

EGP Fund No. 1 Pty Ltd FY2013 (Q3) Performance Letter



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First Three-Quarters of Financial Year 2013:

The general market:-

The *Standard and Poors ASX200 Total Return Index* (hereafter referred to as ‘**the benchmark**’) commenced FY2013 at 31,904.52 points. Including reinvestment of dividends, the benchmark finished the first half of FY2013 (July 1st 2012 – March 31st 2012) at 40,160.92 points.

This means that the investment experience of the Australian investing public in the stock market generally in the first 9 months of FY2013 was a gain of 25.88%. That figure of course excludes management fees and costs which on average would trim between 1.5 to 2 percentage points off such a result (annually). As I have said previously, I believe this benchmark over a period of years will approximate the results of leading investment companies (before fees & charges). Such investment companies are the most probable alternative investments for the majority of fellow EGP investors.

I noted in the FY2013 half year letter that the Small Ordinaries Total Return would also make a good alternative benchmark, given we predominantly hold small companies. This index continues to meaningfully lag the ASX200, so you are getting better value presently by our selection of benchmark.

As I have said consistently, a yardstick should be established prior to commencement. The benchmark we compete with represents the most logical choice. It covers about \$1.2 trillion of market capitalisation and about 80% of Australian listed stocks (by value). The only other indices representing the Australian stock investment experience nearly as well is the All Ordinaries (Total Return) index. As I have noted regularly in my weekly writings the chosen benchmark presents no pushover and I estimate that after fees, at least 80% of equities focused investment funds will fail to exceed the benchmark over the medium-term.

Our experience:-

EGP Fund No. 1 Pty Ltd (hereafter referred to as ‘**the fund**’) commenced FY2012 at \$1.02993. The fund finished the third quarter of FY2013 (July 1st 2012 – March 31st 2013) at \$1.39527, for a gain of 35.47%. There is no performance fee payable at the quarterly periods, though if the result were to remain constant, with no change in either the fund or the benchmark in the final quarter, the fee earned would amount to 1.69% or 20% of the 8.44% outperformance generated, the tables below will make the consequences of this clear.

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In the first 2 full years of operation, we have managed to generate results that have exceeded my expectations. After performance fees we have delivered 18.12% annualised return to our holders, which amounts to an 11.96% outperformance annually of the benchmark (6.16% annualised). This is meaningfully better than the 3 – 5% outperformance we state as our target in our ‘Investment Principles and Shareholder Guidelines’ documentation. We are hopeful of providing continued above average results long into the future.

I have made this comparison before and expect to do so in every report so it will not go unheeded, but a year when the benchmark declined by 35% and the fund declined by 20% would be viewed by myself as substantially superior year than one in which both advanced by 15%. If this concept 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 this type of out-performance we will be chasing.

Performance Tables, instructive for comparison:

Year by Year Performance			
Australian Financial Year	S&PASX200(TR)	EGP Fund No 1 Pty Ltd (A-Shares after performance fees)	EGP Fund No. 1 Pty Ltd (gross results)
2012*	-10.46%	2.99%	2.99%
2013 (first ¾)	25.88%	35.47%	38.32%

* 2012 is the 15 month period from 1 April 2011 (fund inception) to 30 June 2012 (first complete financial year)

I will also include a cumulative table, which I hope will demonstrate over time the force Albert Einstein called “the most powerful force in the universe” – compound interest. My hope is that over time, small advantages over the benchmark will accumulate to a substantially superior overall performance:

Cumulative (compounded) Performance			
Australian Financial Year	S&PASX200(TR)	EGP Fund No 1 Pty Ltd (A-Shares after performance fees)	EGP Fund No. 1 Pty Ltd (gross results)
2012*	-10.46%	2.99%	2.99%
2013 (first ¾)	25.88%	35.47%	38.32%
Cumulative	12.71%	39.53%	42.46%
Annualised	6.16%	18.12%	19.36%

* 2012 is the 15 month period from 1 April 2011 (fund inception) to 30 June 2012 (first complete financial year)

I have consistently emphasised the importance of relative results. I have also stated in previous communications, my expectation that we are far more likely to outperform the benchmark in sharply declining years than in sharply advancing ones. This has been my experience as an investor prior to starting the fund and I expect it will continue to be so, as my methods remain basically the same. The reason for this is what I like to think is a conservative investment philosophy. In my view, our holdings are as a group extremely conservatively managed, carry substantially higher cash and asset holdings (and consequently lower debt ratios), and are generally less exposed to economic downside risk because of reasonable valuations. I expect they will therefore likely suffer smaller falls in a declining market. The downside of this fact is that our holdings, which are generally in less exciting industries than many businesses are less likely to be carried along in a market which develops a substantial speculative component. Given the sharp advance in the first three quarters of financial year 2013, we are extremely pleased to have not only kept pace with the benchmark, but to have provided meaningful outperformance.

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Our holdings are presently more diversified than they have been in the first 2 years of the funds existence; we now hold more stocks (16) than we ever have before, although our largest (and best) 3 holdings still comprise over 50% of our stock portfolio (i.e. excluding cash holdings).

Dividends:-

This financial year, as I have instructed previously will commence our distribution of an annual dividend. The intent of this as I have mentioned previously will be to get substantially all of the earned Franking Credits out of EGP Fund No. 1 Pty Ltd and into the hands of the fund-holders.

Your board of directors have met and decided to declare an inaugural dividend of 2.333 cents per share; this amount will come with a 1 cent per share Franking Credit. The dividend will be paid on Friday 31 May 2013.

You are requested to nominate your preference to receive the dividend in cash or re-invested shares. Absent any instructions, the default option will be to issue new shares at the ex-dividend price. Please nominate your preference by the end of April so we don't have any last minute administration to tend to. In either case a document will be issued to each holder which sets out the taxation effects of the dividend.

Let me hear from you regarding any questions you may have on any aspects of this letter, or anything else regarding our fund that may puzzle you.

Best Regards,



Erik A. (Tony) Hansen.

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