Chester High Conviction Fund

Fund Update

July 2024

APIR OPS7755AU
ARSN OPS7755AU

At 31 July 2024	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	4.6	9.6	12.2	9.7	13.1	12.5
S&P/ASX 300 Accumulation Index	4.1	6.0	7.3	13.3	7.1	7.5	8.6
Outperformance (after all fees)	-0.3	-1.4	+2.3	-1.1	+2.6	+5.6	+3.9

* 27 Apr 2017

> *"It's tough to make predictions, especially about the future"*
>
> Yogi Berra

Month in review

That escalated quickly. 4 weeks ago we were surprised at the lack of volatility in the first half of the year, and the ongoing outperformance of technology stocks relative to the rest of the world. Whilst only clearer (to us) in hindsight, this lack of volatility was a result of the ongoing global carry trade (using Japanese bonds as a funding mechanism for gaining exposure to other asset classes). As the BOJ has been forced to raise interest rates to battle inflation, it has placed upward pressure on the Yen, while the US appears to be on the cusp of lowering rates given the weak payrolls number in July. A market that had positioned for a soft landing has suddenly had to recalibrate how quickly US data is deteriorating, and the carry trade (short JPY (bonds)/ long USD (equities)) has been unwound very quickly. The Japanese yen has rallied 12% against the USD in 3 weeks. In a risk off mood, global hedge funds are forced to sell their winners and cover shorts to ensure liquidity, which often sees a rotation occur from crowded trades in very quick time. The first week in August is exhibit A.

Of course, it's hard to ignore the ever changing US political landscape, whereby 4 weeks ago, the Trump trade (US domestic cyclicals, higher Chinese tariffs, less immigration, etc) was the seemingly obvious trade. A change in the democrats nominee to Kamala Harris has seen the polls narrow considerably, and with it, sentiment turning quickly. The Tech narrative for owning AI winners has changed from "get me exposure at any price", to "how sustainable is this investment cycle?" Volatility has re-emerged, to state the obvious.

From a Federal Reserve perspective, we had thought that the rate cycle would only start after extreme dislocation, which is now coming into sharp focus. Rate cuts are only upon us because the economy is weakening, which historically is a more challenging period for stocks. This macro thinking, while impossible to ignore, does not alter our portfolio construction framework. We look forward to reporting season whereby we get to focus on company fundamentals. While there are always hits and misses, we are encouraged by early results with Resmed (RMD) reporting strong gross margin expansion, leading to earnings upgrades.

Portfolio review

During the month the fund returned 3.8% relative to the 4.1% rise in the ASX300. Outperformers for July were led by our gold positions, led by Genesis Minerals (GMD) who announced a quarterly result that was reasonably in line with expectations. However, the investment thesis continues to centre around the trajectory of production and costs in coming years when Tower Hill, and other projects ramp-up, taking GMD production to >300kozpa at AUD1,600/oz AISC, vs 134koz at AUD2,356/oz in FY24. Whilst optically GMD looks mildly expensive on FY25 multiples, based on our modeling we view it as one of the cheaper gold plays on a life of mine NAV basis, managed by a very strong team. Westgold (WGX) delivered a strong finish to FY24 with good cost discipline. The WGX thesis from here looks towards the combined entity (merging with Karora Resources on August 1st) growing production from 400koz in FY24 towards 500koz over the next 2-3 years. The combined entity sees the Beta Hunt mine join the portfolio, which looks to be a really exciting asset with growth prospects. WGX still trades on less than 5x price to cash flow with upgrades at a gold price of AUD3,700/oz.

Long term holding Comet Ridge (COI) was the largest underperformer. With the east coast market increasingly short gas (import terminals remain likely!) and COI's net position in 408PJ (2P+2C) of largely uncontracted molecules, the Mahalo CSG project(s) is of increasing strategic importance. We continue to hold a high conviction view on COI and observe the quarterly commentary that suggested there is a data room process ongoing with "multiple parties engaged in technical and commercial due diligence... (including in relation to) corporate level transactions". It appears some holders have lost patience with COI, while we remain confident in the project economics. Uranium developer NexGen Energy (NXG) also underperformed with the uranium price down 4% in July to USD82/lb. We believe this spot price is below term contract prices and expect an announcement around contracting (and federal permitting) soon. Additionally the Canadian Government also introduced measures to approve foreign takeovers of large critical minerals mining companies only "in the most exceptional of circumstances", potentially removing an avenue of value realisation for NXG shareholders. AGL softened in July in a month where the market rallied strongly. We believe the August reporting season should be a strong one for AGL and added to the position during the month.

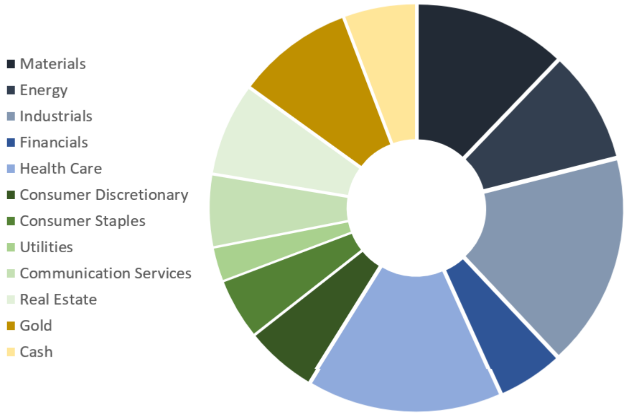
Top 3 holdings
CSL
Austal
Aurizon

Portfolio breakdown	
Industrials	17.0%
Health Care	15.4%
Materials (ex Gold)	12.0%

Top 3 portfolio attribution
Genesis Minerals
Westgold Resources
Spartan Resources

Bottom 3 portfolio attribution
Comet Ridge
NextGen Energy
AGL Energy

Fund weights - diverse sector exposure



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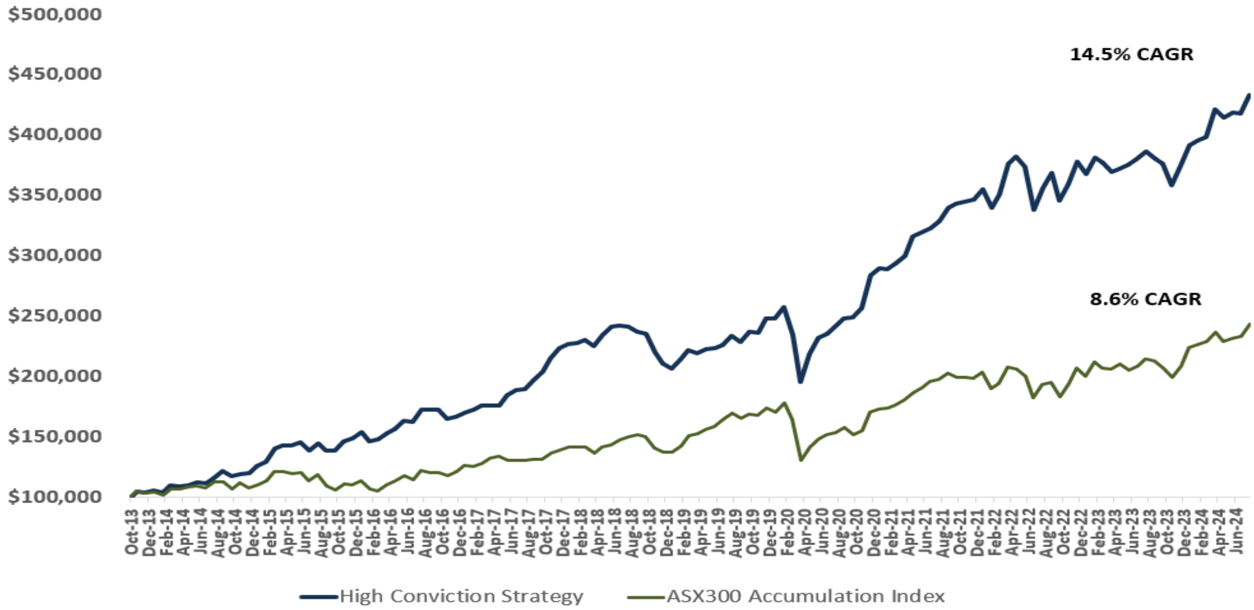
Accumulated Performance by Financial Year - Same Strategy

	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	+3.8	+14.5
S&P/ASX 300 Accum Index	+7.8	+5.6	+0.9	+9.1	+13.2	+11.4	-7.7	+28.5	-6.8	+14.4	+11.9	+4.1	+8.6
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	-0.3	+5.9

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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