

# BAZA HIGH CONVICTION FUND QUARTER ENDED 30 SEPTEMBER 2020



## KEY METRICS FOR SEPTEMBER QUARTER 2020

**+20.5%**

Absolute quarterly performance<sup>1</sup>

**+21.9%**

Relative outperformance vs. S&P/ASX 200 index during quarter<sup>2</sup>

**A\$1.277**

Unit price, 30-Sep-20<sup>2</sup>

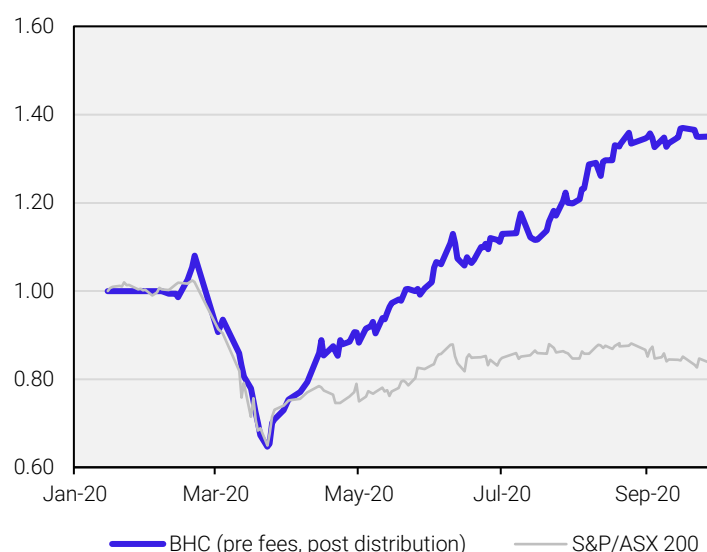
**+30.5%**

Performance since inception (Jan-20)<sup>2</sup>

## KEY METRICS FOR SEPTEMBER QUARTER 2020

BHC unit price (pre fees and distribution)	A\$1.352
Performance fees for quarter	(A\$0.075)
Unit price post fees, pre distribution	A\$1.277
Distribution this quarter	-
Unit price post distribution and fees	A\$1.277
BHC performance in quarter (post fees)	+20.5%
S&P/ASX 200 (Benchmark) performance	(1.4%)
Outperformance of BHC in quarter	+21.9%
BHC cumulative return since inception <sup>1</sup>	+30.5%

## HISTORICAL PERFORMANCE CHART



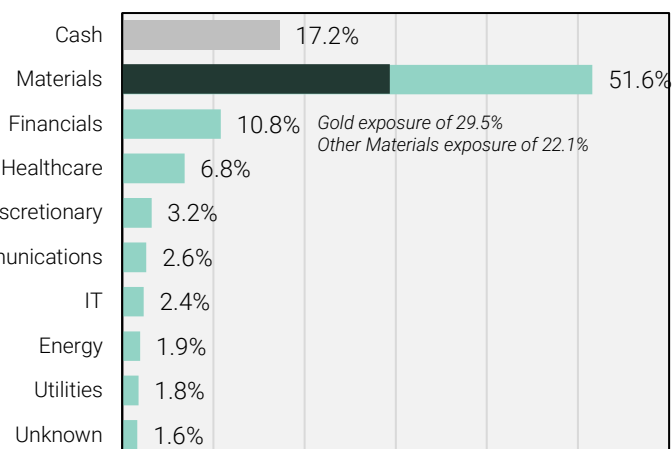
## FUND SNAPSHOT

<b>Inception:</b>	15 January 2020
<b>Structure:</b>	Unit trust
<b>Management fee:</b>	Nil
<b>Performance fee:</b>	22.5% (excl. GST) above Benchmark
<b>Benchmark:</b>	S&P/ASX 200

### Top 5 portfolio holdings (as at 30 September 2020):

Emyria Limited	4.2%
West African Resources	4.1%
BetaShares US Hedge (BBUS)	3.8%
Calidus Resources	3.8%
BetaShares Australian Hedge (BBOZ)	3.8%

## PORTFOLIO WEIGHTING



<sup>1</sup> Post fees and expenses

<sup>2</sup> Includes A\$0.023 distribution declared 30 June 2020

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## COMMENTARY

### **BHC outperformed by 22% for the quarter**

The Fund had a very strong September quarter, with an increase in unit price of 20.5% to A\$1.277 post fees and expenses. This compares to the S&P/ASX 200 index (Benchmark) which decreased by 1.4% over the same period, implying an outperformance by the Fund of 21.9%.

For the 9 months since inception in January 2020, the Fund has delivered total returns of 30.5% post fees and expenses. The top contributors to the Fund's performance for the quarter include Citadel Group (ASX: CGL), Aeris Resources (ASX: AIS) and New World Resources (ASX: NWC). Refer to page 3 for further detail on some of these investments.

### **Global uncertainties continue to drag on our resilient economy**

After rocketing +16.2% in the June quarter, the S&P/ASX 200 gave up ground to end up down 1.4% over the September quarter. The US equity indices outperformed global peers with the Dow Jones (up 7.6%) and the NASDAQ (up 11.0%) outperforming the FTSE 100 (down 4.9%).

Out of all the uncertainties we are faced with, we believe one of the most significant in the short term is the upcoming US elections. More precisely, what could happen in the event that the outcome is unclear on election night (or weeks following) and the US is thrust into a short period of heightened turmoil. We are already seeing important stimulus and support decisions de-prioritised by electoral politics. In a year of unprecedented occurrences, seeing the top echelon of power within western civilisation in disarray could unsettle even the most bullish equity investors.

Domestically, the tapering of our stimulus measures has begun. Given our government's relatively successful campaign against COVID, we believe the Australian economy will outperform its global peers. Thankfully, Western Australia has remained COVID-free and the minerals industry will pick up much of the economic slack from the east coast. However we believe global concerns will outweigh domestic strength and our equity markets will remain choppy in the short term. With this in mind, we maintained a defensive position with a cash balance of 17% and effective market hedging exposure of 21% at quarter end.

### **Short-termism is rife, and markets remain skittish**

From a micro-perspective, we are seeing continued skittishness as investors are increasingly unwilling to stare down uncertainty. Recent performance of equity raisings is perhaps the best example, with heightened selling on the first day of trade for recent deals.

### **We remain overweight gold and now overweight base metals...**

The Fund has maintained its overweight position in gold and held an overall exposure of 29% at 30 September 2020. We continued to take profits from gold exposures across the quarter, notably Aeris Resources (ASX: AIS) and Exore Resources (ASX: ERX). Recently we have added higher quality gold equities, such as Saracen (ASX: SAR), in the recent period of gold price weakness. We believe our gold thesis remains intact, with continued global stimulus and budget deficits to provide tailwinds over the coming 12-24 months.

Copper, zinc and nickel prices have increased over the last 3 months as the economic rebound in China outpaces that of other economies. We made investments in June and July across a number of emerging base metals developers, including New World Resources (ASX: NWC) and Venturex Resources (ASX: VXR), both of which hold high grade development projects in the USA and Australia respectively. We believe the long term prospects for base metals, particularly nickel, will remain strong as electrification intensifies and electric vehicle production continues to accelerate.

### **...and continue our focus on companies set to win under the new economic framework that is emerging**

It appears that COVID is accelerating the transition to a new economic framework, typified by low overall growth and an increasing "winner-takes-all" economy. As investors embrace the prospects of lower systematic growth, the importance of market share growth as a means for increasing earnings has intensified. Historically this is evident with equity market outperformance being disproportionately driven by a narrow set of winners (think of recent examples such as Apple, Amazon and Microsoft).

While the ASX lacks exposure to these 'titans', there are a number of dominant companies that are building market leadership in their respective verticals. We have made investments into a number of these market share winners, such as RedBubble (ASX: RBL) and Frontier Digital Ventures (ASX: FDV). Both are established ASX-listed companies that are hitting inflection points with rapid market share gains underway. Additionally, we have added to our existing investment in Rhipe (ASX: RHP), which is leveraged to the continued penetration of Microsoft products in Asia.

*(commentary continued on next page)*

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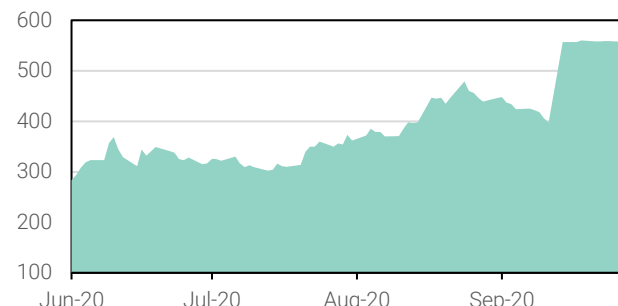


## CASE STUDIES

### **Citadel Group – pre-existing investment**

Citadel Group (ASX: CGL) is a software company that helps healthcare institutions manage people and data. The Fund initially invested in Citadel in April 2020 following its acquisition of UK-based software company, Wellbeing, which was leveraged to increasing NHS expenditure. The company was benefiting from two structural tailwinds, software and increased government healthcare expenditure. In August, it was announced that private equity firm Pacific Equity Partners will acquire Citadel in an all-cash scheme of arrangement.

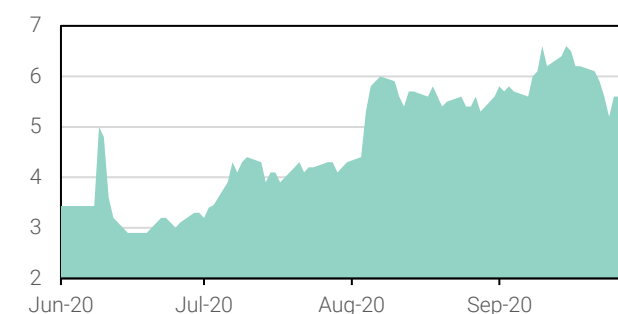
CGL share price performance (Acps)



### **Aeris Resources – pre-existing investment**

Aeris Resources (ASX: AIS) is a producer of copper and gold from its two operations in Australia, Tritton and Cracow. The Fund invested in Aeris as part of the equity raising to fund the acquisition of Cracow from gold major Evolution Mining (ASX: EVN). Given the short mine life and hedging in place (per debt terms), we formed a strict view on a target price and commenced selling in September. We have now closed out the position with a ~75% return over a 4-month period. The lack of resource and valuation upside drove our sale decision.

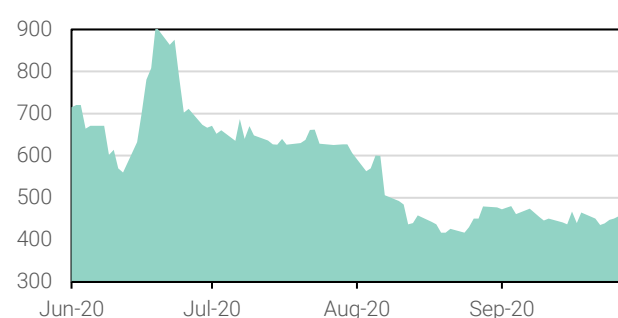
AIS share price performance (Acps)



### **Australian Ethical – new investment**

Australian Ethical (ASX: AEF) is one of the largest ethical superannuation funds in Australia. Following a recent block trade and subsequent price correction, we began accumulating on market in July and August. Our fundamental analysis points to significant upside as they benefit from two structural tailwinds; the growing importance of sustainable investing, and the increase in superannuation balances for millennials in Australia. The investment is in line with our strategy to invest in market share winners.

AEF share price performance (Acps)



### **Frontier Digital Ventures – new investment**

Frontier Digital Ventures (ASX: FDV) is the leading operator of online classified businesses (like realestate.com.au) in emerging markets. It has a collection of 15 property and car portals across markets such as Uruguay, Philippines, Pakistan, Vietnam (among many others). We expect the COVID disruption to accelerate its growth trajectory given the push online and difficulties of traditional real estate and car sales operations in emerging markets. These online portals can be highly valuable in emerging markets, particularly given they also act as off-the-plan marketers and receive commission from sales. Its largest investment, Zameen, has been valued at over A\$300m in its last funding round in May 2018.

FDV share price performance (Acps)

