30 June 2020 – Factsheet

# Centuria LifeGoals

Centuria

## Firetrail Australian High Conviction Fund

**The Fund aims to outperform the ASX200 accumulation index over the medium to long term.**

### Investment Manager

Firetrail Investments Pty Limited

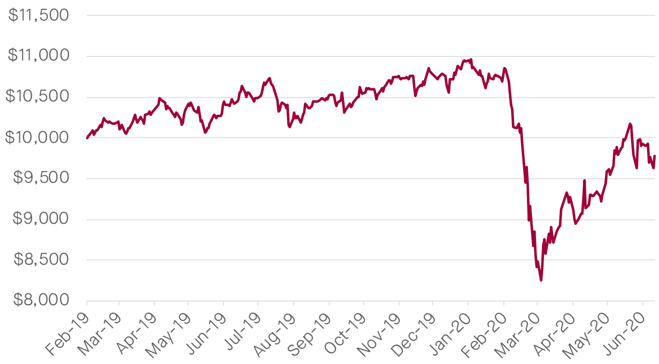
### Investment Strategy

The Fund provides exposure to a concentrated portfolio of approximately 25 Australian securities at any time. Only those securities that Firetrail's investment team has the highest conviction to generate the greatest returns will be included in the portfolio. The process employs an unconstrained approach to fundamental research to identify companies Firetrail believes offer the most attractive forecast returns based on our medium-term view.

### Target Allocation

| | |
|---|---|
| Australian Equities | 90-100% |
| Cash | 0-10% |

### Performance Graph




A $10,000 investment in Centuria Firetrail Australian High Conviction Fund made at inception is worth $9,772 as of 30 June 2020 after all fees and taxes paid within the Investment Option.

### Performance Returns

| Returns to 30/06/2020 | 1mth | 3mth | 6mth | 1yr | 2yr |
|---|---|---|---|---|---|
| Net Return (%) | -0.26 | 12.14 | -8.24 | -6.17 | N/A |

Past performance is not a reliable indicator of future performance.

### Key Features

| | |
|---|---|
| APIR Code | OVS5658AU |
| Minimum Initial Investment | $500 |
| Minimum Additional Investment Plan | $100 |
| Minimum Switching Amount | $500 |
| Minimum Balance | $500 |
| Contribution Fee | Nil |
| Annual Management Fee* | 1.13% |
| Performance Fee** | 0.61% |
| Suggested Timeframe | Minimum 5 years |

* Refer to PDS for fee breakdown

** 15% of any performance greater than the S&P/ASX 200 Accumulation index

### Fund Rating


The information contained in the Australia Ratings Analytics report and encapsulated in the investment rating is of a general nature only. The report and rating reflect the opinion of Australia Ratings Analytics Pty Limited (AFSL 494552). It does not take into account an individual's objectives, financial situation or needs. Professional advice should be sought before making an investment decision. A fee has been paid by the fund manager for the production of the report and investment rating.

**For more information contact Centuria on 1300 50 50 50 or visit lifegoals.centuria.com.au to download the PDS. Simple Flexible Versatile.**

## Fund Commentary

The Fund returned -0.26% for the month ending 30 June 2020.

Positive contributors to returns included holdings in copper miner Oz Minerals, online HR firm SEEK, and waste firm Cleanaway. Detractors included crop protection company Nufarm, not owning Commonwealth Bank, and gold miner Evolution.

**FY20 AND COVID-19 PERSPECTIVES**

The Index returned -7.7% for the year to 30 June 20. And that included a large +16.5% rally in the June 20 quarter. As has been the case in the past few years, health care and growth stocks performed well, while risky sectors underperformed.

COVID-19 has massively increased the uncertainty in the short and medium term. Economic activity is very, very weak, although trading for most industries has materially improved from the depths of mid-March 2020. The market rally, after the fall, has taken many by surprise. We stay fully invested, so do not spend our analytical resources on cash versus equities, and our investors have benefitted from the recent sharp rebound after the sharp correction.

We can observe that markets, companies, and consumers are clearly being supported by:

1.Government stimulus – direct stimulus is supporting those out of work. As the economy recovers, expect the support packages to become more targeted. For example, airlines and tourism are likely to receive more and more funding in our view.

2.Extra liquidity – Central banks have been intervening in markets to ensure they remain fully functioning.

3.Fiscal policy – Governments around the world are rolling out even more fiscal action. In Australia, it is HomeBuilder. In Europe, it is the 200bn Euro low carbon infrastructure package. Expect more in this space.

## Portfolio Positioning

1.Cyclicals

We continue to see the most value in cyclicals. Cyclicals often perform better in strong demand environments, but you can also see good earnings and share price performance when supply is rationalised. Below we highlight three key cyclical exposures in the portfolio:

a.Qantas

To start, a lack of international flying does not break the Qantas investment thesis. Firstly,international flying will happen at some stage, although is likely to be at a lower rate than prior.Secondly, over 80% of Qantas earnings have been derived from domestic flying and frequent flyer in recent years. The Qantas investment thesis has been strengthened with Virgin moving into private equity hands.Our view is that private equity will cut costs hard, but their ultimate end game is to make money. Thebest way for Virgin to make money is to move back towards their roots as a low-cost carrier. Qantas undertook a surprisingly large raising at the end of June 2020. The raising allows them to get through a very tough period, as well as restructure their cost base for the new world.

b.Worley

Worley has underperformed over the past two years as the company has faced a variety of headwinds which have all been external. Trade wars, lower economic growth, and now low oil prices have made it hard to get excited about demand for Worley's engineering services. The idea that we were at the low point of the investment cycle has proven to be incorrect given COVID-19 and has put a real dampener on investment spend. Expectations for capex budgets for oil and gas companies are down around 30% in the past 3 months. Importantly, while Worley was 80% hydrocarbons in 2014, today growth capex represents just 20% of Worley revenue. While we may see softer short-term project work, the fact remains that investment is required and many of the assets used to produce oil and gas have been underinvested in due to low investment for now five years. If you can look to the horizon, Worley and their technical engineers know about assets. As asset owners need to decarbonise as part of the energy transition, Worley is going to be very well placed.In addition, ageing assets need work to be completed. Worley is well run, cash generative and diversified. While the earnings aren't the easiest to predict,we are at a low point of the investment cycle and the multiple is heavily depressed. All in, Worley remains an attractive investment.

c.OZ Minerals

Copper has a bright demand future. It is a key metal in electronics and most notably in EVs. If all autosales were EVs, total demand for copper would rise 22%. The world needs more copper. Looking at the supply side, supply is relatively tight and grades are declining, meaning each tonne of copper mined gets more expensive. COVID-19, while impacting demand, has impacted supply just as much, if not more. Chile & Peru are number 1 and number 2 producers globally, and both countries have had on and off shutdowns to try and contain COVID-19. Lower production from key producing countries doesn't have long lasting impacts, but it does mean that inventory doesn't get out of control in the short term. Strong demand and soft supply lead to higher prices for copper in the future. Supporting our view,you just need to look at the situation of Codelco, the largest copper miner in the world (11% of global supply). The Chilean state-owned miner has to spend $40bn over the next eight years, just to hold production flat! And none of the replacement projects are economic at current copper prices. The price needs to be higher to incentivise projects in order to meet demand. OZ Minerals is one of the few pure play copper stocks globally. It is VERY well run with continued disciplined capital allocation and has proven the ability to execute on the growth opportunities such as Carrapateena.

2.Defensives

a. Amcor

A proven entity with a discounted valuation based on, what we believe is, misguided concernsaround the future of plastics. The plastics discussion is a complicated one that we have coveredmany times. Our conclusion is that the solution to plastic pollution is not to ban all plastics, but instead to reduce, reuse and recycle.

Importantly, the conversation and actions are moving that way with a lot of capital being put into recycling. Amcor generates around 85% of their sales in the supermarket channel and has a long history of disciplined capital management. Today the stock trades on 15x PE, at close to 5% yield and is also undertaking a buyback. Acompelling valuation for a solid defensive.

b.Telstra

Telstra's mobile business earnings have fallen over the past 3 years due to a price war driven by the threat of TPG entering the mobile market in 2017. The new entrant model was proven too challenging and TPG ended up merging with Vodafone. With the threat of a fourth entrant in the rear view, we believe the industry can now try and restore some much-needed profitability. Telstra has felt the pain of the price war, but the prize for the biggest loser goes to Optus. We estimate Optus are close to breakeven once you exclude one off NBN migration payments. Those NBN migration payments are set to fade over the coming year as the NBN roll out comes to an end, so building a more sustainable business must be a priority for Optus' leaders. Pleasingly, on 30 June 2020, Telstra announced an across the board price increase of $5+ to allmobile plans, with incentives to move to higher priced plans to access all that 5G can offer. The ball is now in Optus' court to follow or else the industry will be locked into a low return world for the foreseeable future. Stepping back, the shape of Telstra's earnings profile has changed a lot over 15 years. 15 years ago,we didn't know how Telstra was going to wean itself off highly profitable, but declining fixed phone revenues. Thanks to the NBN effectively buying the network, that is one less thing Telstra has to worry about. In fact, today 80% of our Telstra valuation is Mobile and long-term recurring NBN payments. In the short term, while investing in telecommunications sound defensive in an uncertain environment, Telstra is not immune from COVID-19. The two largest headwinds are losing high margin roaming revenues from international travellers as well as potential bad debts in Corporate,SME and consumer. But looking through that, Telstra looks like a very strong defensive.The dividend is sustainable, and the earnings are set to grow. It is a solid defensive that we believecan surprise on the upside, particularly through mobile earnings and a potential spin-off of infrastructure.

3.Growth

a.Seek

Seek is one of the more 'headline' expensive stocks in the market trading on 45x FY21 PE. But that does not make Seek expensive. Seek has invested heavily in the business, which we believe has meant that profits have been held back materially. We estimate earnings could be up to 30% higher if SEEK chose to harvest earnings rather than invest. In Australia, Seek is now looking to get paid for the value they add to hirers by lifting prices to recruiters which will even the playing field. COVID-19 has delayed this endeavour, but we believe it will happen at some point in the future. They are moving to more SAAS based revenues as they use their data and people to solve problems for hirers.

b.Next DC

There are not many true winners in COVID-19 in our view. Some will win this year (Supermarkets,Discretionary retail), but then may lose next year as they comp huge sales between March and June2020. Next DC is one of the true winners. Why? Becoming a customer of a Next DC data centre in Sydney or Melbourne, requires a long-term commitment. And we have seen an acceleration in the announcements of contracts by Next DC in recent months. With Data Centres one of the hottest REIT asset classes globally, and for a company offering a clear growth profile in a Tier 1 jurisdiction, Next DC is an attractive investment option.

In terms of large sector bets, the portfolio is:

1.Overweight gold – the amount of money printing going on around the world is material and shows no signs of abating as Governments do whatever it takes. Gold, as a currency alternative, has seen supply growth of just 1.5% pa over thepast 5 years versus the US which is closer to 7% pa. Thankfully, there is an outstanding stock specific story in Newcrest which is set to beat expectations on production growth and contains some of the best low cost, long life mines in the world.

Disclaimer: this commentary has been directly sourced from the Firetrail's quarterly factsheet available on their website.

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