Chester High Conviction Fund

Fund Update

April 2025

APIR OPS7755AU
ARSN OPS7755AU

At 30 April 2025	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)	2.8	-0.1	3.0	11.0	6.4	16.0	12.1
S&P/ASX 300 Accumulation Index	3.6	-3.7	1.1	9.5	6.8	12.1	8.2
Outperformance (after all fees)	-0.8	+3.6	+1.9	+1.5	-0.4	+3.9	+3.9

* 27 Apr 2017

> *"A nation that destroys its own people is a nation without hope"*
>
> Pope John Paul II

Month in review

April was a tale of two halves with a dramatic drawdown on the escalation of tariff wars between China and the US post "Liberation Day", while the rebound over the past 2 weeks has seen a sharp recovery as markets have started anticipating a deescalation of the trade war. Both sides appear to be ready to make concessions as the economic damage unfolding appears as unnecessary as it is deeply concerning. To us, the turning point appeared to be the US 10yr bond yield breaching 4.5%. For all the posturing around tariffs, we still see the US deficit spending as the Achilles heel for markets. The US deficit needs lower interest rates to reduce the ever increasing interest expense. It appears less likely to us that DOGE has made significant inroads into reducing government waste, which leaves interest expense reduction or increased revenue from tariffs as the most likely pathways to reduce the deficit ahead of Trump adding to the burden by reducing taxes permanently.

Given that global growth looks extremely uncertain as we sit here in May, the obvious response is to see ongoing interest rate cuts, which only Fed Chair Jay Powell seems opposed to.

The other observation from this current uncertainty is the foreign capital leaving the US capital markets, whether that be the equity or bond market. For 15 years post the GFC, the US markets saw unrelenting flows into the equity market on the basis of US economic strength and earnings momentum driven by the Mag7. As this reverses, and European, Japanese or Chinese capital focuses on economic nationalism, the momentum behind the US markets (and USD) may well be on an irreversible course backwards. The unintended consequences of an event are very difficult to predict, unless the US administration's primary goal was to weaken the USD in the first place. Maybe it's 4 dimensional chess. Maybe it isn't.

Australia is well placed to benefit on a relative basis given our trade deficit with the US, leaving us as a relative safe haven in a time of extreme uncertainty. This safe haven status has been reflected in the ongoing flows into the top 20 ASX listed stocks outside the resource sector, with CBA, WES, TCL and TLS the preferred safe havens. CBA rose 20% off its early April lows to close at a record high. Again. The ASX is currently 4% higher than it was on April 2nd. Go figure. We view the recent election outcome as both surprising and a relief, given the other likely outcome was a hung parliament. A strong majority at the very least should enable some legislation to pass, and hopefully, the desperately needed productivity gains that Australia needs.

Portfolio review

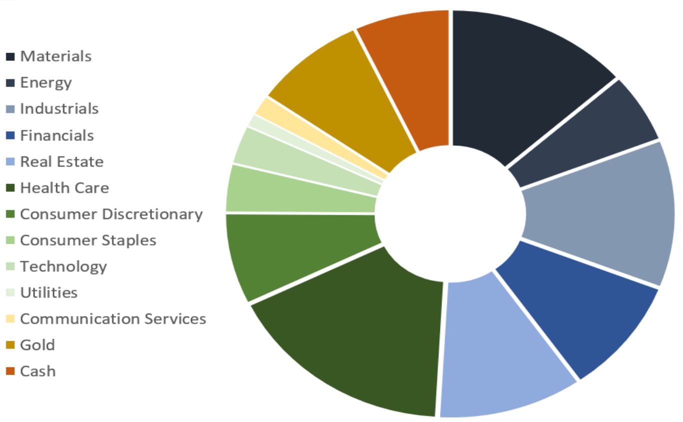
During the month the fund returned 2.8% relative to the 3.6% rise in the ASX300. Outperformers for the month were led by Austal (ASB). ASB has been a long term holding of ours as we were (too) early in identifying the large contracted revenue streams generated from the US Navy and the Australian Defence Force. Clearly shipbuilding has gained momentum from the US administrations stated ambition to bring back the industry to the US, while ASB is one of the 4 major shipbuilders in the US. The corporate appeal in ASB gained traction with Hanwha (Korean Shipbuilder) taking a 10% stake in ASB with a right to move to 20% should it gain FIRB approval. We have been reducing our position into strength. Develop Global (DVP) has required some patience, but has started performing into the commissioning of Woodlawn, the DVP owned and operated copper mine in NSW. This is a transformative event in the cash generation of DVP, and leaves it well placed to consider the capital requirements of its second project Sulphur Springs in WA, which may be funded out of operating cash flow, or a 20% project sell down of Woodlawn. Abacus Storage King (ASK) received a timely bid from the major shareholder Ki Corp at an 8% discount to the last disclosed NTA or AUD1.47 per share, after trading at a 25-30% discount to NTA since listing. We believe the board will consider a proposal closer to the NTA of AUD1.60 per share.

Light & Wonder (LNW) sold off during April on concerns over the US consumer. While revenue growth has slowed in international game sales over the first quarter, the traction in the US market leaves us optimistic that the current FY26 PER of 13.0x is not reflective of a business that generates extremely strong free cash flow. An investor day on May 20th will hopefully provide more reasons for optimism. Worley (WOR) was sold off with the broader energy sector as the worst hit sector from global uncertainty. WOR has recently reiterated earnings guidance for FY25, while ongoing uncertainty makes large energy capex programs pause until a path forward is clearer.

Top 3 holdings	Portfolio breakdown	
CSL	Health Care	16.9%
Develop Global	Materials ex Gold	13.4%
Abacus Storage King	Industrials	11.9%

Top 3 portfolio attribution	Bottom 3 portfolio attribution
Austal	Light & Wonder
Develop Global	Worley
Abacus Storage King	Mineral Resources

Fund weights - diverse sector exposure



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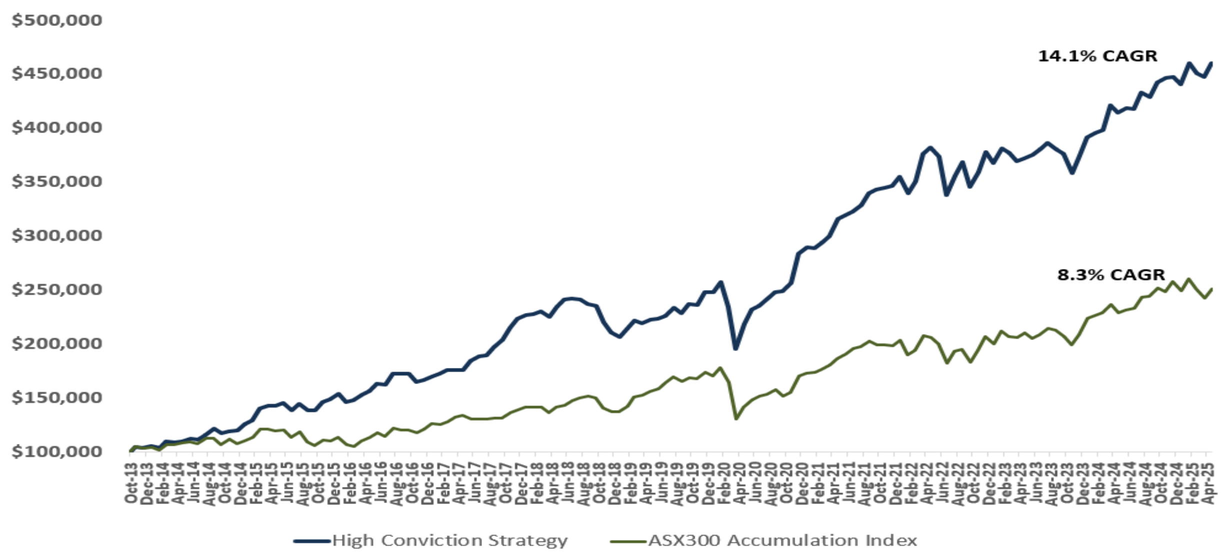
Accumulated Performance by Financial Year - Same Strategy

	FY14 (%)#	FY15 (%)	FY16 (%)	FY17 (%)*	FY18 (%)	FY19 (%)	FY20 (%)	FY21 (%)	FY22 (%)	FY23 (%)	FY24 (%)	FY25 (%)	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	+9.7	+10.3	+14.1
S&P/ASX 300 Accum Index	+7.8	+5.6	+0.9	+9.1	+13.2	+11.4	-7.7	+28.5	-6.8	+14.4	+11.9	+7.6	+8.3
Value added (after MER)	+3.5	+18.9	+16.4	+2.1	+15.1	-17.8	+11.6	+8.7	+11.6	-1.9	-2.2	+2.7	+5.8

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.

Contact Copia

1800 442 129 | clientservices@copiapartners.com.au | copiapartners.com.au

John Clothier	General Manager, Distribution	+61 408 488 549	jclothier@copiapartners.com.au
Mani Papakonstantinos	VIC/WA, Distribution Manager	+61 439 207 869	epapakonstantinos@copiapartners.com.au
Sam Harris	NSW/QLD, Distribution Manager	+61 429 982 159	sharris@copiapartners.com.au
Chris Barnett	NSW, Distribution Manager	+61 413 763 927	cbarnett@copiapartners.com.au
Adam Tweedale	VIC/TAS, Distribuiton Manager	+61 425 804 727	atweedale@copiapartners.com.au
Tony Harte	QLD, Distribution Manager	+61 407 708 109	tharte@copiapartners.com.au

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