



EGP Fund No. 1 Pty Ltd

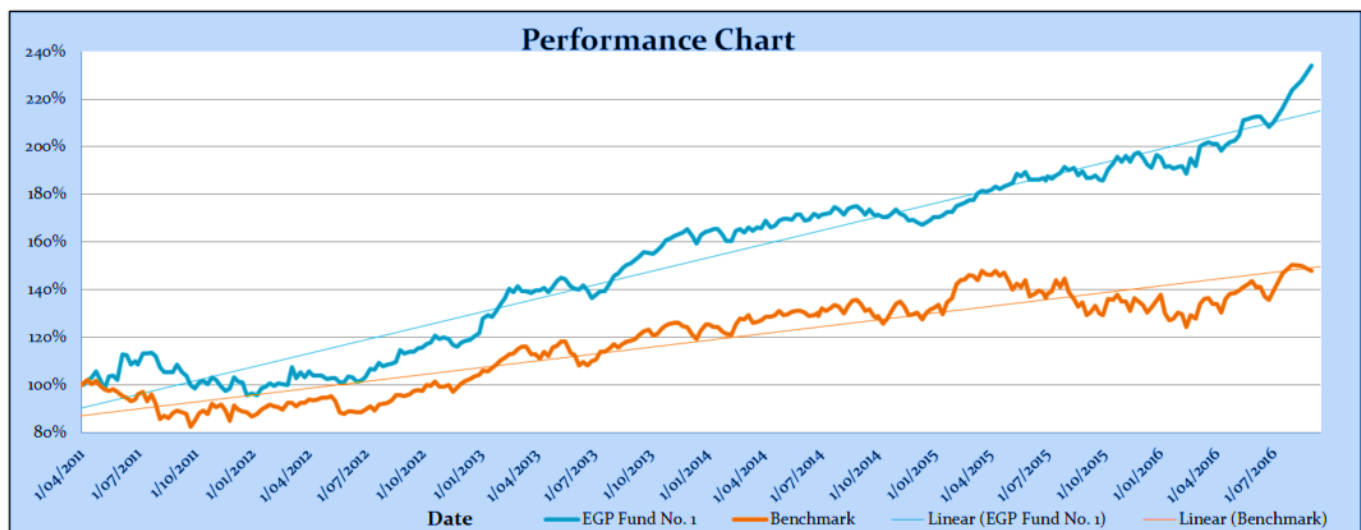
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EGP Fund No. 1 – 31 August 2016

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%											11.47%



August 2016 completed our second best ever consecutive month result, after the January/February 2013 pairing. The fund gained 4.7% which was meaningfully better than our benchmark, which declined by 1.6% in August. The fund now leads the benchmark by 4.0% FYTD2017.

August is ‘Reporting Season’ with the majority of listed businesses that operate on a standard July-June Australian financial year having issued their results for the 2016 financial year over the course of the month. The results generated by our investee companies were almost without exception very well received by the market.

The fund finished August holding 27 positions; some August sales are detailed in the blog update accompanying this update on the website. We remain well concentrated in our best ideas with 74.9% of our invested capital in our 10 largest holdings.

Gains for the month were spread across a number of stocks, with 13 holdings contributing at least 4% of the monthly gain, however only three holdings contributed at least 10%, they are set out below:

1. SDI.AX – SDI Limited was also the largest contributor in August after also being the main contributor to our very strong July results. The good July performance was based off FY16 results guidance. The good August performance is a consequence more of qualitative elements of the result, observable upon release. The lower margin amalgam revenue is steadily fading as a proportion of total revenue; it's being replaced by much higher margin revenues from the glass ionomer, whitening, composites and dental products business. SDI remains our second largest holding. As the higher margin revenues come to more fully dominate the revenue, we expect SDI will grow its earnings per share for years to come. Furthermore, we expect as the market comes to view the steadily improving high IP quality of the business that it will be rewarded with a higher valuation than it currently gets. We estimate at 77.5cps the business trades on a FY17 P/E ratio of around 10.5x and an EV/EBITDA ratio of about 5.5x. For a business with earnings and revenues of this quality, this is undemanding; we will retain our large stake.
2. REH.AX – Reece is a plumbing supplies business most members would be familiar with. Reece is not the sort of 'small-cap' stock we customarily focus on (after a sharp rise this month, it is in fact now a \$4.5 billion business), but it is a business we have admired for many years, and felt we knew well. Sustained buying over the course of January, February and March this year saw us build a meaningful stake at an all-in cost of \$32.61 per share. Based on the strong FY16 result, the share price rose as high as \$46.50 this month. It has grown to be our 6th largest holding. Based on our FY17 expectations, REH trades on a P/E ratio of around 20x and an EV/EBITDA ratio of about 12.3x. It is not exceptionally cheap, but it is an exceptional business
3. UOS.AX – United Overseas Australia Limited was our 3rd largest contributor in July as well as August. The profit announced for the June 2016 period was up 43.7% on the prior period. Despite this, the market reaction was rather muted and UOS makes this list mostly because it is our largest holding. We view the stock as remarkably cheap, well run and fully expect to still own the business in 10 years' time unless a massive price rerating occurs.

There was once again only trifling falls in a small number of our holdings in August. We have had amazing good fortune at the beginning of FY2017 in both making gains and avoiding losses. We remind readers of this update (and recently in the blog) that returns of the strength observed over the last 6 months should not be relied upon as normal (we are over 22% since March). Despite this, and particularly relative to the wider market, we feel our holdings still represent very good value.

The 'Portfolio Metrics' update that we customarily release bi-annually will be released in the mid-September blog update, after it's finalised for the last-minute reporters and a couple of our holdings that operate off July balance dates.

Our Accountants and Auditors have informed us that the FY2016 accounts will also be completed in the next couple of weeks, so you can expect to receive those by email around mid-September. Likewise, our member auditor for the June 30 2016 results completed his analysis on 11 August 2016, and sent me the following statement:

"Having volunteered to be the member auditor for EGP Fund No. 1 Pty Ltd for the FY2016 period, based on the materials provided, the calculation of per share value appears correct to me as at 30 June 2016."

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	4.13
Additional investments (retail)	\$1,000 increments	Sortino Ratio	1.79
Min. initial investment (Wholesale/Sophisticated)	\$100,000 (qualifying)	Annualised Standard Deviation	10.57%
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	73.8%
Management fee	0%	Cumulative return ²	134.29%
Performance allocation	20%	1 year return ²	25.29%
Auditor	True Elite Business Services	3 year annualised return ²	15.92%
Custodian/PB	Interactive Brokers LLC	5 year annualised return ²	15.88%
Benchmark Annualised Return Since Inception	7.51%	Fund Annualised Return Since Inception ²	17.02%
Benchmark % Of Positive Months	58.5%	Fund Size	\$7.5m

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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