



A Welcome to EGP Concentrated Value Fund:-

Chris Cuffe and I are delighted to thank you for your interest in the EGP Concentrated Value Fund (the fund). The response to the announcement of his appointment to the Board of EGP Capital was overwhelming. It satisfied a feeling we had that there's untold demand for active management, provided the investor can see their manager needs to deliver to earn.

In the space of less than a week, interest in the fund has gone from \$12.5m to a soft-close of \$50m (once the Unit Trust build is complete and the committed funds delivered). This soft-close means the initial investors are likely to be the only investors we will ever take into the fund.

In combination with Chris notifying his network of his involvement with EGP Capital and a little media coverage associated with this, the \$37.5m non-binding book-build was completed very swiftly. Even after running the strategy for over six years, the thrill we feel when someone gives us the opportunity to help build their wealth remains undiminished. We are genuinely grateful for your support and will work relentlessly to repay it with results.

EGP Capital was always intended to be a true 'boutique' fund manager. Its aims are not so much about building a fund management business as taking a concept of 'reward for effort and results' to an industry that isn't instinctively structured this way. There will only be about 200 unitholders in the fund, so this will allow us to provide a good level of personal service. I hope anyone with a query as to what we're doing feels genuinely welcome to get in touch.

Transparency and the alignment of our interests as a manager with yours as an investor is the central theme of EGP Capital. It is why we don't earn a fee if we can't deliver the promised performance and likewise why my own entire investable asset base is inside the fund.

In the interests of transparency you should also be aware that I agreed to pay Chris Cuffe a fee for assisting EGP Capital by introducing us to new potential investors. The basis for this fee is also performance related. I have agreed to share part of my performance fee with Chris for a period of time. So if I don't perform over time then Chris earns nothing. Chris and I both felt this arrangement would also demonstrate his strong belief in the ability of EGP Capital to do well for its investors.

The equity ownership of EGP Capital remains entirely with my family. Chris's ongoing involvement will be simply as a director of EGP Capital, to help watch over its activities.

Your Expectations of us:-

EGP Concentrated Value Fund is an uncommon vehicle. We describe ourselves as value investors, but when discussing the fund with external groups, they found our history of results very hard to profile.

We do not fit easily into a bucket. We have a primary focus on small capitalisation companies, which is simply an outworking of the fact that the best risk/reward structures are often found there. We have occasionally owned very large companies when they were the most attractive application for our capital. We have also left open in our mandate the option for international investment. We expect it unlikely that we will do very much internationally whilst our capital base is relatively small, but did not wish to exclude anything where an opportunity may present in the future.



At EGP Capital, our idea of true horror would be “Here’s an extraordinary investment opportunity with risk/reward characteristics better than anything else available at present, but unfortunately it’s excluded from your mandate”...

On the day the new capital arrives in the trust, we expect to have alongside our existing equities portfolio an approximately 80% cash holding. For those I’ve spoken to, I have warned that if FY2018 is an especially strong one for our benchmark, we will almost certainly underperform for the first time. Conversely of course, if the benchmark performs very poorly, we should have had an easy victory in FY2018. We hope those joining us are thinking long-term and take the next 12 months in their stride, whatever it brings.

Once the book-build intake is done we intend to halt further additional applications from our investors for at least the remainder of calendar 2017 to give us an opportunity to systematically deploy the funds without the pressure of further cash inflows. We expect it will take most of FY2018 to deploy all of the funds, unless some opportunities unexpectedly present.

Once we get into 2018, or get our cash levels below perhaps 25 or 30%, we will consider reopening the fund to existing investors. We are likely to have some restrictions around the monthly inflows to avoid any large holders dominating. We think a \$200k maximum monthly subscription alongside the \$20k minimum addition makes sense and will ensure all holders get a reasonable opportunity to increase their holding. This will also ensure the \$100m hard-close doesn’t come about too rapidly.

At EGP Capital we spend almost no time thinking about the direction the market is headed. Our sole focus is on locating ideas that we think make strong financial sense over the medium to longer term and are unlikely to be significantly harmed by any reasonably foreseeable event. Our Beta, to use industry parlance, is exceptionally low as the investments we make are usually largely uncorrelated with the behaviour of the overall market.

The upshot of this idiosyncratic and uncorrelated portfolio construction has been more than 6 consecutive years of outperformance. But I always warn existing and potential investors that it is my expectation that in something like one in four years the fund will underperform its benchmark and that such an event is much likelier in a year of very strong benchmark performance.

Furthermore, the fund will periodically have negative years. I have been reminding our existing investor group regularly for more than 6 years that a year when our benchmark declines by say 35% and the fund declines by 20% **(by the way, prior to the establishment of the fund, calendar 2008 produced results in your fund managers’ personal portfolio not unlike this – it set us up for a memorable 2009!)** would be viewed as a substantially superior outcome to one in which both advance by 15%. The expectation is that over a reasonable period outperformance of the benchmark will lead to very satisfactory results and this has borne out so far.

Introducing Fundhost:-

The Responsible Entity, Trustee, Registry Services, Compliance and Custody arrangements of EGP Concentrated Value Fund will be provided by Fundhost Limited and their associated service providers. A boutique business like our own, Fundhost is nonetheless used by some well-known fund managers. We expect they’ll do an excellent job.

The move from our Pty Ltd Company into a Unit Trust is a complicated and highly unusual process and despite some difficulties finding the right path forward, Fundhost have been helpful and supportive in finding the best approach.

Chief among the difficulties we faced, given the original vehicle (EGP Fund No. 1 Pty Ltd) had accumulated around 60 or so 'retail' investors along the way, was how to get them into the new fund. We originally thought we could move them into a Wholesale unit trust vehicle, but this proved too difficult.

The solution has been that EGP Concentrated Value Fund will be a Retail Trust, although it makes little practical difference because we expect to be closed to new investors from the time the fund launches. Fundhost have been most agreeable in the way that the cost of running the Trust has been structured, with much keener prices than a regular Retail Trust, given many of the usual challenges of operating a Retail Trust will be absent from ours.

Fundhost are in the process of developing the Product Disclosure Statement (PDS), which we are hopeful should be done towards the end of this month. As soon as it's finalised and available, we will furnish every new and existing investor with a copy and encourage a thorough perusal.

Other Salient Points:-

- The timing of the money you've committed remains indeterminate. We are targeting the completion of the PDS in late June, the rolling of existing investors into the Trust in mid-July and striking the Unit price for the book-build intake on 31 July 2017. If that all works to plan, you'll likely be asked to send the funds in the last week of July. Otherwise, we will keep you posted as to the timing.
- We charge zero management fees, but there are fees associated with the running of the Unit Trust. We anticipate these costs will be around 25 basis points (bp's) excluding brokerage whilst we're around \$50m in size. Of course, when factoring brokerage costs deploying the large amount of new capital, costs will be higher in the first year than we would expect in subsequent years once the portfolio is more stable. After FY2018, costs will be capped at 30bp's annually. The expectation is that as many of these costs are fixed and so by the time the fund grows to say \$250m, the charge is likely to be less than 20bp's. Charges in this are primarily comprised of Fundhosts fees for providing the services set out above. Other out of pocket cost includes an annual distribution review/audit, a semi-annual fund financial audit, an ASIC annual review, a compliance plan audit and an annual manager review. There will also be some transactional, brokerage and custodial costs. As always, any costs incurred by your fund manager by, for example, travelling to meet with companies, will be borne by the manager.
- EGP Capital has traditionally had no buy/sell spread. We will now introduce a modest 0.15% buy spread in order to ensure new funds cover their own transactional costs (primarily brokerage), there will likewise be a 0.15% sell spread introduced. Funds withdrawn within the first year after subscription will also be subject to an additional 0.15% exit fee to encourage longer-term investing. EGP Capital will not receive this fee; it will go towards the fund's operating costs, reducing costs for remaining investors. We hope we never levy it.

- The Unit Trust will be monthly priced and redemptions will be available monthly. Redemption notices will need to be received at least 10 business days before the end of the month.
- Since inception, EGP Capital has always produced its performance figures exceptionally swiftly. For the first 260 weeks, they were published sometime Friday evening, with an accompanying blogpost on the website. Since the beginning of FY2017, as the demands of the business grew and the number of things left to write about diminished, the blogs and pricing were reduced to twice monthly, one on the 15th each month and one on the last trading day. Given we will now be awaiting our monthly pricing confirmation from a third-party pricing provider; we are anticipating a single monthly blogpost and investor letter. I am hopeful this will be the 5th each month. We will continue to use a monthly mass mailout and to post the monthly update and blogpost at www.egpcapital.com.au
- We have, since the inception of the [S&P/ASX 200 FRANKING CREDIT ADJUSTED ANNUAL TOTAL RETURN INDEX \(TAX-EXEMPT\)](#) used it as our benchmark. We have always had a stated preference for comparing pre-tax returns for the fund with the pre-tax results available from benchmark ownership. Fundhost have indicated they will be unable to add back in Franking Credits we deliver to Unitholders as part of the performance. As such, we will be unable to add the Franking Credits into the benchmark for a pure pre-tax return. We are therefore likely to now use the [S&P/ASX 200 TOTAL RETURN INDEX](#) as our benchmark and ignore the value we deliver to you via franking. Do not fear though, where there are opportunities to capture franked gains, we will do so for our unitholders benefit.

The foregoing sets out all the points we can think of at this stage that are pertinent. If we have overlooked anything, we will try to pick it up in our other regular communications.

Warmest Regards,



Erik A. (Tony) Hansen
Chief Investment Officer
EGP Capital

The EGP Concentrated Value Fund (Fund) is due to launch in July 2017. EGP Capital Pty Ltd (ABN 32 145 120 681) (Corporate Authorised Representative # 001255239 of AFSL 233045) is the investment manager of the Fund. The issuer of units in the Fund will be the responsible entity Fundhost Limited (ABN 69 092 517 087) (AFSL 233045). The Product Disclosure Statement (PDS) which contains all of the details of the offer is expected to be available to investors in July 2017. Before making any decision to make or hold any investment in the Fund you should consider the PDS in full. Copies of the PDS will be available from Fundhost Limited (02) 8046 5000 or www.fundhost.com.au/funds/. An investment in the Fund will only be available through a valid application form attached to the PDS. The information provided does not take into account your investment objectives, financial situation or particular needs. You should consider your own investment objectives, financial situation and particular needs before acting upon any information provided and consider seeking advice from a financial advisor if necessary. You should not base an investment decision simply on past performance. Past performance is not an indicator of future performance. Returns are not guaranteed and so the value of an investment may rise or fall.