Chester High Conviction Fund
Fund Update | 31 July 2019

Total returns

At 31 July 2019	1 mth %	3 mths %	6 mths %	1 yr %	2 yrs % p.a.	Incep. % p.a. (27 Apr 2017)	Incep. Cum % (27 Apr 2017)
Chester High Conviction Fund	**+3.25**	**+4.87**	**+9.02**	**-3.15**	**+11.01**	**+11.18**	**+27.01**
S&P/ASX 300 Accumulation Index	+2.97	+8.58	+18.81	+13.25	+13.97	+11.13	+26.88
Outperformance	+0.28	-3.72	-9.79	-16.39	-2.96	+0.05	+0.13

"Every 10 years or so there is a shift to new paradigms in which the markets operate more opposite than similar to how they operated during the prior paradigm. Identifying and tactically navigating these paradigm shifts well and/or structuring one's portfolio so that one is largely immune to them is critical to one's success as an investor."
Ray Dalio

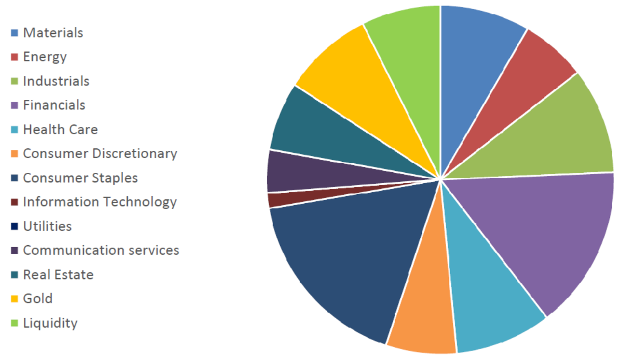
Month in review

Markets do appear to be entering a new paradigm. The sheer size of negatively yielding assets globally (USD 14Trn and counting) has various asset allocators scrambling to find risk free return. Equities and bonds have both been driven higher in the desire for some positive return where 30% of the worlds bonds derive a negative return, forcing investors up the risk spectrum. Many corporate bonds are being issued with yields below 1% which to us signifies how illogical investing is in the current climate. Australian sovereign bonds are trading below 1%, a record low, or adjusted for inflation, are actually negative in real terms.

This is theoretically positive for risk assets, as equities inevitably get compared to bonds for asset allocation, whereby equities still look very cheap on that measure with a dividend yield above 4% in Australia. We wonder though how long investors will tolerate such an enormous pile of money sitting in negative returning assets. We have read recently that a Swiss bank is charging clients 0.75% to hold their cash on amounts over USD2.0m. That is, holding that cash will cost the client USD15k per annum. Madness.

The large dispersion between Euro and Japanese bonds (negative) and US bonds (currently 1.76%) is apparently what President Trump is so focused on currently. He wants a weaker dollar to compete internationally, while Jay Powell is not cutting interest rates aggressively enough for Trump, who wants US rates as low as his major competitors. Thus the new flare up of trade tensions (from a cynical perspective) is as much about getting US interest rates lower as getting a deal done. With this race to the bottom in interest rates globally, a sustainable yield is becoming highly desirable.

Fund sector weights



Portfolio review

We look forward to reporting season whereby the focus of our attention will be the micro detail around company accounts as opposed to second guessing what Trump tweets about. In that respect, we approach August with a sense of optimism with the companies we currently hold in the portfolio. We hold very few high PE stocks, while CSL has been a long term holding and appears to continue to have industry tailwinds, hence (touch wood) we see significantly diminished risk around the funds reporting season, particularly as 60% of our fund has either reported, or sits outside the August reporting season window.

For the month of July, the fund returned 3.25%, relative to the ASX300 Accumulation Index return of 2.97%. The fund remains highly benchmark unaware, and while we have been frustrated with the past 12 months of performance, we feel our focus on absolute returns will once again demonstrate meaningful positive returns again.

The outperforming stocks were led by Gold Road Resources, which has been one of our preferred gold stocks for over 2 years. The past 6 months has seen the high quality long life asset base rewarded for its near term production growth. While it no longer looks cheap, neither do many other gold equities, unless we start factoring in a higher gold price, which remains highly possible and hence we remain predisposed to holding a portion of the fund in gold. Newcrest has been sold down over the past few weeks as the price has re-rated aggressively.

Speedcast has been the funds most disappointing investment with an initial purchase in mid 2017. We were attracted to the geographic and industry diversity of the earnings stream, with what appeared to be strong cash generation. We ultimately sold the stock on open at AUD2.30/share after the third disappointing earnings update. We ultimately backed a CEO and management team who failed to deliver. Australis continues to slide as very little interest is shown in what we see as deep valuation support of their US oil assets. We suspect it takes some corporate activity to unlock the value we see in the assets.

Top 3 holdings
CSL Limited
National Australia Bank
Macquarie Bank

Portfolio breakdown	
Consumer Staples	17.6%
Financials	15.5%
Industrials	10.0%

Top 3 portfolio attribution
Gold Road Resources
Newcrest Mining
CSL Limited

Bottom 3 portfolio attribution
Speedcast International
Australis Oil & Gas
Rio Tinto

Past Performance - SGH Australia Plus Fund October 2013 - February 2017

	2013# %	2014 %	2015 %	2016 %	2017^ %	Total return % p.a.	Total return %
SGH Australia Plus	**5.68**	**19.38**	**22.05**	**10.73**	**3.25**	**18.16**	**76.05**
S&P/ASX 300 Accumulation Index	4.75	5.30	2.80	11.79	1.34	7.62	28.53
Outperformance	0.93	14.08	19.25	-1.06	1.91	10.54	47.52

#Inception date as the 8th of October 2013 ^First 2 months of 2017. After fees calculation includes both management fees and accrued performance fees.

Source: SGH Australia Plus unit price history, Bloomberg

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.

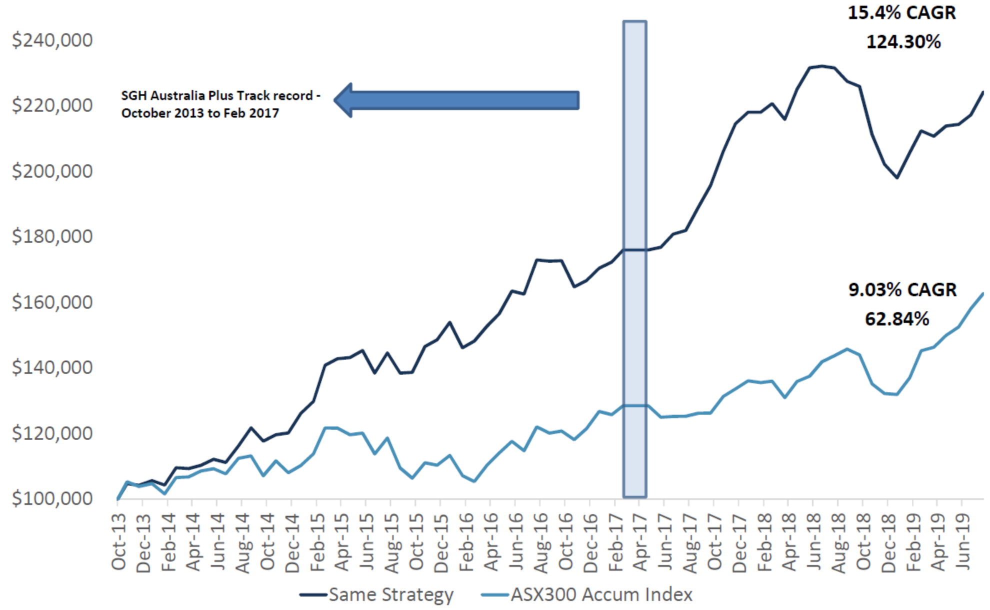
Past Performance - HSBC Australian Country Fund January 2005 - December 2009

	2005 %	2006 %	2007 %	2008 %	2009 %	Total return % p.a.	Total return %
HSBC Australian Country Funds (USD)	**18.44**	**31.25**	**35.33**	**-47.17**	**78.96**	**14.74**	**98.83**
S&P/ASX 300 Accumulation Index	15.42	31.18	27.80	-50.76	73.69	10.43	64.23
Outperformance	3.02	1.07	7.53	3.59	5.27	4.31	34.60

Source: HSBC Asset Management (formerly known as Halbis Capital Management). Performance is a combination of various institutional mandates that has been presented in a GIPS com¬pliant format.

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 HSBC Austra¬lian portfolios. Past performance is not necessarily indicative of future performance and should not be relied upon in making investment decisions. The HSBC Australian Funds were run on a benchmark aware basis with a 3% tracking error constraint, hence are not directly comparable to the Chester High Conviction Fund.

Same 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.

Fund at a glance

Inception date	April 2017
Objective	To outperform the S&P/ASX300 Accumulation Index by 5% on a rolling 3-year time frame.
Fee	95bp base fee plus a 15% performance fee based on outperformance, after fees, of the benchmark. The performance fee is subject to a highwater mark
Style	Tilt towards quality and growth, but with an emphasis on a valuation margin of safety
Investment strategy	Invests in a concentrated portfolio of companies offering outstanding long term potential. A company's weighting is mainly determined by the likelihood of a company achieving superior returns over 5 years. The fund has a predominant bottom up stock picking style overlayed with portfolio diversification and risk controls.
Active share	This is the % of the portfolio that is different from the S&P/ASX 300 Index. This will range between 70-90%
Benchmark	9S&P/ASX 300 Accumulation Index
Number of holdings	Will range between 25-40 stocks with up to 20% invested in Asia
Investment universe	Generally within the largest 300 companies listed on the ASX, plus companies listed in Asia with a focus on Asian domestic consumption. This increases the investment universe by 40-50 investible stocks
Typical company characteristics	We look to invest in companies that display sustainable earnings growth which is characterised by free cash flow growth. We look for a valuation margin of safety as capital preservation is a key focus for the fund.
Risk guidelines	• Maximum stock weight: ◦ Large Cap = 8% soft, 10% hard ◦ Mid/Small Cap = 4% soft, 5% hard ◦ Asian Stocks = 2% soft, 3% hard • No less than 25 stocks, no more than 40 • Maximum active sector position = +20% GICS tier 2. That is no more than 20% over weight one industry sector. • Up to 100% invested in ASX300 stocks • Between 0% - 20% invested in Asian stocks • Between 0% - 20% invested in Cash • Expected Tracking Error 5% – 10% (but not limited) • Derivative overlay can be taken as portfolio protection

The Chester High Conviction Fund Competitive Advantage

1. Portfolio Managers with significant experience in Asia
2. Portfolio Managers with a proven long-term track record in stock selection and a small FUM starting base
3. Absolute alignment of interest between the portfolio managers and the clients as we invest alongside our unitholders

What is the Chester High Conviction Fund?

- It is a predominantly Australian equities portfolio with the right to invest up to 20% of its assets in Asia. It will hold between 25-40 stocks
- A Concentrated, high-conviction portfolio
- Highly Index unaware, with better sector diversification than the ASX300 universe
- Focus on risk adjusted returns and capital preservation
- Portfolio managed for after-tax returns

The Chester High Conviction Fund is a differentiated Australian equity fund in that it has the right, but not the obligation to invest in the highest quality companies listed in Asia, without necessarily taking full emerging market risk. We believe our experience in Asia, having visited China over 40 times in the past 13 years, gives us a unique insight into the most influential driver of the Australian equity and property markets. The approach is long-term, applying a high conviction methodology that seeks to optimise after-tax returns to investors.

The Chester High Conviction Fund is not bound by external indices, allowing the Fund to invest only in those companies that meet its strict investment criteria. While the fund will look very different to the benchmark ASX300 index, we believe it will offer greater sector diversification and therefore, over the long term, offer more appropriate returns for the level of risk investors are exposed to.

The Chester High Conviction Fund is run by Chester Asset Management as the Investment Manager, using Copia Investment Partners as the Responsible Entity and Trustee. NAB is the custodian of the assets.

A strong focus on capital preservation

The Chester High Conviction Fund will focus heavily on stock specific risk and assesses the operational, financial and corporate governance risks of each investment on its own merits.

Why include the Asian stocks?

1. We want access to the best quality companies in Asia, at the right price. It is the choice, but not the obligation to invest in emerging companies with strong local franchises.
2. The strong rise in the sheer number of Asians entering the middle class and the growth in disposable income suggests that this is a multiyear trend that is very hard to access by restricting the investible universe to Australian listed stocks.
3. Investors appropriately diversify their portfolio by enhancing returns with a focus on the domestic demand thematic within Asia.
4. It offers Australian investors a wider opportunity set without the requirement to have money invested in Asia through a pooled vehicle.

CONTACT COPIA

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

John Clothier	General Manager, Distribution	0408 488 549 | jclothier@copiapartners.com.au
Iain Mason	Director, Institutional Business	0412 137 424 | imason@copiapartners.com.au
Mani Papakonstantinos	Distribution Manager	0439 207 869 | epapakonstantinos@copiapartners.com.au
Matthew Roberts	Distribution Manager	0438 297 616 | mroberts@copiapartners.com.au
Jude Fernandez	Distribution Manager	0414 604 772 | jfernandez@copiapartners.com.au
Sam Harris	Distribution Manager	0429 982 159 | sharris@copiapartners.com.au