

At 31 July 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)	1.5	3.7	1.3	8.5	16.9	9.9	12.6
S&P/ASX 300 Accumulation Index	2.9	2.0	1.0	11.1	11.9	7.5	7.9
Outperformance (after all fees)	-1.4	+1.7	+0.3	-2.6	+5.0	+2.4	+4.7

\* 27 Apr 2017

*“The Federal Reserve is not currently forecasting a recession”*  
**Ben Bernanke, January, 2008**

### Month in review

The prognostication game (forecasting) is littered with quotes in the rear-view mirror, making fools of those making the remarks. Philip Lowe is the most cited RBA governor for his temerity in suggesting in November 2021 that interest rates wouldn't rise until 2024. Now here we are in August 2023 with many pundits expecting the rate tightening cycle to be over.

A Goldilocks scenario (soft landing, neither too hot nor too cold) is the current mood de jour, given that despite the 400bp rise in Australian interest rates and the 525bp rise in the US over the past 16 months, unemployment remains low while inflation is certainly decelerating. This appears to be a favorable backdrop for equities, where globally July was a strong month for markets. We have been of the view that central bank policy won't pivot until unemployment starts weakening considerably (wage stickiness a key component of structurally higher CPI), hence the pathway for a dovish stance looks more drawn out to us. We don't profess to be macro pundits, but try to observe which way the winds are blowing. It appears to us that this Goldilocks scenario is premature given we see some components of the CPI basket (energy, food and shelter) remaining elevated or accelerating.

We remain alarmed at the deficit spending in the US, which as of June was annualising US2.7tn, just shy of the COVID pandemic response of US3.1tn (for CY2020). This acceleration of fiscal policy combined with the savings rate of households being eroded has in our mind, been the primary driver of this apparent soft landing, but neither the deficit spending nor the declining savings rate is sustainable.

The other influence in the macro landscape remains China, where to this juncture, the “re-opening” narrative has been tepid at best. We have been on the cautious side of Chinese appetite for raw materials for a long time. It would take aggressive stimulus from this point to make us reconsider that stance, which at the time of writing, has been akin to the mirage in the desert.

### Portfolio review

During the month the fund returned 1.5% relative to the 2.9% gain in the ASX300. The strong performers in April were led by Beach Petroleum, which had been derated over the past 12 months on the back of some challenging quarterly production numbers. The June quarter result showed a stronger pricing outcome than expectations, while some operational delays (Waitsia and Thylacine) have not derailed the simple story around a 50% increase in production over the next 2 years, while trading on less than 2.0x EV/EBITDA in FY25, which equates to a FCF yield of >20%. AGL was also a strong performer. On our numbers AGL continues to trade on ~5.2x EV to EBITDA 1 year forward vs an average of NZ Gentailers on ~13x EBITDA. We see AGL as an energy transition arbitrage as they generate strong cash flow from thermal assets to fund battery and renewable investments effectively replacing the lost

earnings which hopefully provides opportunity for a multi year re-rate to that of their Trans-Tasman peers.

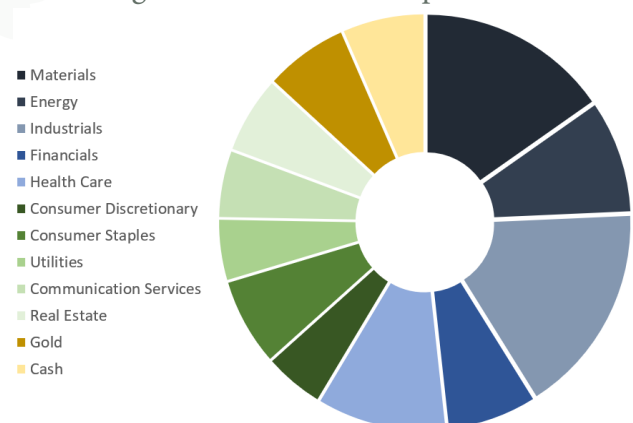
Underperformers for the month were led by Austal Limited (ASB). ASB updated the market in July regarding their US Towing, Salvage and Rescue Ships (T-ATS) contract, with a further downwards adjustment of AUD60m against that program and amid uncertainty to the timing of any reasonable equity adjustments (REA). The drop in ASB's market cap (~AUD120m) has been ~ double the extra provision of a 2 year program. I.e., the market is skeptical of the corporate activity resulting in a takeover and/or is extrapolating the underperformance in the T-ATS contract (their first steel contract) against the subsequent steel contract wins OPC and TAGOS. We don't share these concerns, believing that even if the corporate interest evaporates, the OPC and TAGOS contracts include design by ASB and have different structures than the T-ATS contract, and believe the operational efficiencies of running 2 large scale multi year contracts in Alabama, combined with the ongoing ramp up in annuity style sustainment earnings, places the FCF generation of ASB over the next 5 years as materially underappreciated.

CSL was also weaker during July after competitor Argenx released top line data of its phase III trials of Vyvgart, for use in patients with CIPD (neurological disorder involving weakness and reduced senses in the arms and legs). The trial showed a similar response rate and relapse rate to IVIG studies, thus while a competent alternate therapy, it doesn't appear to be a material game changer for CIPD patients in switching away from current IVIG therapies. Note Vyvgart has been used in Myasthenia Gravis (MG) patients for several years, with 7-8% penetration rates of market share.

Top 3 holdings	Portfolio breakdown	
CSL Ltd	Industrials	16.8%
Mineral Resources	Materials	15.3%
Suncorp Limited	Health Care	10.3%

Top 3 portfolio attribution	Bottom 3 portfolio attribution	
Beach Petroleum	Austal Ltd	
AGL Energy	CSL Ltd	
Genesis Minerals	Allkem Ltd	

### Fund weights - diverse sector exposure



### Accumulated Performance by Financial Year - Same Strategy

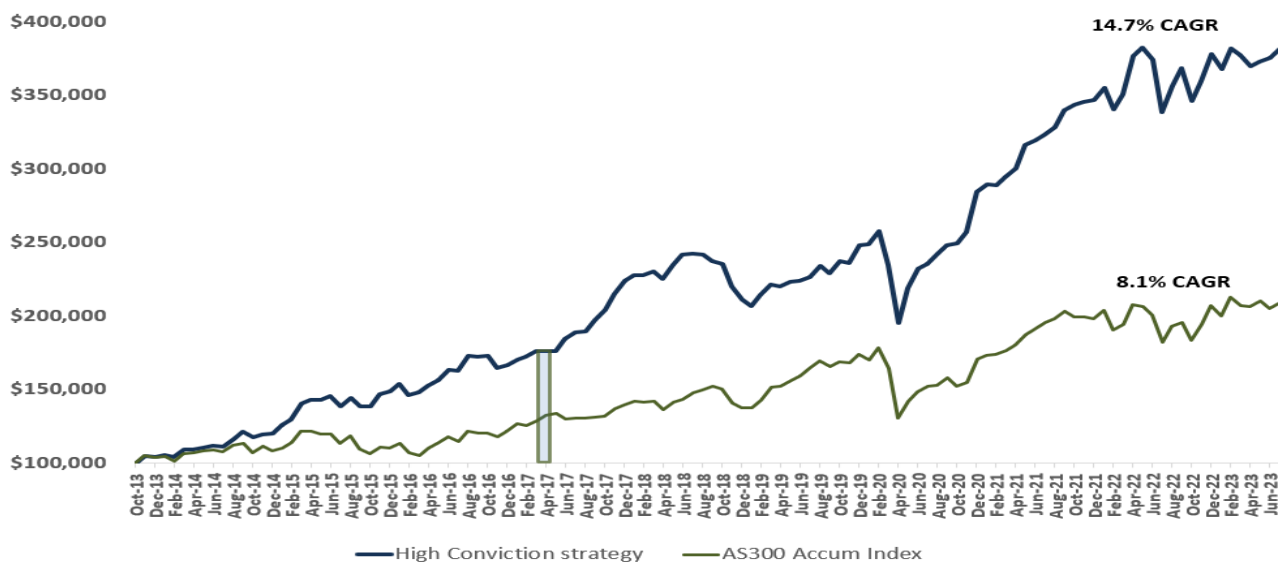
	FY14 (%)#	FY15 (%)	FY16 (%)	FY17 (%)*	FY18 (%)	FY19 (%)	FY20 (%)	FY21 (%)	FY22 (%)	FY23 (%)	FY24 (%)	Inc (%)
Same Strategy (after MER)	+11.2	+24.5	+17.4	+11.2	+28.3	-6.4	+3.9	+37.2	+4.8	+12.5	+1.5	+14.7
S&P/ASX 300 Accum Index	+7.8	+5.6	+0.9	+9.1	+13.2	+11.4	-7.7	+28.5	-6.8	+14.4	+2.9	+8.1
Value added (after MER)	+3.5	+18.9	+16.4	+2.1	+15.1	-17.8	+11.6	+8.7	+11.6	-1.9	-1.4	+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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