

## Alvia High Conviction Fund

Alvia's 'best ideas' unitised fund leverages our multi-family office investment process to deliver long term, consistent and compounding returns.

### June 2021 update

#### Markets

Equity markets were mostly stronger in June, led by the bellwether US indices which continued to reset record highs. The S&P 500 index climbed 2.2%, while the tech heavy Nasdaq surged 5.5%, led by the mega-cap tech stocks, which were back in vogue as long-dated treasury yields moderated during the month. Across the Atlantic, London's FTSE 100 treaded water, recording a 0.2% gain, whilst in Shanghai the SSE Composite backtracked 0.7%. Locally, the ASX 200 posted a respectable 2.1% gain in the lead up to the full year reporting season, which kicks off in late July. June is typically confession season for Australian companies in the lead up to the "blackout period", which is the period of time from the end of the financial year to the date in which a company releases its financial results to the market.

Commodities continued their march higher during the month, with iron ore closing up 4.3% at US\$214.55 per tonne whilst the WTI oil price notched up a 10.8% gain for June, to finish the month at US\$73.47 a barrel, adding to May's 4.3% gain. Talk about an oversupply of oil and dire price forecasts has turned into concerns of supply shortages and another "price crisis" as was experienced in 2008, when the price of crude peaked above \$140 in the shadows of the global financial crisis. The price has now recovered to levels not seen since March 2018. In early July, talks between OPEC and its oil-producing allies, known as OPEC+, broke down as the group failed to reach an agreement on production policy for August onwards. We continue to remain bullish on the prospects for oil, especially considering the significant underinvestment in new supply and its broad demand use beyond passenger vehicles, which is where a lot of the "disruption" talk is centred. The continued "risk-on" rally in long duration equities saw a sell-off in gold bullion, which declined by 7.0% to US\$1,771.60 an ounce. The Aussie dollar lost further ground against the greenback, closing at 75.2 US cents, down 2.7%.

#### Portfolio

During the month, the fund added its first private investment to the portfolio, **Pure Environmental ("Pure")**. Pure is a holding company with the sole intent of acquiring and investing in hazardous waste businesses across Australia, with the first acquisition being WestRex Services Pty Ltd ("WestRex"), Queensland's leading hazardous waste management company. The investment team is attracted to the hazardous waste industry due to its significant barriers to entry and the opportunity for Pure to expand its scale post the WestRex acquisition to provide a credible alternative to Cleanaway, the largest player in the industry.

In the listed space, the investment team added a position in **Aurizon Holdings (ASX:AZJ)** and **Lockheed Martin Corporation (NYSE:LMT)** to the portfolio. Aurizon is Australia's largest rail freight operator, transporting more than 250 million tonnes of commodities, including coal, iron ore and grain, connecting primary producers and industry with international and domestic markets. At current levels, Aurizon is providing a dividend and free cash flow yield of over 7% and 12% respectively. Lockheed Martin is a global security and aerospace company, principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. The investment team believes that the company is an above market quality business, however trades at a material discount to the broader market and its competitors, with consistent dividend, cash flows and earnings growth, a sticky customer base and an order backlog equivalent to almost 3 years' of revenue. During the month, the fund exited its positions in **Woodside Petroleum (ASX:WPL)**, **Aventus Group (ASX:AVN)** and **National Grid Plc (LSE:NG)**. Aventus and National Grid's income attributes have been replaced by our high conviction position in Aurizon.

#### Performance as at 30 June 2021 (A\$)\*

|                                 | 1-month     | 3-month     | 6-month      | 9-month      | Total since inception |
|---------------------------------|-------------|-------------|--------------|--------------|-----------------------|
| Fund (net of fees)              | 1.0%        | 5.9%        | 18.3%        | 29.2%        | 25.7%                 |
| RBA Cash Rate + 3%              | 0.3%        | 0.8%        | 1.5%         | 2.3%         | 2.8%                  |
| <b>Difference (net of fees)</b> | <b>0.8%</b> | <b>5.1%</b> | <b>16.8%</b> | <b>26.9%</b> | <b>22.9%</b>          |

\* Fund inception date is 6th August 2020. Performance figures are historical percentages, which have been calculated using end of month prices and do not allow for the effects of income tax or inflation. Returns assume the reinvestment of all distributions. For periods greater than one year, with the exception of "Total since inception", returns are annualised. Performance can be volatile and future returns can vary materially from past returns.

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#### Cumulative return since inception



#### Top 5 investments

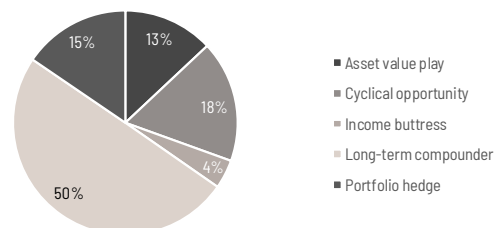
|           |  |      |
|-----------|--|------|
| TPL.NYS   | Texas Pacific Land Corporation           | 5.8% |
| PURE      | Pure Environmental Pty Ltd               | 4.6% |
| UBS8018AU | UBS Emerging Markets Equity Fund         | 4.5% |
| BRK.B.NYS | Berkshire Hathaway Inc                   | 3.9% |
| TGF.ASX   | Tribeca Global Natural Resources Limited | 3.8% |

**Top 5 total** 22.7%

Number of portfolio investments 30

Average investment weight 2.9%

#### Weighting by investment category



#### Key portfolio metrics

|                                     |       |
|-------------------------------------|-------|
| EV/EBITDA (x)                       | 15.0  |
| 3-year historical EBITDA growth (%) | 12.4% |
| 5-year median return on equity (%)  | 30.9% |
| FCF yield (%)                       | 8.5%  |
| Debt to EBITDA (x)                  | 2.6   |
| Price to book (x)                   | 7.1   |

#### Unit prices as at 30 June 2021 (A\$ per unit)

|             |        |
|-------------|--------|
| Entry price | 1.2573 |
| Mid price   | 1.2535 |
| Exit price  | 1.2497 |



## ALVIA HIGH CONVICTION FUND PROFILE

### ABSOLUTE RETURN FOCUSED

**MINIMUM INVESTMENT**  
\$50,000

**MANAGEMENT FEE**  
0.90% p.a. + GST

**PERFORMANCE FEE**  
15% p.a. of any return greater than the benchmark. (RBA cash rate + 3%)

**TIMEFRAME**  
The Fund is suited to investors with a long-term investment horizon.

**ENTRY / EXIT FEES**  
Nil

**DISTRIBUTION FREQUENCY**  
Annually, subject to availability of income.

**TYPICAL NUMBER OF INVESTMENTS**  
20 to 40

**TRUSTEE**  
Independently owned, QLD based DDH Graham.

**The Fund provides access to multi-family office investment expertise and investment ideas, without the barrier of a significant investment minimum.**

### Objective

To deliver sustainable, long term risk-adjusted returns with a focus on capital preservation.

### Structure

The Fund is an open-ended, single class, unregistered managed investment scheme structured as a unitised trust, for wholesale investors only.

### Investment Mandate

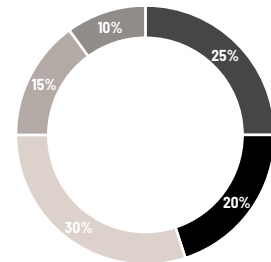
Unconstrained, incorporating listed securities, managed funds and private companies; long and short positions; all geographies.

### Investment Philosophy

The Fund's investment process is founded on the underlying principle that good investing requires a solid temperament as much as strong analysis.

Investing is principled upon long-term compounding of returns and not short-term speculative price forecasts. All of the Fund's investments are subject to a rigorous five step review process, consistent with the approach used across Alvia's five asset class model portfolios.

### Portfolio Weighting



#### Asset value play - 25%

A business that is currently priced at a material discount to its book value or net asset value ('NAV').

#### Cyclical opportunity - 20%

A business that operates in an industry with earnings that are highly correlated to commodity prices and/or economic activity, where the investment team believes there is a material mispricing relative to the current stage of the economic cycle.

#### Long-term compounder - 30%

A business that is the leader or one of the leaders in its industry that has consistently delivered growth in revenue, earnings and cash flow across the business cycle.

#### Income buttress - 15%

Investments that have a strong and stable income profile with lower levels of price volatility. These investments tend to have a lower (or negative) correlation to typical equity and equity-like securities.

#### Portfolio hedge - 10%

Investments that have a low or negative correlation to listed equities and other equity-like asset classes, to reduce the volatility of portfolio returns (e.g. gold and the US dollar).

## THE ALVIA INVESTMENT TEAM



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