

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.

December 2021 update

Markets

December saw a changing of the guard, with economically sensitive parts of the market leading gains at the expense of "long duration tech", with higher interest rates and persistently high inflation looming large for the year ahead. In the US, the broad based S&P 500 index advanced 4.4%, whilst the tech sector barometer the Nasdaq added 0.7%. London's FTSE 100 basked in the glow of being one of the best performing markets for the month, advancing 4.6%. In the Far East, the Shanghai Composite increased by 2.1% while locally the S&P/ASX 200 was around middle of the pack, closing the month 2.6% higher.

The anticipation of higher interest rates in 2022 and beyond has seen a major flight of capital out of the speculative pockets of the equity market generating little to no cash flows. To give you a taste of this rout, local market darling Afterpay (ASX:APT) has been sold off 52% from its all-time high, electric vehicle aspirant Nikola (NAS:NKLA) has nosedived 84% and interactive fitness platform Peloton (NAS:PTON) is down 78%. In an inflationary and rising interest rate environment, you need to own cash generating assets and ideally those assets that can pass on price increases to its customers. This concept is core to our investment approach.

In light of inflation concerns, commodities had a strong month. Iron ore added 18.5% to close at US\$112.50 a tonne. Oil demand across the globe is close to all-time highs whilst there are significant supply shortages, which supported a 13.6% rise in the WTI oil price to US\$75.21 a barrel. Gold added 2.9% to US\$1,827.50 an ounce, with the price of the precious metal trading in a \$1,700 to \$1,900 range since September 2020. Strength across commodities supported a 1.5% gain in the Australian dollar against the greenback, closing the month at 72.6 US cents. Bitcoin was caught by significant selling, down 19.4% to just over US\$46,300 a coin.

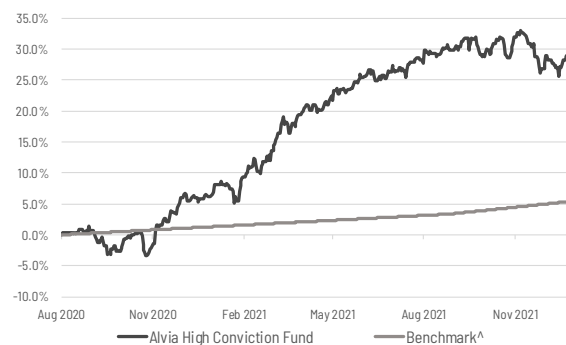
Portfolio

The fund reported a positive return for the month with gains led by global travel platform **Booking Holdings (NAS:BKNG) +14.1%**, the US's largest private hospital owner and operator **HCA Healthcare (NYS:HCA) +13.9%** and Australian and New Zealand homewares and furniture retailer **Adairs (ASX:ADH) +11.7%**.

The investment team has added a position in Amsterdam-listed **Prosus NV (AMS:PRX)**. Prosus is a portfolio holding company investing in a broad range of consumer technology platforms, including a substantial 29% stake in Tencent (HK:700), the world's largest gaming company and owner of the Weixin/WeChat social network platform, with over 1 billion monthly active users, predominantly in China.

Over a number of years, the investment team has followed Tencent and has been attracted to the fundamentals of the business, however until recent times, the company's valuation has been too rich. A circa 40% sell-off in the company's share price from its all-time high in February 2021 presented the team with an excellent opportunity to dust off our investment thesis. Despite Tencent trading at a material discount to our assessment of intrinsic value, Prosus provides us with a stake in Tencent, coupled with a portfolio of other high quality non-US technology platform investments and in our view a higher margin of safety than purchasing Tencent shares outright. These investments include leading Russian internet company VK, formerly Mail.ru Group (MCX:VKCO), Chinese travel service provider Trip.com Group (NAS:TCOM) and German-based food delivery platform Delivery Hero (ETR:DHGR).

Cumulative return since inception



Top 5 investments

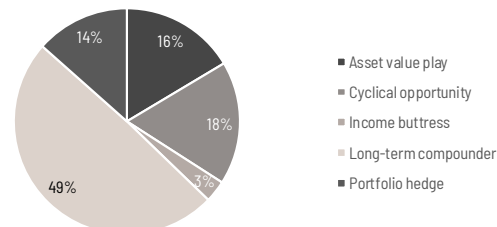
BRK.B.NYS	Berkshire Hathaway Inc	4.5%
INTC.NAS	Intel Corporation	4.0%
TPL.NYS	Texas Pacific Land Corporation	3.9%
HCA.NYS	HCA Healthcare Inc	3.8%
URW.ASX	Unibail-Rodamco-Westfield Stapled Security	3.8%

Top 5 total 20.0%

Number of portfolio investments 29

Average investment weight 3.1%

Weighting by investment category



Key portfolio metrics

EV/EBITDA (x)	13.5
Price to earnings ratio (x)	20.8
6-year historical EBITDA CAGR (%)	9.9%
6-year average return on invested capital (%)	26.2%
FCF yield (%)	6.9%
Net debt to EBITDA (x)	1.5

Unit prices as at 31 December 2021 (A\$ per unit)

Entry price	1.2868
Mid price	1.2830
Exit price	1.2792

Performance as at 31 December 2021 (A\$)*

	1-month	3-month	6-month	9-month	1-year	Inception (p.a.)	Total since inception
Alvia High Conviction Fund (net of fees)	1.2%	(0.7%)	2.4%	8.4%	21.1%	19.7%	28.7%
Benchmark^	0.5%	1.5%	2.5%	3.3%	4.1%	3.8%	5.4%
Relative performance (net of fees)	0.7%	(2.2%)	(0.1%)	5.1%	17.1%	15.9%	23.3%

* 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.

^ Benchmark of RBA Cash Rate + 3.00% per annum from inception date (3.25%) to 31 August 2021 (3.10%). From 1 September 2021 onwards, benchmark of 6.00% per annum.

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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. (6.00% p.a.)

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

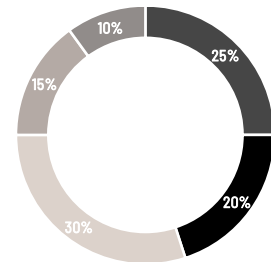
Unconstrained, incorporating listed securities, managed funds and private companies; long and short positions; all geographies.

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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