



EGP Fund No. 1 Pty Ltd

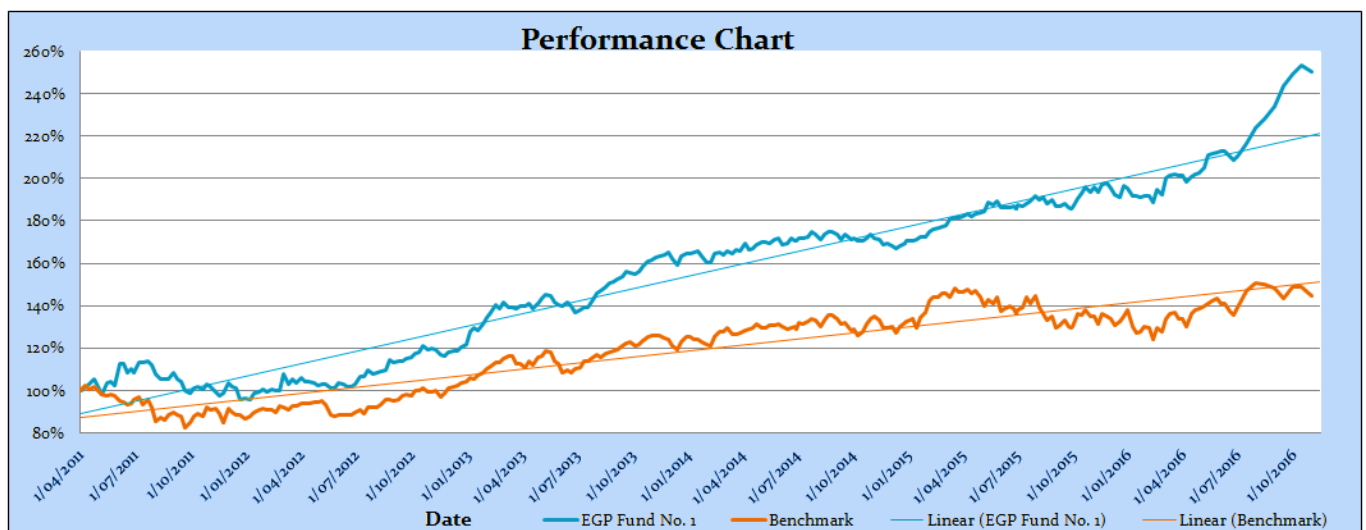
Address: Suite 2, Level 11, 37 Bligh Street
Sydney, NSW, 2000

Mobile: 0418 278 298

EGP Fund No. 1 – 30 November 2016

EGP Fund No. 1 Pty Ltd is an unconstrained investment company focused primarily 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%	0.3%	0.1%								19.03%



On November 15th, we were telling a fellow Fund Manager that we’d just made our first trade for November. That day we participated in the institutional component of a placement for Kangaroo Island Plantations (KPT.AX). This is the position that we’ve alluded to over the last month or so and the investment thesis is set out in the blog update that accompanies this monthly update.

There was a late flurry of intense activity (intense by our usually sedate standards) in November. When the dust settled, the fund was slightly up for November and are now up 19.03% FYTD2017 as against our benchmark which has gained 7.63% over the same period.

Part of the late flurry was the elimination of a very small holding in Oldfields Holdings Limited (OLH.AX). We talk speak often of how the concentrated nature of the fund keeps overall turnover low and results strong. Our small detour into OLH reminds us that the remainder of the portfolio adds small but important value to the overall returns periodically. At disposal, our OLH holding was less than 0.4% of the fund. Part of the reason it was such a small holding was due to extreme illiquidity (we simply couldn't acquire more at the prices we were willing to pay), but we managed to acquire a small position at slightly below 2.2 cents per share (cps), at which price we thought put us in a very low-risk position where we were very likely to do well. The recent AGM update indicated the long-running turnaround is starting to take effect. We sold our entire holding at 3cps, which given a fairly short holding period meant an IRR (Internal Rate of Return) on the modest capital employed of over 230%.

Other moves in the second half included some modest sales of Clydesdale Bank (CYB.AX) at \$4.98 per share, which looks to have been smart in the short term. We still have a reasonable size CYB holding, and think there's an excellent prospect of our earning a satisfactory return on the remaining stake. Our IRR to date of nearly 50% on our CYB.AX holdings looks way less impressive than the OLH return, but as we had a great deal more capital employed in CYB.AX. We have in fact made more than 8 times as much money out of CYB.AX so far than we did from OLH.AX (at today's close at least, as we still hold some CYB.AX). This shows the importance of finding scalable ideas of quality as we grow.

We also sold a modest portion of our chicken farm RFP Poultry (RFP.NSX), mostly to begin our return cash levels to levels we're more comfortable with, we are unlikely to sell more unless we can achieve meaningfully higher prices.

Finally, we both bought and sold some SDI Limited (SDI.AX). As part of our aforementioned attempt to return our cash levels to nearer our customary preference of 'at least 10%', our large position in SDI, which had appreciated markedly, became an obvious choice. We trimmed 10%, but then repurchased the stake after the share price was savaged when a poorly worded first half trading update was released. In fact, was it not for the brutal fall in SDI.AX (which commenced November as our second largest holding) we would be reporting that we were up by 2.5% this month...

Despite the generally amateurish market communications capabilities of SDI.AX, we consider it an excellent business that we expect to own for a long time. It's also worth remembering that at current prices we have made nearly 4 times more money out of SDI.AX than we have out of CYB.AX (or almost 30 times what we have out of OLH.AX if you prefer). We point this out because although this concentrated holding was a big detractor from performance in November, it has still delivered a meaningful positive result for the fund. A little volatility due to the poor quality of the communications is a relatively modest price to pay.

The fund finished November with 28 positions; our cash level was only 9.2%. It remains our intention to further reduce the number of holdings, but we intend to do so in the way that maximises our return, so it will require patience. Our cash level will most likely be back above 10% by the next report (unless a really outstanding opportunity presents itself!).

We remain well concentrated in our best ideas with 74.9% of our invested capital in our 10 largest holdings.

We urge all EGP'ers to peruse the blog post that accompanies this monthly update. The description of the acquisition of what is now our second largest holding, KPT.AX is one that well describes the type of situation we like best, where we can employ large swathes of capital for long periods, in ideas where we are very confident that our downside is protected and where we entrust that capital to smart, energetic managers who are well aligned and correctly incentivised.

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

Fund Features		Portfolio Analytics	
Min. initial investment (retail)	\$10,000 (qualifying)	Sharpe Ratio¹	3.65
Additional investments (retail)	\$1,000 increments	Sortino Ratio¹	1.91
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	75.0%
Management fee	0%	Cumulative return²	150.16%
Performance allocation	20%	1 year return²	28.06%
Auditor	True Elite Business Services	3 year annualised return²	15.14%
Custodian/PB	Interactive Brokers LLC	5 year annualised return²	19.36%
Benchmark Annualised Return Since Inception	7.41%	Fund Annualised Return Since Inception²	17.56%
Benchmark % Of Positive Months	58.8%	Fund Size	\$8.9m

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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