Chester High Conviction Fund

Fund Update

January 2025

APIR OPS7755AU
ARSN OPS7755AU

At 31 January 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)	4.4	3.1	6.2	16.3	10.6	12.3	12.6
S&P/ASX 300 Accumulation Index	4.5	5.0	7.3	15.1	11.1	7.9	9.0
Outperformance (after all fees)	-0.1	-1.9	-1.1	+1.2	-0.5	+4.4	+3.6

* 27 Apr 2017

> **"Some people don't like change, but you need to embrace change if the alternative is disaster."**
>
> Elon Musk

Month in review

The trend is your friend. Equity markets are seemingly pricing in the best case scenario of the incoming Trump administrations objectives. We live in fascinating times. The speed at which Trump and Elon Musk are moving to reduce waste (excess spending) at the federal government level is game changing to how we think about markets. When Musk ambitiously targeted reducing the federal budget by US2Tn in 2 years we thought that appeared highly unlikely, but the waste and fraud that is being reported on suggests this reduction in spending is possible. Apparently there are 6.5m people in America that are 112 years old or older. The level of fraud across social security is only starting to be discovered. The reason it is changing our thoughts on markets is the onerous budget deficit that has to be financed by willing buyers of US Treasuries. What if the budget deficit is US1Tn next year and not US2Tn? Less supply of Treasuries changes our thesis of where the US 10 year bond might settle (lower yields). We have consistently said the US budget deficit is the biggest challenge for equity investors over the next decade (in terms of pricing structural inflation and the US dollar). Potentially we have to recalibrate what a new normal looks like if DOGE is successful. Imagine if a version of DOGE was bought to Australia, or across the OECD? Maybe Trump can be successful in executing these sweeping changes to the way the US operates.

It is very difficult to assess the shorter term fluctuations in markets given news flow around tariffs, which have the potential to be very disruptive if enacted. On one hand we have potentially inflationary forces of tariffs, tax cuts being extended, deportations and de-globalisation, while on the other hand we have the deflationary forces of DOGE, deregulation and lower oil prices (certainly a big focus of Trump is lowering gasoline prices for consumers). No wonder Jay Powell is taking a more considered approach as to whether any further rate cuts are actually needed in the US this year. We can add Deepseek to the potentially deflationary forces that have emerged this year. Without any expertise in the area, it appears to our untrained eye that Nvidia may struggle to maintain 90% gross margins on new GPU's after this technology emerged.

Portfolio review

During the month the fund returned 4.4% relative to the 4.5% gain in the ASX300. Austal (ASB) found some momentum (+24%) on the back of absolutely no new news. We have been long term holders and are somewhat bemused by the sudden momentum in the story, which in our view, hasn't changed since September when they announced General Dynamics was granting ASB US450m to build a submarine manufacturing facility near their existing assets in Mobile, Alabama. The only change in January was the change in the US administration. ASB started to run aggressively after January the 20th, while the volumes being traded suggests there are several new buyers now on the register.

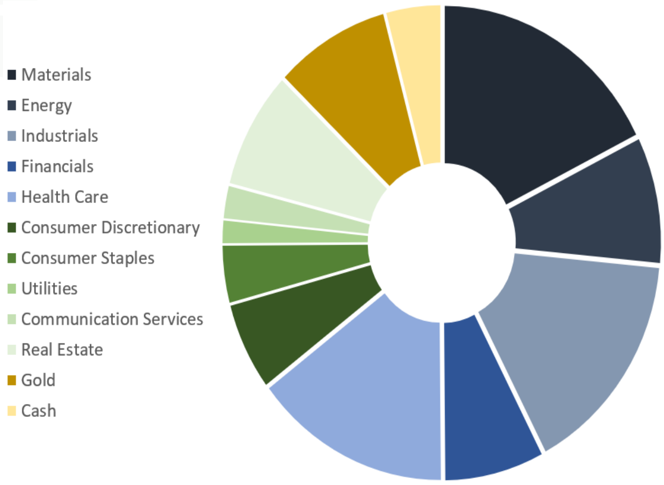
Genesis (GMD) performed strongly after both the strong run in the gold price and a strong quarterly production report. The GMD management team has a long track record of managing investor expectations well, and the continued steady production growth is being rewarded with a best in class growth profile over the next 3 years. Telix (TLX) continues to perform well on the outlook for its diagnostic products led by Illucix, which showed revenue growth of 55% in 2024, but will be joined in 2025 by Zircaix (kidney imaging) and Pixclara (brain imaging) suggesting further revenue momentum ahead.

The underperformers for the month were led by Westgold (WGX) which despite the strong gold price has delivered an underwhelming production outlook for FY25 after revising guidance at two assets. These idiosyncratic setbacks are never ideal, but after a detailed review of their issues with management, we remain confident that the gold is still in the ground (despite weaker cash flow this year) which upon successful execution, will see WGX trading on around 2x FY26 EV/EBITDA making it the cheapest exposure to the gold price of any company on the ASX. Maas Group (MGH) is a diversified Australian construction materials company with a strong presence across regional Australia. It softened over January after strong run up in the 4th quarter of 2024. They have indicated that earnings in 2025 will be skewed to the second half indicating a potential softer result in February. Orora (ORA) also weakened in January after the market digested some weaker trends emerging from offshore spirit manufacturers earnings releases. ORA has a pristine balance sheet post the divestment of OPR with excellent manufacturing facilities in France and Australia for glass (spirits and wine) and canning, while admittedly facing some cyclical headwinds.

Top 3 holdings
CSL
Austal
Develop Global

Portfolio breakdown	
Materials ex Gold	17.8%
Industrials	16.0%
Healthcare	15.8%

Top 3 portfolio attribution	Bottom 3 portfolio attribution
Austal	Westgold
Genesis Minerals	Maas Group
Telix	Orora



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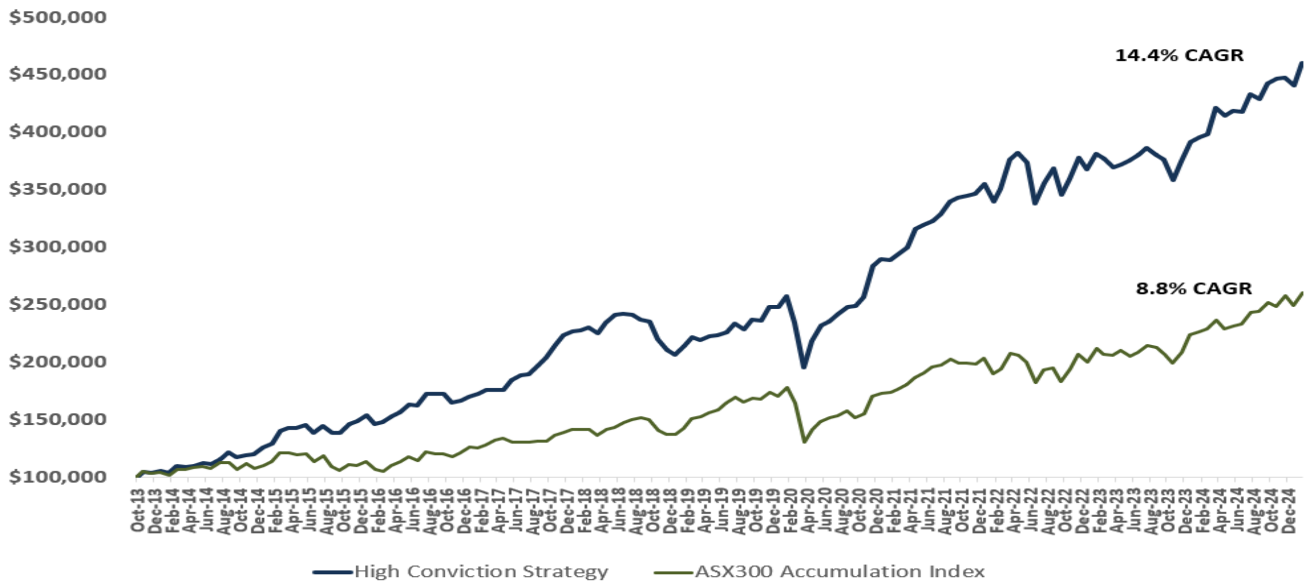
Accumulated Performance by Financial Year - Same Strategy

	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	+14.4
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	+11.7	+8.8
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	-1.4	+5.6

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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