alone our own caution over longer term property demand in China, but that argument feels very much like a 2022 position currently.

The second major theme of 2023 has been the long duration trade (growth stocks) recovering aggressively (the poster child of this trade Tesla is up 57% in CYTD). This flip has been against the backdrop of weaker economic data in the US, which has convinced many that the Federal Reserve will “pivot” in their monetary policy stance as inflation decelerates. Our own 2 cents worth is that the Fed will be far more inclined to pause/pivot when unemployment starts rising and wage pressure starts abating. It feels far too early to us for any victory laps around wage inflation (while goods inflation is certainly decelerating). Hence the mixed macro messages on a 6 to 12 month view. We err on the cautious side around the prospect of a pivot, and hence the notion of revisiting a strong growth bias feels premature to us. Stock picking is far easier. We are very focused on the individual companies in our portfolio, with diverse sector exposure and a strong emphasis on asset backing, a valuation margin of safety and earnings resilience.

Portfolio review

During the month the fund returned 3.8% in a relatively strong month for the ASX, with most sectors seeing gains led by consumer discretionary names, while only utilities lagged (ORG). Outperformers for the month were led by Westgold (WGX), a recent position purchased in the 4th quarter. As gold rallied on the back of a declining USD, most gold names rose, with WGX demonstrating a strong operational turnaround is under way. The operating costs should continue to trend lower in CY23,

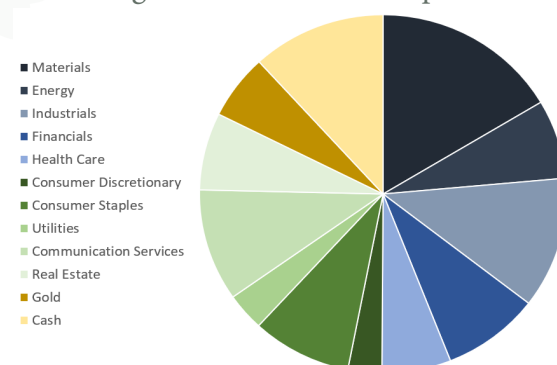
while the hedge book rolling off will see strong margin expansion for WGX in FY24. Mineral Resources (MIN) continues to offer exponential earnings growth through new projects, with a compelling gas project in the Perth Basin adding to its medium term appeal. Imdex (IMD) was a stock we spoke to in our recent note “Return of the Developer”, where we see IMD well placed to benefit from an elongated cycle and new technologies. The recent equity raising to fund the purchase of Norwegian mining services company Devico was received well, as IMD also delivered a robust 1H FY23 result at the same time. Valuing IMD closer to international peers suggests the rerating has further to go.

Austral was a material underperformer in January as they revised down FY23 earnings after increasing the provision for an onerous contract with the US Navy. This specifically relates to the US Towing Salvage and Rescue Ships (T-ATS) whereby the initial fixed price contract was met with variations and modifications by the US Navy, and as such, ASB will possibly incur a loss on this program. The word possibly is used, as ASB has submitted requests for equitable adjustments (REAs) in respect of the changes to the initial contracts. As it is too early to assess whether the US Navy reimburses ASB for the higher costs of the program, the provision was taken in FY23. This announcement was accompanied by press that several republican senators in the electorate of Eastern Shipbuilders (an ASB competitor) voiced “concerns” that ASB may be the source of military secrets being leaked to the Chinese. With poor sentiment and some redemption selling, ASB is now trading on just 0.6x PB value, with net cash and an exciting pipeline of opportunities in front of them. We think it is heavily oversold, and completely unloved.

Top 3 holdings	Portfolio breakdown	
CSL Ltd	Materials	16.5%
Brambles	Industrials	13.8%
Mineral Resources	Comm Services	10.1%

Top 3 portfolio attribution	Bottom 3 portfolio attribution	
Westgold Resources	Austral Ltd	
Mineral Resources	Eureka Group	
Imdex Ltd	Nufarm Ltd	

Fund weights - diverse sector exposure



Accumulated Performance by Financial Year - Same Strategy

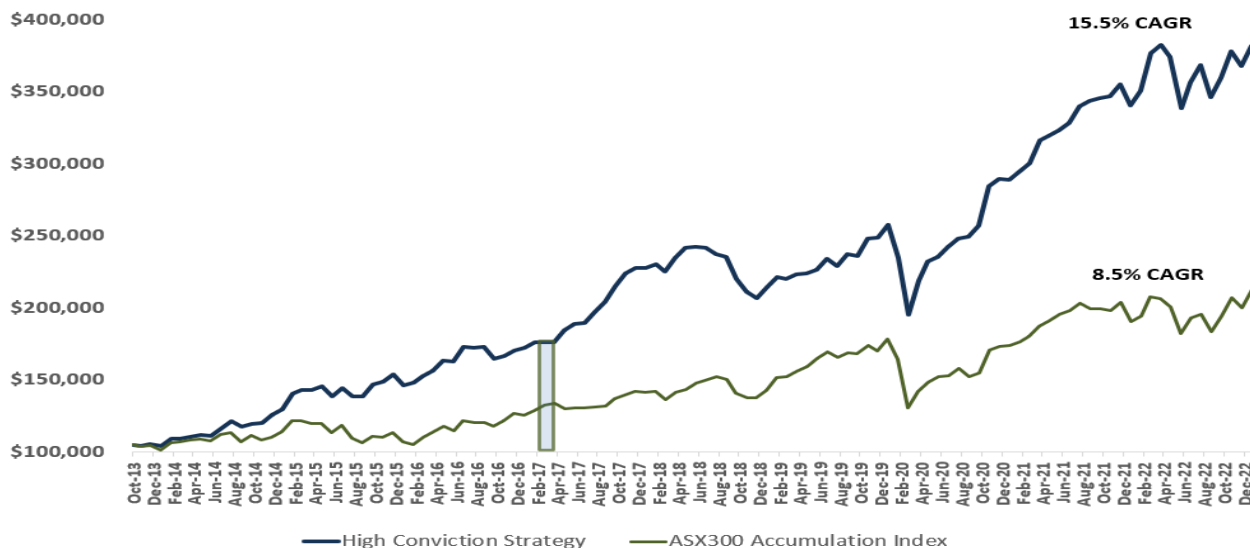
	FY14 (%)#	FY15 (%)	FY16 (%)	FY17 (%)*	FY18 (%)	FY19 (%)	FY20 (%)	FY21 (%)	FY22 (%)	FY23 (%)	Since Inc (%)
Same Strategy (after MER)	+11.2	+24.5	+17.4	+11.2	+28.3	-6.4	+3.9	+37.2	+4.8	+12.9	+15.5
S&P/ASX 300 Accum Index	+7.8	+5.6	+0.9	+9.1	+13.2	+11.4	-7.7	+28.5	-6.8	+16.5	+8.5
Value added (after MER)	+3.5	+18.9	+16.4	+2.1	+15.1	-17.8	+11.6	+8.7	+11.6	-3.9	+7.0

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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