



EGP Fund No. 1 Pty Ltd

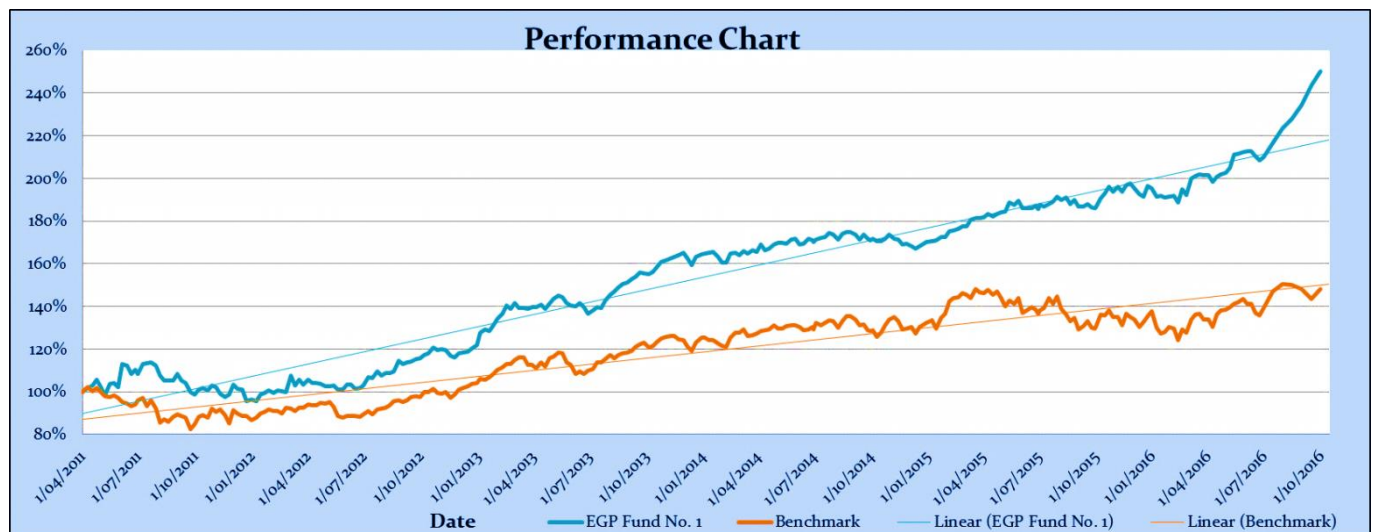
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EGP Fund No. 1 – 30 September 2016

EGP Fund No. 1 Pty Ltd is an unconstrained investment company focused on owning Australian listed businesses. It targets 3 – 5% annual 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%
FY17	6.4%	4.7%	6.4%										18.58%



September 2016 concluded our best ever 3 month result of 18.58%, improving on the 17.87% generated in December 2012/January/February 2013. We gained 6.4% against our benchmark, which rose by only 0.5% in September. The fund leads the benchmark by 11.8% FYTD2017.

A good ‘Reporting Season’ in August and upgrades in July leading into it provided some explanation in the last couple of months as to why our stocks were rising so sharply. There has been next to no news flow around our portfolio holdings in September and the good results are most likely attributable to the improved sentiment generated by a strong reporting season for the group. Momentum is a powerful thing in the markets.

The fund finished September with 28 positions; a new holding was added via a placement, one position increased from our 15th largest holding to our 7th largest holding via over-subscription in a rights issue (and a modest price rise). Our only sale for the month was a measly 869 shares of our chicken farm (RFP.NSX). RFP currently yields us over 17% grossed up on our original purchase price (84.29c – acquired over the 11 months commencing September 2014), but at the price some of our shares were sold this month (\$1.40) the grossed up yield is a more modest 10.3% and the muted growth prospects for the business mean we feel at that price we can probably find a long term home for that cash at a higher rate of return. There are SMSF's out there for whom the income characteristics of the stock at that price look compelling though.

We are well concentrated in our best ideas with 74.2% of our invested capital in our 10 largest holdings. We currently hold only 8.6% cash. The mid-September blog set out the weighted average portfolio metrics, in it we explained that we still consider our portfolio to be very good value in both a relative and absolute sense. With that said fund-holders would do well to moderate expectations rather than extrapolate the last year or so. The cautious way we invest means the more than 34% return of the last 12 months is unlikely to be repeated regularly. Our modest expectations for the market over the next 5 years or so mean a return of even half that annually would be an excellent outcome. The graph on page 1 shows we're well above trend.

Gains for the month were spread across 14 of our stocks; however the great majority of the freight was carried by our three largest holdings, all three were strong, hitting either 52 week or all-time highs over the course of the month. In order of the size of the contribution for the result:

1. UOS.AX – United Overseas Australia Limited is in our view among the best run businesses on the ASX. CS and Pak Lim Kong are approaching the 30th anniversary of their listing of UOS. Under their excellent management, there would be but a handful of ASX stocks you'd have been better off owning throughout those decades.
2. DDR.AX – This is one stock whose price rise we know a reason for. There are takeover rumours around the business. CEO David Dicker has stated he has received no formal approaches, but that as it always was, the business is for sale at the right price.
3. SDI.AX – SDI Limited has made the top three for three consecutive months. You all know the story by now. We think the business is worth a good deal more than current prices.

There had been no falls of significance to report in July and August. In September, there were falls in the three stocks listed below, which in total cost less than 0.8% of portfolio value:

1. HBA.NSX – Heritage Brands Limited is a stock that we've done extremely well out of. It traded down from 3.3c to 3.0c in September on very thin volume. We still think it's exceptionally good value compared to its ASX listed peer companies.
2. CYB.AX – CYBG PLC (Clydesdale Bank) is a business EGP followers will be familiar with. It has been exceptionally good to us, but fell over the course of September. We think the value is meaningfully higher than the market is currently pricing. We hope the falls continue and we get our 3rd chance to buy at bargain prices.
3. BCT.NSX – Bendigo Telco is a business that has grown out of the 'Community' model created by Bendigo Bank (the largest shareholder of BCT). The stock went ex-dividend this month and believe it or not, it was our own low-ball buying that brought the price down. The business has just acquired the assets of the other Victorian community Telco; we are excited to see what management can do with this newly expanded opportunity set. We expect our buying this month will prove judicious.

You should all have received your copy of the FY2016 Management Accounts this month. Anyone who didn't receive a copy is welcome to contact us and one will be provided.

Fund features and portfolio analytics are set out in the table below:

Fund Features		Portfolio Analytics	
Min. initial investment (retail)	\$10,000 (qualifying)	Sharpe Ratio ¹	3.77
Additional investments (retail)	\$1,000 increments	Sortino Ratio ¹	1.91
Min. initial investment (Wholesale/Sophisticated)	\$100,000 (qualifying)	Annualised Standard Deviation	10.70%
Additional investments (Wholesale/Sophisticated)	\$10,000 increments	Largest Monthly Loss	-9.0%
Applications/redemptions	Monthly	Largest Drawdown	-12.0%
Distribution	Annual (31 st May)	% Of Positive Months	74.2%
Management fee	0%	Cumulative return ²	149.23%
Performance allocation	20%	1 year return ²	34.08%
Auditor	True Elite Business Services	3 year annualised return ²	17.05%
Custodian/PB	Interactive Brokers LLC	5 year annualised return ²	20.38%
Benchmark Annualised Return Since Inception	7.49%	Fund Annualised Return Since Inception ²	18.06%
Benchmark % Of Positive Months	59.1%	Fund Size	\$8.2m

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. 1, 3 and 5 year figures are rolling annualised figures.

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