Chester High Conviction Fund

Fund Update

October 2024

APIR OPS7755AU
ARSN OPS7755AU

At 31 October 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)	0.9	3.0	7.8	24.6	9.0	13.6	12.5
S&P/ASX 300 Accumulation Index	-1.3	2.2	8.3	24.9	7.6	8.1	8.6
Outperformance (after all fees)	+2.2	+0.8	-0.5	-0.3	+1.4	+5.5	+3.9

* 27 Apr 2017

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

Wayne Gretzky

Month in review

The above quote drives a lot of our thinking about markets and individual stocks. While current conditions drive a lot of press coverage and sentiment, realistically the most successful investors are able to separate the near term extremes (both up and down) and express a view on what is most likely to happen over the next 12-18 months. Given the outcome of the US election, we are spending much of our time considering how many macro settings will change over the next 12-18 months given the Republicans have been given a strong mandate. There is much to consider and we go through some of these issues inside. Whilst the consensus narrative is for a Trump administration to be more inflationary given tariffs on Chinese goods, we believe the eventual outcome will be more nuanced. The direction of the US dollar will drive much sentiment around the US vs rest of the world. Trump's clear priority will be America first, which is where the direction the US dollar has been since being elected. The size of the deficit spending will most likely only increase. The addition of Elon Musk and Robert Kennedy Jr (both life long democrats) into the administration suggests the Trump policies may be more centrist than his prior term, and hopefully less alarmist. It does appear that given Trump will lower taxes (driving much of the short term US sentiment), it should theoretically lower the need for the Fed to cut rates as quickly as previously forecast. The US 10 year bond has certainly moved to factor in a steepening yield curve over the past 6 weeks. We are still trying to ascertain the scope of Chinese stimulus levers, which after much promising rhetoric in September, has underwhelmed to this point, dragging commodity sentiment with it. We are of the view that China will hold back on some policies until after they are aware of the size and scope of the likely tariffs on imported goods into the US. There is still much to play out.

Portfolio review

During the month the fund returned 0.9% relative to the -1.3% fall in the ASX300. Outperformers for the month were led by Austal (ASB), where it appears the contract awarded in September for US450m by General Dynamics to build a submarine facility in Mobile, Alabama is being recognised by the market as a significant uplift in the NAV of the company, as well as securing a long term annuity stream. Westgold Resources (WGX) remains our preferred gold exposure, after merging with Karora, the combined entity has a strong pipeline of growth projects, with the Beta Hunt asset appearing more exciting with extension drilling ongoing. Realistically, all gold producers has a strong October, where we were able to lighten some of our positions into strength. NexGen Energy (NXG) had a strong month as more large scale data centre providers (Amazon) are looking to secure long term reliable electricity supply where their preferred energy source is Nuclear power. NXG has the pre-eminent tier one uranium deposit in the world that will receive federal permitting in Canada imminently.

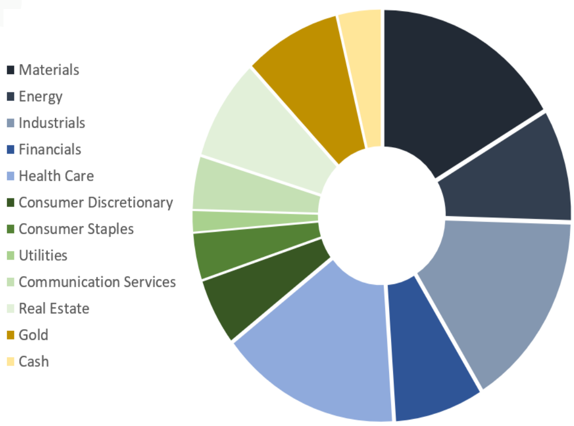
Mineral Resources (MIN) troubles have been well publicised and while we admit to having admired the value creation of founder and MD Chris Ellison we were not enamored with his actions in using company resources for personal gain. Our investment in MIN has focused on the value of their existing assets, which we believe are materially undervalued for the assets in the ground. Mining Services' value is potentially one asset of contention given Chris' influence over key relationships and tendering; however, the majority of contracts are now life of mine, internal contracts so suffer little risk of loss. We are encouraged by measures to strengthen corporate governance and believe these might be the circuit breaker for people to reconsider the true value of MIN's asset base. We are confident that in 12-18 months time the corporate governance of MIN's will be far stronger than it has been. Skate to where the puck is going. The energy asset sale to Hancock may be a window into what the next 12-18 months looks like in liberating value as James McClements and Chris Ellison end their tenures as Chair and MD. In that order. A new chairman will be tasked with the external search for a replacement of the MD. One thing that appears clear is that Chris Ellison has acted for his benefit and ironically with Chris owning ~11% of MIN his accelerated departure likely means him trying to maximise the value of that shareholding in the near term, which we are supportive of. Comet Ridge (COI) also underperformed on no specific news. We suspect some holders just lost patience with the "multiple parties engaged in technical and commercial due diligence... (including in relation to) corporate level transactions". We maintain COI is one for the patient, but remain confident the gas resource is a strategic asset in the context of a shortage of East Coast gas supply.

Top 3 holdings
CSL
Austal
Develop Global

Portfolio breakdown	
Materials ex Gold	16.5%
Industrials	15.7%
Health Care	15.6%

Top 3 portfolio attribution	Bottom 3 portfolio attribution
Austal	Mineral Resources
Westgold Resources	Comet Ridge
NexGen Energy	AGL Energy

Fund weights - diverse sector exposure



BROAD US ELECTION THOUGHTS

OBSERVATION	IMPACT	IMPACT ON AUST EQUITIES
REPUBLICAN CLEAN SWEEP - WHAT HAPPENS TO FED INDEPENDENCE?	Control of the White House, Congress and the Senate. Sentiment strong on the ability and willingness to push through legislative change and embark on deregulation and lower taxes. The key question is if Trump tries to influence or restructure the Fed.	A market friendly outcome on lower taxes and prospect for deregulation making deal flow and credit growth easier. Financials the clear winner initially, as well as consumer discretionary names.
DEFICIT SPENDING	The expectation is based on Trumps campaign pledges to lower taxes, no taxes on tips in restaurants and raise tariffs (60% to Chinese goods) suggests the US deficit only goes higher. The wildcard being Elon Musk's ambition to cut US2Tn from the US governments annual spending (out of US7Tn currently). One of the agenda items would be to get rid of green energy subsidies under the Inflation Reduction Act.	Gold continues to benefit if deficits continue to widen. Arguably Bitcoin does as well, given Trump expressed a desire to establish a national stockpile of Bitcoin. Green energy subsidies being reduced won't help the energy transition thematic and commodities exposed to this.
US BOND MARKET	The initial response of the market was to sell US bonds (yields higher) in anticipation of ongoing supply (issuance of bonds) given the likelihood of ever increasing deficits	Valuation risk remains clear danger if US 10 yr yield continues higher. Insurance companies and cash margin businesses supported (QBE, CPU etc)
FOCUS ON DOMESTIC MANUFACTURING	Largely starts with two main industries. Autos and semi conductors. Autos being a blue collar staple and is threatened by ongoing cheaper imports. Semi conductors are seen as a strategic imperative to ensure security of supply	Less relevant for Australian companies outside a broad pick up in domestic activity which would be supportive for industrials such as BXB, AMC, JHX and REH
LOWERING THE COST OF ENERGY	The offsetting policy in terms of inflation settings is Trump's desire to get oil prices lower (US50-60/bbl) which would act as a deflationary ballast to tariffs and lower taxes. Would be driven by a desire to see domestic consumption pick up, which will still be driven by the cost of borrowing ultimately.	US domestic oil production is already close to record highs, so there are far more geopolitical factors at play than just US domestic production. Trumps "drill baby drill" mantra for oil and gas is a tailwind for WOR.
GEOPOLITICAL RESOLUTION?	Ultimately Trump is far less of a war hawk than the democrats. Our base case would see a relatively quick resolution to the Russia/Ukraine conflict given Trump's propensity to be a deal maker. What happens to NATO is the key question.	Russian commodities are no longer sanctioned putting pressure on global coal and aluminium prices. Something to consider for Aust coal shipments.
FOCUS ON IMMIGRATION AND BORDER SECURITY	In our humble opinion, this was one of the critical policy errors of the previous administration. Illegal immigrants embarking on criminal activities with a toothless police force in many states was a betrayal in many instances to protect their own citizens.	It is unlikely Trump will be able to deport even a fraction of the illegal immigrants let in over the past 4 years, but will have ramifications around labor shortages and wage growth.
THE HEALTH CARE SYSTEM	Robert Kennedy Jr (RFK) has a clear mandate in the new administration to improve the health outcomes of US citizens. This is driven by a focus scientific evidence that new vaccines are safe (RFK was an outspoken critic of the introduction of the COVID vaccines and the mandated requirement to have it).	Health care companies will have a more challenging time getting new medicines approved, as well as a focus on the health economics of drugs (i.e. pricing outcomes). Would be a small headwind for pharmaceutical companies including CSL.
US DOLLAR WEAKNESS?	This is the most intellectually challenging macro piece. Vice President JD Vance spent much time talking to a lower US dollar policy to assist with the cost of manufacturing of US goods. The reality is the current strength in the USD is because it is a better alternative than all the others (EUR, JPY, CNY).	Equity markets and commodities tend to do better in weak USD environments. Long term, Trump's deficits suggests this should ultimately be the outcome, but near term USD strength headwinds persist.
DRAIN THE SWAMP	The most culturally curious area to watch will be the desire of Trump to get rid of "the deep state". Bureaucrats that never get elected but control much of the administrations activities. RFK will also be placed in charge of an investigation into Presidential assassination attempts, including JFK. Fascinating.	There are approximately 12m government employees across all layers of public service. Elon Musk suggest 3m could go, which all else being equal suggests a 2% rise in the unemployment rate. Disorder first?

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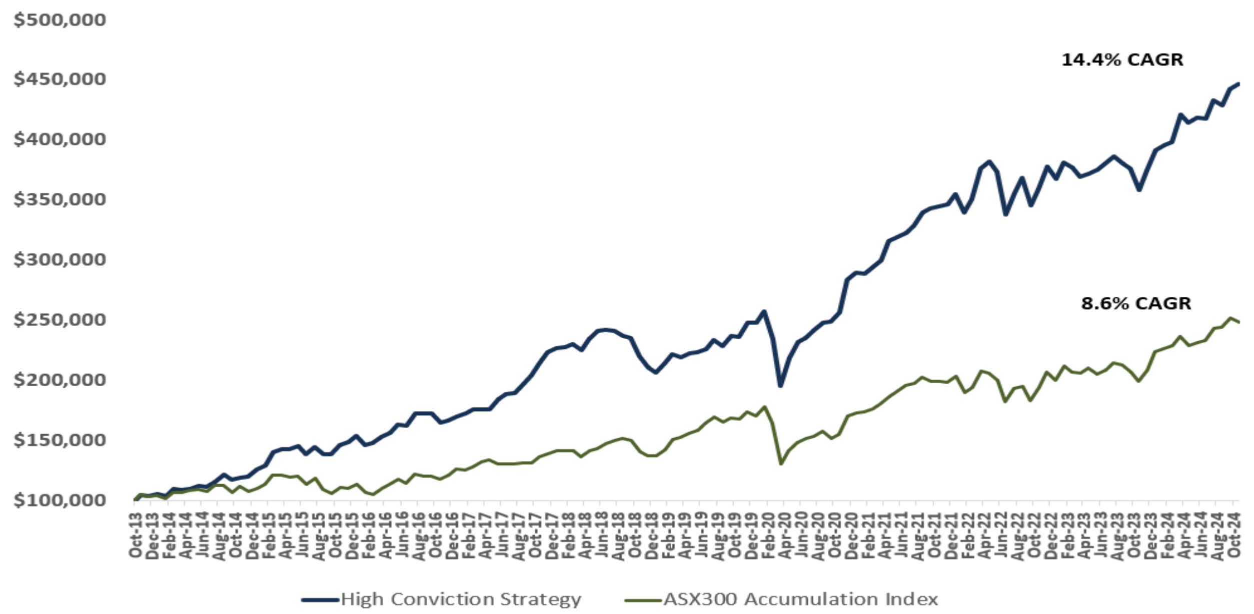
Accumulated Performance by Financial Year - Same Strategy

	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	+7.0	+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	+6.4	+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	+0.6	+5.8

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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