EGP Concentrated Value Fund

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

Mobile: 0418 278 298

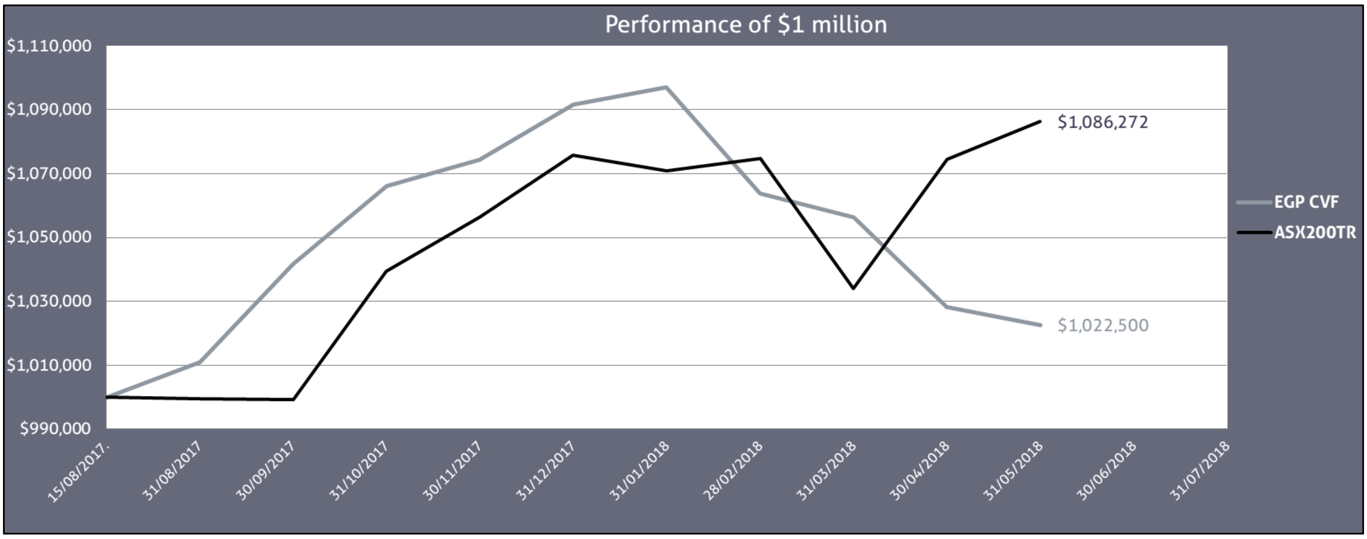
EGP Concentrated Value Fund – 31 May 2018

EGP Concentrated Value Fund is a managed investment scheme 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 oriented 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.

EGPCVF	Jul	Aug*	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
FY18	N/A	1.1%	3.0%	2.4%	0.8%	1.6%	0.5%	(3.0%)	(0.7%)	(2.7%)	(0.6%)		2.25%

Benchmark	Jul	Aug*	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
FY18	N/A	(0.1%)	(0.0%)	4.0%	1.6%	1.8%	(0.5%)	0.4%	(3.8%)	3.9%	1.1%		8.63%

*August 2017 is the period from August 15th-31st for both the fund and the benchmark in the above tables.



The fund fell 0.6% in May. Our benchmark rose 1.1%.

The month started very well for the fund with a takeover bid being launched for what was our undisclosed 9th largest position at the end of April. The offer is in the form of a scheme of arrangement (a friendly merger) and so is highly likely to complete. Our investment in MUA and the takeover is described in more detail in the monthly blog update. The price at which MUA closed the month saw 1.7% added to our portfolio on that position alone, which means in order to finish down for the month; there were some large negative contributors.

Among the negative contributors was an update from Shriro Limited (SHM.ASX), which saw this investment fall from our 7th to 10th largest holding. When I introduced SHM as a holding in the February blog, I acknowledged that there was the risk of a decline in profitability in the short term, I wrote:

"There is some short-term risk in the execution as management have flagged at least $1m in costs supporting the launch of the barbecue range into the Northern Hemisphere summer through March/April (that will likely be expensed into the seasonally weaker half of profit)."

Unfortunately, this has come to pass that first half profit has been impacted, with EBITDA to be down about 15% on the prior period. There was however, some positive news on the Everdure BBQ range, which is where most of the expected growth is from:

"There are encouraging early signs that market acceptance of the new barbeques in USA is strong and that possibly increased shipments will be made prior to the end of this calendar year"

If we are to claim responsibility when the share prices of businesses we own move favourably, then we must accept the same when they move against us. The key drivers of the weak first half profit we predicted, the reaction of the market when the news arrived we obviously underestimated. We have purchased stock in February at prices as high as $1.35 and added modestly this month at less than $1.01; we think both these prices very good long term value. We expect given the strong balance sheet that the 11c dividend will be at least maintained, meaning our purchases this month were at a nearly 11% yield and about 15.6% grossed up for franking.

A number of other small holdings outside of the top-10 have contributed to the decline in unit price this month. We have a small position for example in Olivers Real Foods (OLI.ASX) that suffered a substantial fall in share-price late in the month after an earnings downgrade. We also have a small investment in Site Group International (SIT.ASX) which is pursuing a legal claim against the Department of Education and Training for a sum that equates to almost twice the current market capitalisation of the business. SIT had its Australian license renewal rejected by ASQA and unsurprisingly has been sold off heavily. We also have a holding in JustKapital (JKL.ASX) that has caused us considerable unit price harm over the previous few months. Ellex Medical Lasers (ELX.ASX) is another holding that is sharply down in recent months, but where we think we'll ultimately profit.

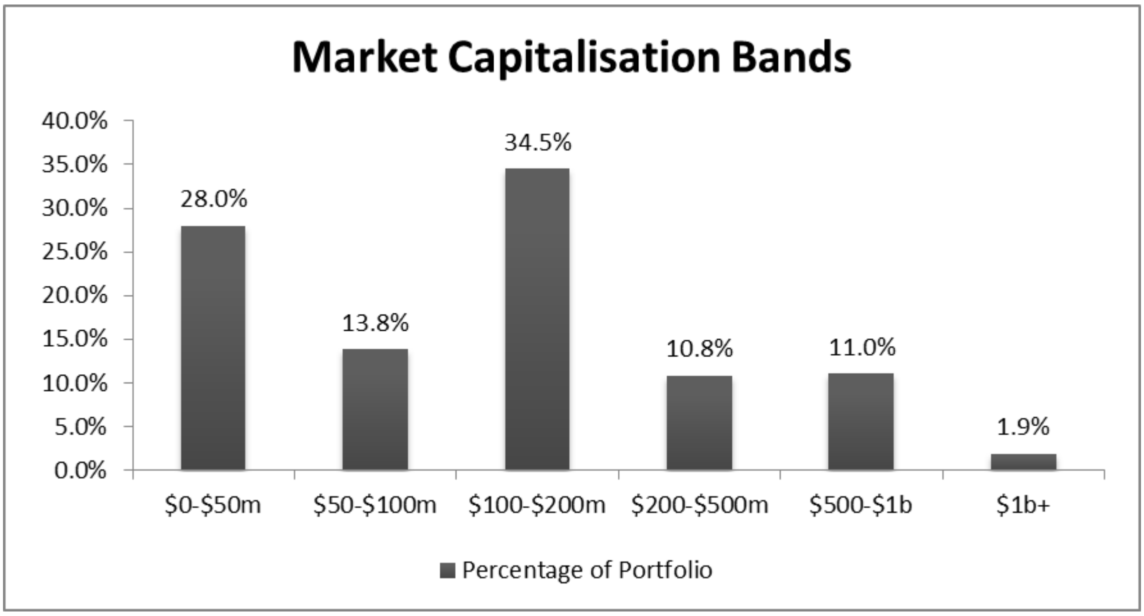
These holdings and others will be dealt with in coming monthly blogs, setting out investment theses that hopefully make our reasons for owning these businesses clearer. We view the weighted average price of our portfolio to be the cheapest it has been in many years, perhaps since late 2012.

Our top 10 holdings at 31 May 2018 were:

Rank	Holding	Percentage Equity Weighting	Percentage Portfolio Weighting
1	United Overseas Australia (UOS.ASX)	11.0%	9.2%
2	Kangaroo Plantation (KPT.ASX)	9.1%	7.6%
3	Global Construction Services (GCS.ASX)	7.1%	5.9%
4	Mitula Group Limited (MUA.ASX)	5.4%	4.5%
5	APN Regional Property (APR.NSX)	5.2%	4.3%
6	Blackwall Limited (BWF.ASX)	4.3%	3.5%
7	Locality Planning (LPE.ASX)	4.1%	3.4%
8	Undisclosed	3.4%	2.8%
9	Undisclosed	3.4%	2.8%
10	Shriro Limited (SHM.ASX)	2.9%	2.4%

Our largest 5 holdings now comprise 37.8% of our invested capital, our top 10 holdings are 55.9% and our top 15 represent 68.4%. Cash and cash equivalents are 17.1% of the portfolio.

The market capitalisation graph is set out below. This month, the median market capitalisation is $107.6m. The one obvious "outlier" on the graph below is the 1.9% in a $1b+ market capitalisation. This holding is in fact Reece Limited (REH.ASX), which is actually closer to a $7b company after a recent acquisition and capital raising. It is the one company in the portfolio I could not make the argument is undervalued. Allowing for the acquisition they have just made and assuming integration costs are fairly modest, it is priced on a prospective P/E multiple in the mid 20's and an EV/EBITDA multiple in the mid-teens. The capital raising was the first time the business has asked shareholders for capital in over 50 years. This being the case, we are hopeful the majority shareholding Wilson family see something that is not obvious to those of us less intimate with the plumbing business, for the combined business will need to perform very well in coming years to make the current price look cheap and we are always nervous about substantial forays into new markets. Given that, if the share-price keeps rising, absent some clear indication that the underlying economics of the business have sharply improved, REH could become a candidate for sale:



As always, investors with any questions, suggestions, comments or investment ideas should feel free to drop me a line – Tony@egpcapital.com.au

Fund Features		Portfolio Analytics	
Min. initial investment	Closed	Sharpe Ratio[1]	0.48
Additional investments	$5,000 (Minimum) $200,000 (Maximum)	Sortino Ratio[1]	0.19
Applications/redemptions	Monthly	Annualised Standard Dev. – EGP Annualised S/D - Benchmark	6.91% 7.82%
Distribution	Annual 30th June	Largest Monthly Loss – EGP Largest Monthly Loss - Benchmark	-3.0% -3.8%
Management fee	0%	Largest Drawdown – EGP Largest Drawdown - Benchmark	-6.8% -3.8%
Performance fee (<$50m) Performance fee (>$50m)	20.5% (inc GST) 15.375% (inc GST)	% Of Positive Months – EGP % Of Positive Months - Benchmark	57.9% 57.9%
Auditor	Ernst & Young	Cumulative return[2] – EGP Cumulative return[2] – Benchmark	2.3% 8.6%
Custodian/PB	NAB Asset Services	1 year return[2] – EGP 1 year return – Benchmark	N/A N/A
Responsible Entity	Fundhost Limited	3 year annualised return[2] – EGP 3 year annualised – Benchmark	N/A N/A
Fund Size	$56.2m	5 year annualised return[2] – EGP 5 year annualised – Benchmark	N/A N/A
Mid-Price for EGPCVF Units Accumulated Franking per Unit	$1.0225 $0.0055	Buy Price for EGPCVF Units Sell Price for EGPCVF Units	$1.0240 $1.0209

1 Sharpe and Sortino Ratios calculated using the Monthly Benchmark ASX200 Total Return Index

2 Return is net of all fees and costs and assumes reinvestment of dividends. 1, 3 and 5 year figures are rolling annualised figures.

Past performance is not an indicator of future performance.

The information in the below table is provided for shareholders in EGP Fund No. 1, and does not relate to the EGPCV Fund.

EGP Fund No. 1 Pty Ltd Equivalent Price	$2.0142
EGP Fund No. 1 Pty Ltd Franking Credits	$0.0000