

NESTOR Australia Quarterly Report 2/2022



Munich, July 2022

Nestor Australia had a weak quarter with a loss of 20.3% - the index fell by 14.6% in the process ! The financial year ended with a very slight loss of 1.2% - compared to 6.4% for the index.

At the beginning of the quarter, the fund reached a new 10-year high. The Ukraine war caused strong commodity prices due to supply fears - in the course of the quarter, however, these influences increasingly gave way to recession fears, which led to considerable pressure on commodity prices. Clearly, Russia is quite successful in circumventing Western sanctions and supplying oil and other commodities to China, India or other countries. "Dr.Copper", for example, fell by about 20% during the quarter, iron ore, Australia's most important export commodity, by about 10%. The Chinese economy is clearly stuttering - as the most important buyer of commodities, this is depressing sentiment in the sector.

As is usually the case in such market situations, small and mid caps became victims of declining liquidity, which then has a disproportionate impact on prices in weak markets.

Australia had a very specific problem in the quarter: the spread of the COVID virus. While the spread of the virus was increasingly pushed into the background in our country, this was exactly the opposite in Australia. The government had relied heavily on isolation - Western Australia as the main raw material region had even "separated" itself from the rest of Australia for a long time and totally. The opening of the borders at the beginning of April then almost logically led to considerable contagion, which hit the mining sector particularly hard. There is a pronounced shortage of labour here. In some cases, companies reported that 70% of their workforce was absent for at least a week during the quarter. In addition, the closing of the borders has led to a net loss of 88,000 Australian residents in 2021 - the first decline in population since World War II! The mining industry in particular has recruited heavily from immigrants in the past.

In general, Australia is currently facing similar problems as the rest of the developed world: there is clearly a shortage of skilled labour!

In the quarter, various stocks suffered losses of about 20% - these included Australian banks, such as Westpac, national Australia Bank and Macquarie Bank, which are underweighted in the fund, but also industrial stocks such as IVE Group (a large printing/marketing company),

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Fleetwood, a construction company, Nufarm (agricultural chemicals) and Inghams (the largest chicken producer). Commodity producing companies such as Panoramic Resources and Lynas Corp suffered even greater losses, although demand from the electric car industry for their products continues unabated and looks positive for the future.

The biggest contribution on the positive side came from Tassal Group, Australia's largest producer of salmon, which received an initial takeover bid.

The fund essentially limited itself to adjusting positions. In the uncertain market environment, care was taken to maintain an unusually high cash position of up to 10%.

At the beginning of the new quarter, the markets remain uncertain - although recently weak prices have been used to make purchases. In the small-cap space, however, we expect more positive signs to be on the horizon before a sustained turnaround can occur.

As always, timing is the hardest thing to do, so we tend to stay loyal to our promising companies!

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