EGP Fund No. 1 Pty Ltd
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30 June 2016

Investment Comparison Tables:

	Year by Year Performance			
Financial Year	**ASX200TRGU (Benchmark)**	**EGP Fund No 1 (after fees/costs)**	**Outperformance/ Underperformance**	**EGP Fund No. 1 (gross results)**
2012*	-10.46%	2.99%	**13.45%**	2.99%
2013	22.75%	32.58%#1	**9.83%**	35.07%#1
2014	17.43%	24.71%#1	**7.28%**	26.83%#1
2015	5.68%	9.04%#1	**3.36%**	9.87%#1
2016	2.13%	13.19%#1	**11.06%**	15.96%#1

* 2012 is the 15 month period from 1 April 2011 (fund inception) to 30 June 2012 (first full financial year)
#1 Assumes reinvestment of dividends

We include below a cumulative table, which we hope will demonstrate over time what Albert Einstein called ***"the most powerful force in the universe"*** – compound interest. The hope is that over time, relatively modest advantages over the benchmark will accumulate to a substantially superior overall performance:

	Cumulative (compounded) Performance			
Financial Year	**ASX200TRGU (Benchmark)**	**EGP Fund No 1 (after fees/costs)**	**Outperformance/ Underperformance**	**EGP Fund No. 1 (gross results)**
2012*	-10.46%	2.99%	**13.45%**	2.99%
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2016	2.13%	13.19%#1	**11.06%**	15.96%#1
Cumulative	39.30%	110.18%#1	**70.88%**	124.78%#1
Annualised	**6.52%**	**15.20%#1**	**8.68%**	**16.69%#1**

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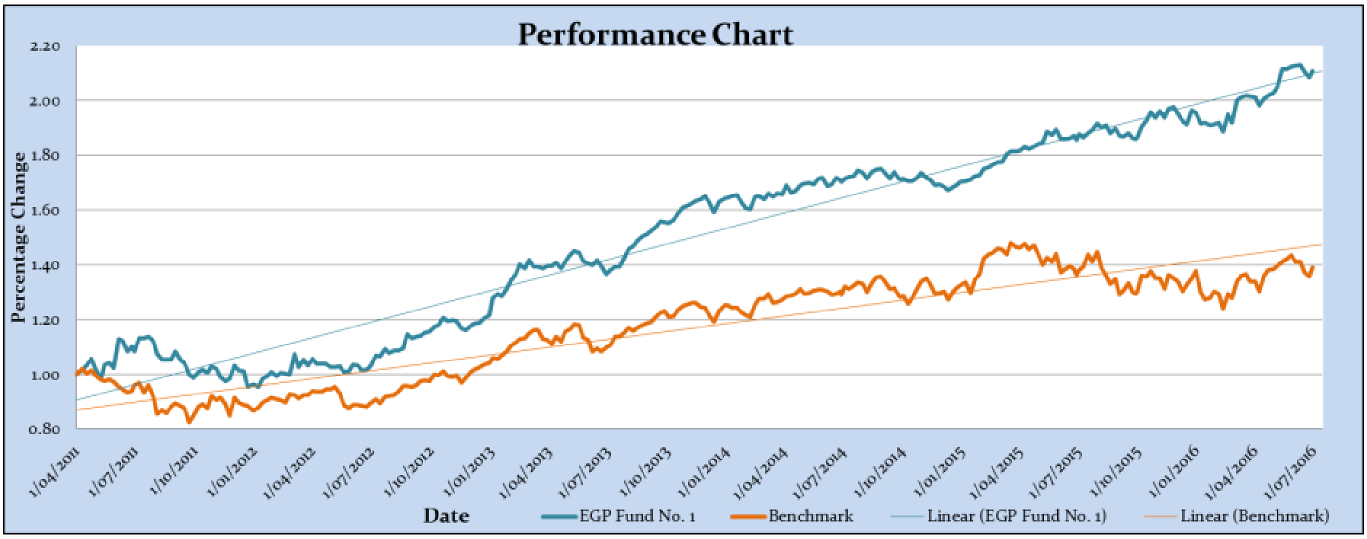

The First Thing:-

You'll notice the annual letter this year has changed substantially. Obviously, the results have migrated from the very back of the letter to the front page. One of your fellow investors, operating a much larger fund than ours, has recently acted as a mentor in respect of operational and communication aspects of your fund. He advised getting the results in front of the eyes of the investors early and not being shy about displaying what has been achieved.

For more than five full years, we've managed to deliver very top tier results for those who had the faith to invest with us as a fledgling funds management business. We have now developed into an enterprise of more meaningful scale and we are confident the results over the next five years will continue to be strong, perhaps as strong as they have been over the first five.

The General Market:-

The ***S&P/ASX 200 Franking Credit Adjusted Annual Total Return Index (Tax-Exempt)*** (hereafter referred to as '**the benchmark**') commenced financial year 2016 (FY2016, July 1st 2015 – June 30th 2016) at 50922.68 points. Including reinvestment of dividends and allowing for franking credits, the benchmark finished FY2016 at 52006.69 points.

The average Australian investing experience in the stock market during FY2016 was a gain of 2.13% including reinvestment of dividends.

The chosen benchmark over a period of years will approximate the median result of leading investment companies before fees & charges. Such investment companies are the most probable alternative investments for the majority of fellow investors when they seek exposure to equities.

The benchmark was selected in advance and represented a logical choice in our view. It covers more than $1.5 trillion in market capitalisation and over 80% of Australian listed stocks by value, it presents no pushover. After fees; nearly 80% of active managers will fail to exceed the benchmark over the medium-term. A research report was included in the FY2015 annual letter explaining this fact in greater detail.

Our Experience:-

EGP Fund No. 1 Pty Ltd (hereafter referred to as '**the fund**') commenced FY2016 at $1.57872. The fund finished FY2016 at $1.70130, after paying a dividend of $0.085714 on 31 May 2016 including franking credits. This resulted in a gain of 13.19% after allowing for all fees and expenses. The outperformance against the benchmark was our best since our first year of operation. The quality of results in FY2016 were also excellent. Valuation gains largely stemmed from our investee businesses performing as anticipated. We augmented our results with a couple of arbitrage events, and the use of options to capture some predictable trading profits. Despite another strong year, we are confident of a good performance throughout FY2017, considering the intrinsic valuation of our holdings to be at very reasonable levels. The test in this situation; if you were starting from a 100% cash position would the portfolio you develop look the same as it does today? We are happy to report that aside from a few adjustments that we expect to make in the first quarter, ours looks just as it should.

Results should be considered over the longer term, preferably 3 – 5 years. The fund has operated for five and one quarter years, we have generated 15.20% annually after all fees and expenses. The benchmark over this period delivered 6.52% annually. The 8.68% annual outperformance we have generated to date has exceeded our annual target of 3-5%. We hope to continue to deliver satisfactory outperformance measured over a reasonable period. Sufficient opportunities to deploy the modest capital of our small fund into high quality stocks at reasonable valuations are still available. If we can achieve anything like 8.68% outperformance over the next 5 years, we will be particularly pleased.

As always, fellow investors in EGP should remember that any year when the benchmark declines by 35% and the fund declines by 20% is viewed as a substantially superior outcome to one in which both advance by 15%. Ordinarily, we expect our best chance of outperformance to come in periods of substantial decline. In the event of a sharp rise, we are happy just to keep pace.

If the concept of holding an investment capable of substantial decline in the short-term makes you uncomfortable, you would be well-advised to have the majority of your wealth and investments outside of the stock market; for it is precisely the type of outperformance described above that we will be chasing. The expectation that over a reasonable period, outperformance of the benchmark will lead to very satisfactory results has borne out so far. We should also expect at least one in six periods to result in a negative return for the benchmark, remembering the fund is unlikely to be completely immune should this happen.

The fund ended the FY2016 with 26 holdings. We still think 20 - 25 holdings is the optimal number, but we may periodically hold more as we venture into some small opportunities, attempting to squeeze a little bit of extra performance. At least two of our smallest holdings will be disposed in the first few months of FY2017. Discussion post-sale will be made in the blog updates as is customary.

We discussed in the last quarterly letter our investigation of some larger and more liquid stocks. A few days after the release of that letter, we placed nearly 3% of the fund into Clydesdale Bank, which subsequently proved to be a both a very quick winner for the fund (up more than 40% in less than 3 months) and a big loser (falling sharply after the "Brexit" vote to end the year only marginally above our average purchase price).

Our unrestricted mandate is important to our overall success, although we consider ourselves primarily an investor in microcaps and small-cap stocks, we will buy anything that we feel is undervalued and likely to deliver strong risk adjusted returns.

Our top 5 holdings currently comprise 58.9% of our stock portfolio (i.e. excluding cash holdings). Our top 10 comprise 76.5% and our top 15, 89.5%. We remain well concentrated in our best ideas.

After the June 2016 investor intake, we hold about 24.7% cash. The large cash holdings are more a consequence of a very strong intake in June, rather than a dearth of good investment ideas. Cash levels aren't held at a predetermined level, though 10% has proven a happy level for us historically. If there are many good ideas, we will use up the cash. For example, cash levels got down to around 6% over the last quarter of FY2016. If there are fewer good ideas, the cash will trend higher, particularly if we continue to get strong inflows through such a period. Having the discipline to hold cash when no obvious opportunity presents is critical. There are a number of our existing holdings we intend to add to at around current prices. We also have what appear to be a number of interesting ideas we are further investigating.

Dividends:-

We paid a fully franked dividend of 6 cents per share (cps) on 31 May 2016. We have now distributed 24 cps since inception, or 34.2857 cps including the franking credits. We have had strong recent growth in funds under management, meaning the number of shares over which we spread our franking balance has grown sharply. We still have 11 months of accumulating franking credits to determine the size of our dividend in FY2017, but it would be a safer bet to assume it will be lower in FY2017 than it was in FY2016.

For a number of our investors, this will be happy news; it means that any gains we generate in FY2017 are likelier to be in the form of capital gains rather than income. We will continue to generate gains wherever we find opportunity, preferring capital gains to income. We will take whatever the best risk adjusted returns that are on offer.

We will retain our simple dividend policy unless there is a very good reason to change it. We simply return whatever franking credits are held at the end of the tax year to our investors as a fully franked dividend. Given we have investors ranging from low-tax rate SMSF's to high-tax rate individuals, we are happy to listen to any ideas about how best to deploy the franking credits. If you have a better idea than paying them out in full every year, let me know.

Simplicity:-

To the extent that it's possible, we try to be guided by advice attributed to Albert Einstein *"Everything should be made as simple as possible, but not simpler"*. Consider it the "Occam's Razor" approach to investing. If we uncover two investments that appear likely to produce the same return, we are likely to select the one that is less complex, or that appears likely to have the more stable business path to generate that return, or perhaps a superior management. We are looking for some measure that renders one option somehow simpler, or otherwise superior to the other.

The underlying simplicity and the outcomes vary greatly. Sometimes simplicity will come in the form of a high level of hard asset protection. Sometimes it will come in the form of an exceptional business model. Other times, in the quality of management, or it might be exceptional industry dynamics that make an investment relatively simple.

The out-workings of our drive for simplicity are somewhat evident in the way our results have been achieved. Over the course of FY2016, the fund sold a mere 10.7% of its portfolio. This rate of sale activity roughly equates to an average holding period for a stock of 9.3 years.

After removing arbitrage type trades, take-over offers and other short-term activities, portfolio turnover in FY2016 was actually more like 6.4%. An example of an arbitrage we made in FY2016 was with Dicker

Data, which we already owned shares in when the business conducted a capital raising in August 2015. We simultaneously purchased 65,000 shares at $1.75 in the offer, whilst selling roughly the same amount of shares at an average of $2.01 on market. An example of a takeover offer we accepted in FY2016 was the roughly 2% position we held in in Coffey, completed in February.

Since inception our average portfolio turnover has been just a little under 12% and about 10% when factoring for the types of short-term actions described previously.

This 10% long-run average equates to an average holding period of around 10 years. In truth, it is probably less than that, but because we are a concentrated investor and tend to hold out largest positions longest, the 'weighted' average will be longer than the 'simple' average.

We work extremely hard to maintain this 'simple' investment approach. Due to our historically long holding periods, we spend an exceptional amount of time and effort in deciding where our capital is best employed, constructing a portfolio that strikes a good risk/reward balance. Consider this; the monthly 'Standard Deviation' of the benchmark is 16.3% higher than it is for the fund. This is despite the benchmark holding 200 stocks and the fund averaging between 20 and 25 since inception. Satisfactory diversification can be well achieved through ownership of a great deal fewer stocks than most believe possible.

You will find almost all investors who self-describe as value investors will pay lip-service to their 'long-term view' and their 'buy and hold' mentality, they may even talk about Warren Buffett's famous '20-slot punch-card' investment analogy. Before you buy into their talk, ask what their annualised portfolio turnover is. In our view, anyone averaging more than 25% annually over a number of years is probably too skittish to be considered a true value investor.

<u>Ch Ch Ch Changes Reprised:-</u>

As mentioned in the last quarterly report, there is much ongoing change in the operation of your fund. We have now established our modest new office space in Bligh Street. With this settled, we can shift focus to other ways to improve our operations.

The next meaningful change will be in terms of the way we communicate with you. I have written a weekly blog since inception, inclusive of tomorrow's update, these will now number 274. Trimming back on the amount of time expended writing these weekly missives will result in more time to focus on the things that add value to your investments. To be sure, collecting my thoughts weekly has had a value all its own, even if the blogs weren't always directly investment related. A big part of the reasons for writing updates weekly was to introduce in a fairly personal way the individual to whom you would be entrusting your savings when you decided to invest in the fund.

A re-reading of the first 274 weeks' worth of entries should be more than enough for prospective investors to get a sense of their fund manager. As such, we will now be moving to monthly email updates and twice monthly blogs.

The first such update will be appended to this letter, so fellow owners can familiarise themselves with the format in which we will report monthly results from July.

You will notice the inclusion of some industry standard risk-metrics such as the Sharpe Ratio, the Sortino Ratio and the percentage of positive months have appeared. If you have been a regular reader of our blogs and letters, you will be aware that we don't put a lot of stock in the value of these metrics, but as it happens, they are very strong for the fund and prospective investors sometimes need to satisfy themselves using industry standard risk-measures. For this reason we will provide them. We do after all, hope to continue to grow our investor base and bring what we consider to be a unique investment product to a broader audience.

The other major change being made in parallel with a switch to monthly reporting is a switch to monthly applications/redemptions. This will suit some investors wanting to make regular contributions, and soothe the concerns of some, for whom quarterly redemptions seemed less liquid than they would prefer. As always, the appropriate forms will be made permanently available on the 'Reporting' tab of the website, or will be made available on request.

Audit and Member Audit:-

Our Member Audit for the June 2016 results will commence shortly, with our Member Auditor receiving the same information as our external auditor contemporaneously. Now that we will be releasing a monthly update, the Member Auditor findings will be released when they're available, most likely in the August update. You will of course receive your full set of audited accounts once they're ready, as usual.

We have a volunteer for the December 2016 and June 2017 Member Audits. We are happy to take your name if the Member Audit sounds like something you would like to be part of. If you are not from an accounting or finance background, you don't need to exclude yourself, or be concerned that it will be especially difficult. The calculation of the sum value of our assets divided by the total number of shares on issue is actually a relatively simple figure to arrive at. The hard part is in trying to make sure that figure is higher every year!

Let me hear from you regarding any questions you may have on any aspects of this letter or anything else regarding the fund that you would like to know.

Best Regards,

Erik A. (Tony) Hansen

Disclaimer: the content of this letter should not be relied on as financial advice. Where numbers are provided, every effort was made to ensure their accuracy. Do your own research and seek financial advice where appropriate.

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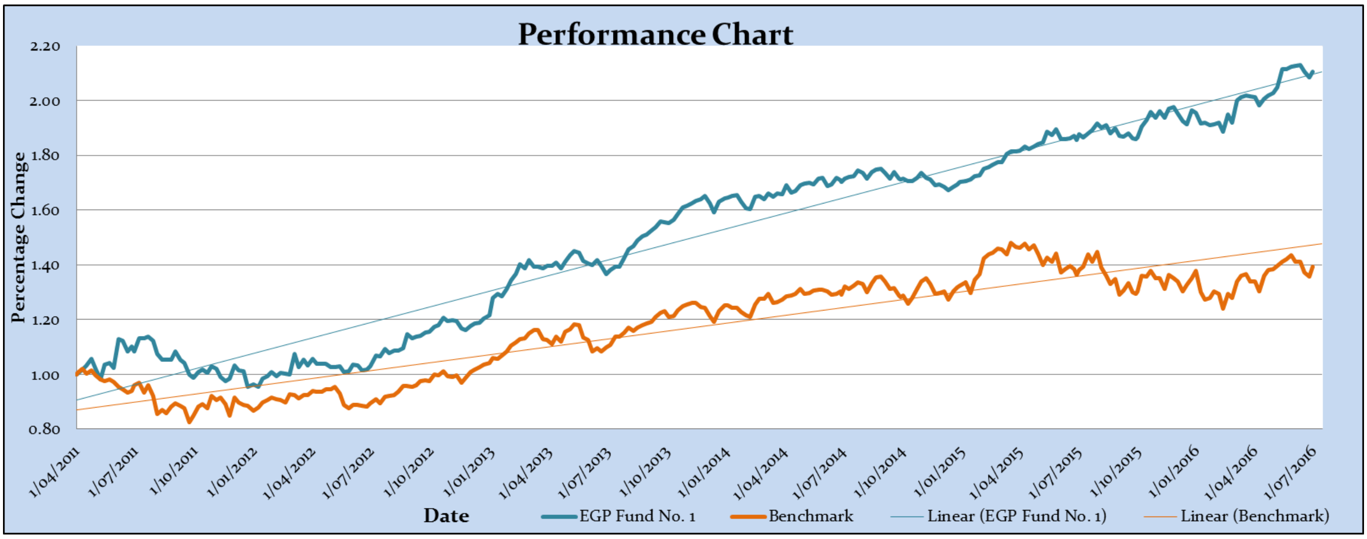
EGP Fund No. 1 – 30 June 2016

EGP Fund No. 1 Pty Ltd is an unconstrained investment company focused on owning Australian listed businesses. It targets 3 – 5% outperformance of Australia's preeminent ASX200 index over the long term. Managed by a performance orientated co-owner, we run a portfolio that is genuinely different. The sole objective is to deliver the strongest possible risk adjusted returns. The fund manager has their entire investable asset base in the fund, meaning focus on risk is unusually intense.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
FY11										2.0%	0.2%	6.0%	8.39%
FY12	3.4%	-3.3%	-9.0%	3.5%	1.2%	-6.8%	4.7%	-0.8%	5.7%	-2.9%	0.9%	-0.5%	-4.98%
FY13	4.6%	5.0%	2.3%	3.2%	-1.4%	3.3%	7.7%	5.9%	0.5%	1.2%	0.2%	-3.5%	32.58%
FY14	4.5%	5.4%	3.3%	3.5%	1.9%	0.3%	-0.7%	0.4%	1.1%	2.0%	1.4%	-0.6%	24.71%
FY15	1.9%	0.0%	-1.4%	0.4%	-2.0%	1.2%	1.3%	2.9%	2.4%	1.3%	1.0%	-0.2%	9.04%
FY16	3.2%	-2.4%	-0.6%	4.2%	0.9%	0.0%	-2.0%	0.3%	4.9%	0.6%	4.8%	-1.0%	13.19%



The month of June 2016 will likely be forever defined by "Brexit". There is little we can write that will add much value over and above the reams of commentary that have been written in the mainstream media.

The upshot of a volatile month is that we have shown a decline of 1.0% in underlying asset values over the course of June. This was considerably better than the 2.9% decline of our benchmark.

The only business we own that is likely to see any meaningful consequences out of "Brexit" is Clydesdale Bank (CYB.AX). It was driven down from highs over $5.80 to under $4 per share in the days after the vote, it stabilised somewhat by the end of the month to finish at $4.17. In our view, the likely main difference to Australian based shareholders is the conversion of the earnings from a newly weakened Pound into AU$. The fundamental cost-out/improved technology story remains. There is obviously a somewhat increased risk of recession or some other financial instability in the United Kingdom, but we actually took the opportunity to add to our holding during the market dislocation, with the expectation that the path we expected our investment in Clydesdale to take will be only mildly interrupted by this unusual event. The deposit base and loan base remains substantially Northern UK based, in our view this means the risks to Clydesdale are nothing like those faced by larger UK based banks with more meaningful EU integration and operations such as Royal Bank of Scotland (RBS.L)

SRG Limited (SRG.AX) was our best performer in June, advancing by over 30% after little more than an announcement confirming for the first time in a few years, there would be no major write-downs or project issues, and that they take good momentum into FY17. Anything with even modest exposure to mining services has tended to rally sharply if they can indicate that a bottom may have been found in the revenue declines the sector has experienced over the past few years. There is value in the sector, but we tread with extreme caution.

Fund Features		Portfolio Analytics	
Min. initial investment (retail)	$10,000 (qualifying)	Sharpe Ratio[1]	**4.40**
Additional investments (retail)	$1,000 increments	Sortino Ratio	**1.81**
Min. initial investment (Wholesale/Sophisticated)	$100,000 (qualifying)	Annualised Standard Deviation	**10.39%**
Additional investments (Wholesale/Sophisticated)	$10,000 increments	Largest Monthly Loss	**-9.0%**
Applications/redemptions	Monthly	Largest Drawdown	**-12.0%**
Distribution	Annual (31st May)	% Of Positive Months	**73.0%**
Management fee	0%	Cumulative return[2]	**110.18%**
Performance allocation	20%	1 year return	**13.19%**
Auditor	True Elite Business Services	3 year annualised return	**15.46%**
Custodian/PB	Interactive Brokers LLC	Annualised Return Since Inception	**15.20%**

1 Sharpe and Sortino Ratios calculated using the Monthly Benchmark ASX200 Franking Credit Adjusted Annual Total Return Index Tax-Exempt

2 Return is net of all fees and costs and assumes reinvestment of dividends

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