Chester High Conviction Fund

Fund Update

November 2024

APIR OPS7755AU
ARSN OPS7755AU

At 30 November 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)	0.3	4.4	6.9	19.7	8.9	12.5	12.4
S&P/ASX 300 Accumulation Index	3.7	5.5	11.3	23.2	9.1	8.2	9.0
Outperformance (after all fees)	-3.4	-1.1	-4.4	-3.5	-0.2	+4.3	+3.4

* 27 Apr 2017

> *"Stock market bubbles don't grow out of thin air. They have a solid basis in reality, but reality is distorted by a misconception"*
> **George Soros**

Month in review

Our mind brings us back to the Chuck Prince (of Citigroup fame) who said in July 2007 "as long as the music is playing, you have to get up and dance". The music is clearly playing, emboldened by the republican sweep of both houses in the US election. While admittedly we are in a different environment than 2007, the market appears to be pricing in the best version of the next administration, while in our view, there lies significant uncertainty ahead, starting with the renewed discussion around the increase in the US debt ceiling kicking off in early January.

Growth outperformed value as a style by 4.5% in November, with momentum (ASX300) as a style, now up 33% over the past 12 months, while the inverse is true of dividend yield as a factor (explaining equity market returns), which has grown 1.1% over the past 12 months. In very simple terms, this calendar year to date has effectively been the US trade: technology (56%), financials (33%) and discretionary stocks (23%) which have materially outperform the China trade: resources (-13%) energy (-19.5%) and industrials (12%). Energy, driven by both OPEC's underutilisation of capacity and the US rhetoric of "drill baby drill" has seen sentiment sour all year. We believe some of the energy names are grossly mispriced, while admittedly they are lacking a catalyst.

The Australian Bank 1 year forward PE is trading 3.7 standard deviations above the long term average. We are yet to be convinced that the Australian economy is on such stable footing that these valuations are sensible. To us, this is the very definition of a crowded trade. The dispersion between styles has rarely been starker. It would be highly unusual historically, to see a continued unrelenting outperformance of the same factors in 2025. It's possible, but in our view, highly unlikely and comes with it significant risks of crowding and a rapid unwind should equities start pricing in a less than perfect transition. Along with the debt ceiling debate, the inauguration on January the 20th will be an interesting period, given the strong rhetoric around the Department of Government Efficiency (DOGE). The risk of a period of dislocation is likely. As unlikely as it currently appears, we do think valuation remains an important aspect to portfolio construction.

Portfolio review

During the month the fund returned 0.3% relative to the 3.7% gain in the ASX300. Telix (TLX) has been a strong contributor for the fund all year based on the profitability of their diagnostic product Illucix (prostrate cancer) with market share gains continuing. Further gains from Zircaix (Kidney diagnostic imaging) and Pixclara (Brain diagnostic imaging) are likely in 2025 with FDA approvals for a US launch pending. The addition of a small M&A bolt on targeting Fibroblast Activation Proteins (FAP) rounds out the TLX urology franchise with a focus on bladder cancer.

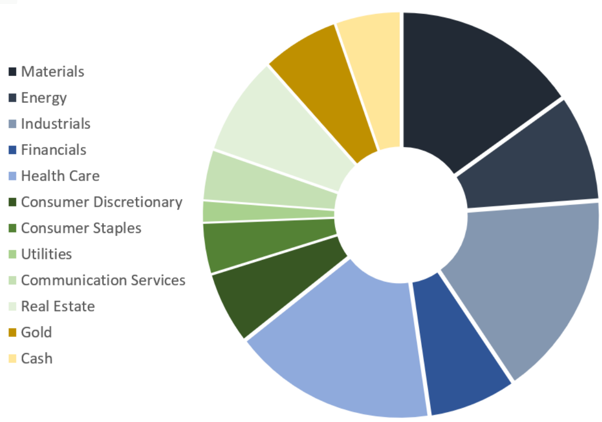
Block (SQ2) was added to the portfolio in September for three reasons. The addition of Afterpay into the Cash App ecosystem was likely to drive further customer acquisitions after a period of consolidation, while the Square payments ecosystem for retail outlets and restaurants has been streamlined with a cost out program. Whilst a small contributor at the gross profit line, Block also generates significant revenue from Bitkey, a Bitcoin wallet for storing and transacting in Bitcoin. At the time of purchase, SQ2 was trading on an FY25 PER of 15x with the potential for a re-acceleration of growth ahead of it. The prospect of financial deregulation in the US saw various US financial stocks enjoy a strong month, with SQ2 up 22%.

The underperformers for the month were led by Develop Global (DVP) which admittedly as a small cap resource company has higher volatility than other names in the portfolio. There was nothing fundamental explaining the underperformance, outside broad commodity price weakness influenced both by USD strength and the ongoing sentiment towards China. From a stock specific basis, the thesis around DVP is simple, a restart of the Woodlawn copper/zinc mine in NSW is imminent and will unlock value in the share price should the ramp up and commissioning period be successful. To that end, a site visit in early December highlighted the progress that has been made with the strong likelihood that the June restart date is bought forward, with ore processing likely in the first quarter. Austal (ASB) also experienced a soft November, again with no news flow driving a fundamental view outside broad profit taking after a strong period of performance. Our view remains the same, that ASB is materially undervalued given the order book, revenue growth, discount to global peers and discount to NTA.

Top 3 holdings	Portfolio breakdown	
CSL	Health Care	16.8%
Austal	Industrials	16.7%
Light & Wonder	Materials ex Gold	15.8%

Top 3 portfolio attribution	Bottom 3 portfolio attribution
Telix Pharmaceuticals	Develop Global
Block	Austal
NexGen Energy	Westgold Resources

Fund weights - diverse sector exposure



Chester High Conviction Fund

Fund Update

November 2024

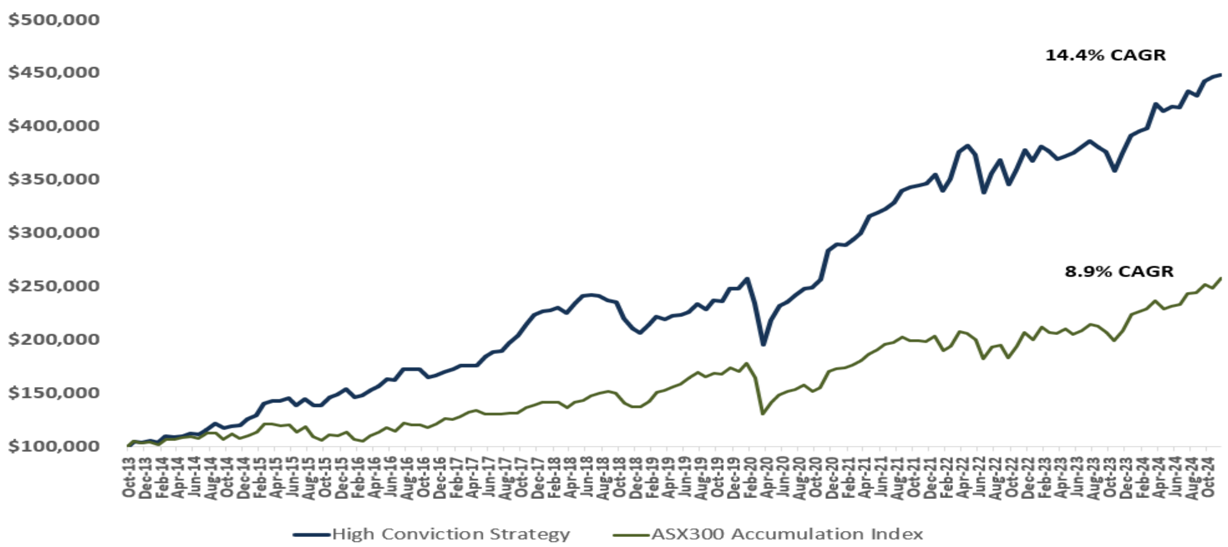
APIR OPS7755AU
ARSN OPS7755AU

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	+7.3	+14.4
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	+10.3	+8.9
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	-3.0	+5.5

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
Justin Cilmi	VIC/TAS, Distribution Manager	+61 428 153 431	jcilmi@copiapartners.com.au
Tony Harte	QLD, Distribution Manager	+61 407 708 109	tharte@copiapartners.com.au

In partnership with COPIA