Chester High Conviction Fund
Fund Update | 31 August 2020

Total returns

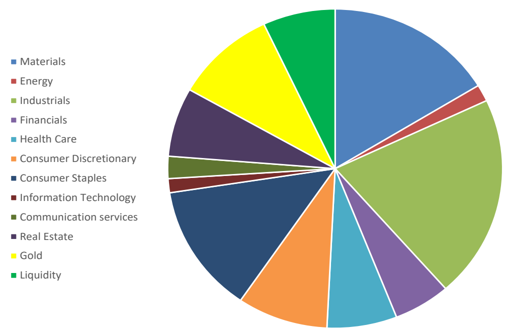
At 31 August 2020	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	Incep. % p.a. (27 Apr 2017)	Incep. % (27 Apr 2017)
Chester High Conviction Fund (after fees)	2.5	7.0	5.7	8.4	8.0	9.3	34.7
S&P/ASX 300 Accumulation Index	3.1	6.2	-4.1	-4.8	6.2	5.1	18.0
Outperformance (after all fees)	**-0.6**	**+0.8**	**+9.8**	**+13.2**	**+1.7**	**+4.2**	**+16.7**

"I skate to where the puck is going to be, not where it has been."
Wayne Gretzky

Month in review

Markets have an uncanny ability to make market participants feel foolish most of the time. We have learnt through years of investing that it's impossible to pick market tops, or bottoms for that matter. Having said that, we have just witnessed Apple (the world's largest company) rise 47% in 26 trading days, from late July to early September and Tesla rise 150% in 2 months from the end of June. This demonstrates signs of a speculative frenzy, which never ends well. History assures us of that. So without passing judgment on the quality of each stock, the sheer outperformance of technology and the most loved stocks with strong momentum, is simply unsustainable. There has been a very distinct trend of stocks that have benefited from the pandemic, through the short term boost to consumption (think JB Hi-Fi or AfterPay) where by consumers simply haven't been able to channel discretionary spend into other forms of consumption (dining, travel etc). We are convinced that the stocks that outperform going forward from this quarter, will be significantly different from the leadership shown over the past few years. The dispersion between high growth and "disruption" stocks is at record highs to what we consider to be some very competent industrial companies that have strong positions in the industries they operate in, albeit these industries will be in a recovery process over the next 12-18 months before earnings "normalise". We actually see this as a relatively unique time to be buying some genuinely cash generative companies at reasonable prices. There are many stocks that we consider to be trading at material discounts to their pre COVID potential. As the world normalises, which it will, we see significant value across a range of industries over the next 18 months. To us, this is where the opportunity lies, not where the puck has been, but where it is going to be.

Fund sector weights



Portfolio review

For the month of August, the fund returned 2.5%, relative to the ASX300 Accumulation Index return of 3.0%. Without over simplifying one month, the technology sector rose 15%, where we have little exposure, while Gold fell 8%, where we have some exposure, albeit modestly lower than it has been over the past 6 months.

By and large the August reporting season was broadly as expected for many of our companies. Eureka Group (EGH) has been a long term holding of this strategy, which has been one for the patient. It delivered a very pleasing cash flow result and in our view, remains compelling value for what is an essential service. EGH provides low cost retirement accommodation to pensioners. Their cash flows are effectively government backed, as the rent paid is straight from the pension received fortnightly. We maintain the view that EGH is materially undervalued using a range of cap rate assumptions (lower interest rates) for what is a very predictable cash generator with meaningful growth options available to it. It remains a core holding. Mineral Resources (MIN) has been another stock we have been very positive on, and has rerated very quickly on the back of both the strong iron ore price and the prospect for future growth projects. We believe MIN has a range of value accretive projects to be announced shortly. Catapult (CAT) continued its strong FY21 recovery through August by demonstrating resilience in their operating model and several key contracts awarded this financial year. Heightened cost focus through the pandemic has seen CAT deliver strong cash flow growth, while it remains a market leader in the wearable device market in the sports industry.

The gold sector saw some profit taking through August after a very strong 4-5 month period. OceanaGold (OGC) saw weakness after their US operations suffered several COVID cases, requiring them to slow down production due to limiting access to the mine site. Several high grade zones which were to be mined in CY20 will now be mined in CY21, which doesn't change the valuation, but changes near term earnings. Synlait Milk (SM1) has been a long term holding that saw weakness on the A2 Milk announcement of an investment in a South Island (NZ) processing plant, which potentially lowers the future growth prospects for SM1. We will spend more time with SM1 when they release their FY20 results in September. The liquidity position at the end of August was 7.5%.

Top 3 holdings
Woolworths Limited
Austal Limited
Aurizon Holdings

Portfolio breakdown	
Industrials	20.5%
Materials	16.3%
Consumer Staples	13.0%

Top 3 portfolio attribution
Eureka Group
Mineral Resources
Catapult Group

Bottom 3 portfolio attribution
OceanaGold
Synlait Milk
Newcrest Mining

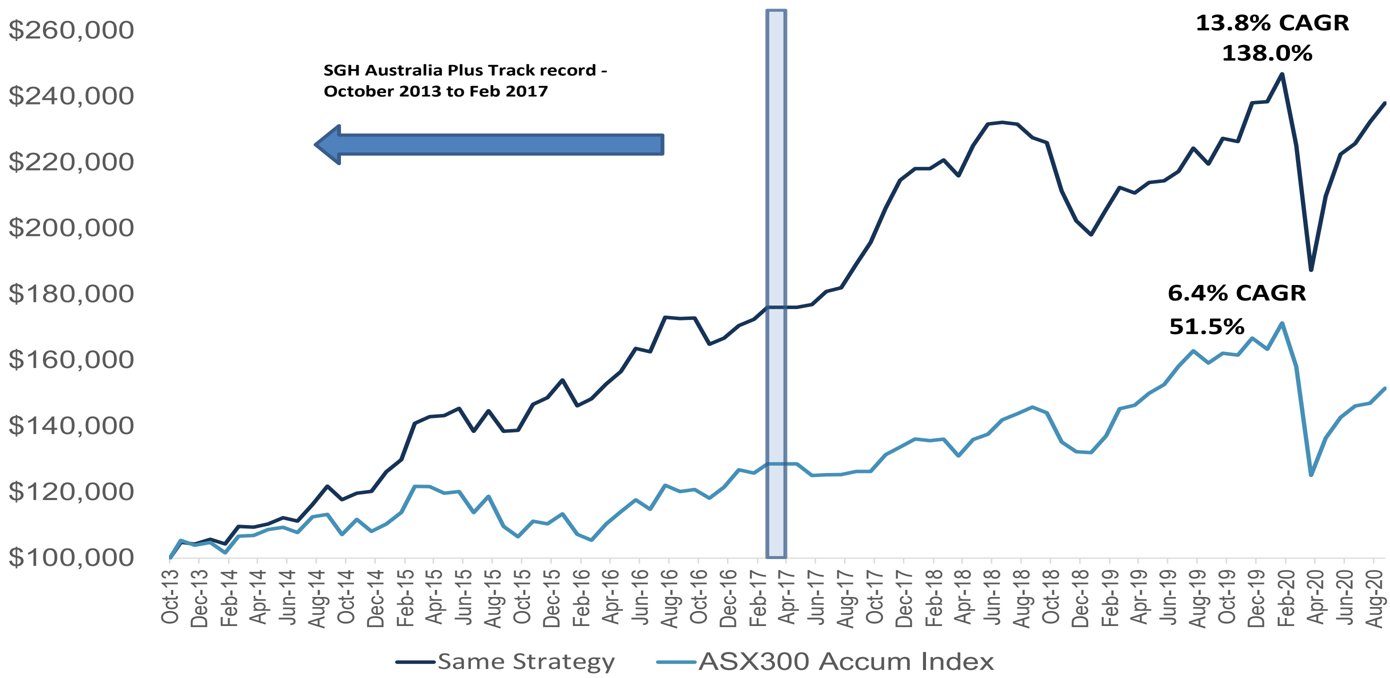
Accumulated Performance by Financial Year - Same Strategy

	FY14 (%)#	FY15 (%)	FY16 (%)	FY17 (%)*	FY18 (%)	FY19 (%)	FY20 (%)	FY21 (%)	Since Inception (%) p.a.
Same Strategy (after MER)	+11.2	+24.5	+17.4	+11.2	+28.3	-6.4	+3.9	+5.4	+13.8
S&P/ASX 300 Accumulation Index	+7.8	+5.6	+0.9	+9.1	+13.2	+11.4	-7.7	+3.7	+6.4
Value added (after MER)	**+3.5**	**+18.9**	**+16.4**	**+2.1**	**+15.1**	**-17.8**	**+11.6**	**+1.7**	**+7.4**

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.

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% before fees 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 10% 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 10-20 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% - 10% 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 or ETFs for the same purpose

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

What is the Chester High Conviction Fund?

- It is a predominantly Australian equities portfolio with the right to invest up to 10% 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 multi-year 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 | client services@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