



EGP Concentrated Value Fund

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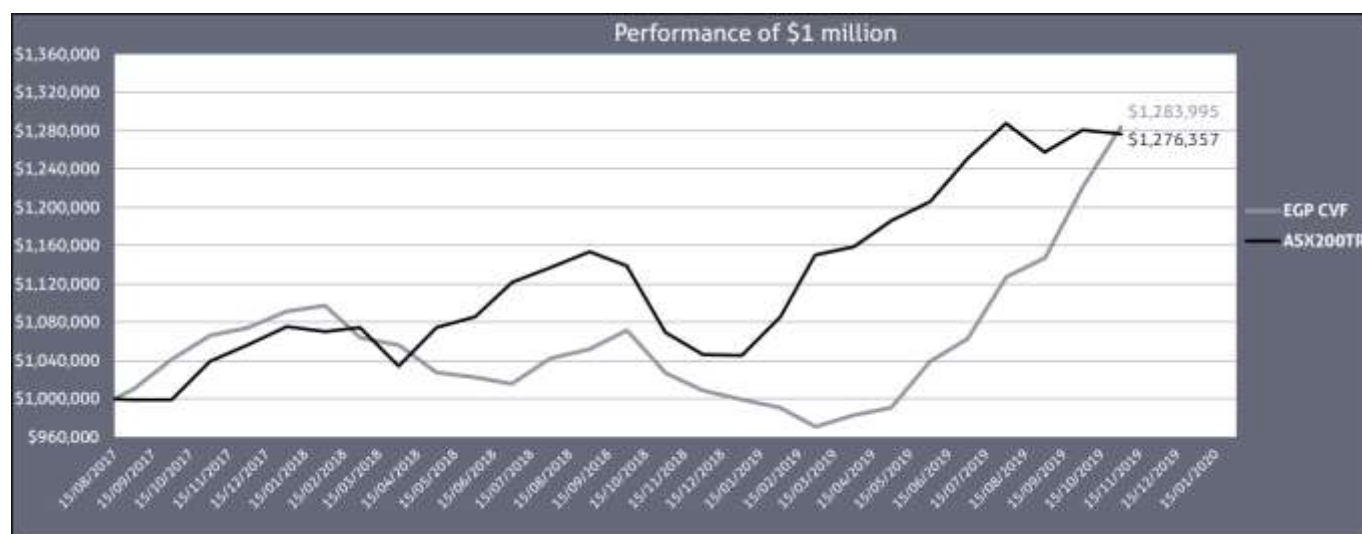
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EGP Concentrated Value Fund – 31 October 2019

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.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
EGPCVF FY18	N/A	1.1%*	3.0%	2.4%	0.8%	1.6%	0.5%	(3.0%)	(0.7%)	(2.7%)	(0.6%)	(0.7%)	1.58%
Benchmark FY18	N/A	(0.1%)*	(0.0%)	4.0%	1.6%	1.8%	(0.5%)	0.4%	(3.8%)	3.9%	1.1%	3.3%	12.18%
EGPCVF FY19	2.6%	1.0%	1.8%	(4.2%)	(1.7%)	(1.0%)	(0.9%)	(1.9%)	1.2%	0.9%	4.8%	2.3%	4.63%
Benchmark FY19	1.4%	1.4%	(1.3%)	(6.1%)	(2.2%)	(0.1%)	3.9%	6.0%	0.7%	2.4%	1.7%	3.7%	11.55%
EGPCVF FY20	6.1%	1.8%	6.4%	5.2%									20.81%
Benchmark FY20	2.9%	(2.4%)	1.8%	(0.4%)									2.00%

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



The Month That Was:-

The fund rose by 5.2% in October. Our benchmark fell by 0.4%.

As the great English poet Sir Timothy Rice once wrote, there's not much between despair and ecstasy... October saw the fund surpass our benchmark after trailing by almost 20% only 6 months earlier. Anyone needing a reminder of the uncorrelated nature of our portfolio relative to our ASX200 benchmark has seen all they need to know in the past 6 months.

Despite the strong performance of our portfolio since the lows of February this year, we still feel like there is plenty of latent value, and hope the rest of FY2020 will prove this out.

Another One Bites the Dust:-

Konekt Limited (KKT) which closed last month as our 10th largest holding became the 4th of our holdings to become the subject of a takeover bid in calendar 2019. KKT has been a feature of the portfolio since very soon after the creation of EGPCVF.

As I have outlined in previous newsletters, analytically, KKT has been one of my mistakes. I had underestimated just how challenging the industry they operate in was, and didn't appropriately allow for the customer concentration risk in my assessment of valuation.

If the transaction settles as expected, we will earn a grossed up (i.e. including the value of franking credits received by the fund during our ownership) Internal Rate of Return (IRR) of 14.3%. Our average acquisition price was 41.77c per share; the acquisition consideration was 49c per share. We have received 2.75c per share of dividends during our period of ownership and will receive 5 cents of the 49 cents per share of consideration in the form of a fully franked dividend also.

The "respectable" 14.3% return we earned as shareholders of KKT has provided a lesson in the substantial protection a large insider ownership and genuinely cheap purchase price usually deliver. We will end up with an "okay" result despite having made a mistake. Without the significant protections described being embedded in the business, we could have had a much worse outcome.

CEO Damian Banks and his board have a significant ownership stake in KKT and Damian is himself is a truly singularly focused individual who managed to make a tough business work by having incredible discipline on the "cost" side of the business. This was important as the "revenue" side of the business was exceptionally difficult to influence in any meaningful way, with fluctuations largely out of the control of management and new business being won on mostly very thin margins.

We have exited some smaller positions this month, the largest being the roughly 2% of the fund that was in Dreamscape (DN8) and became cash late in October due to a takeover completing. The other larger position we liquidated was Electro Optic Systems, a space and weapons systems manufacturer that was about 1.6% of the fund and we sold for valuation reasons. We earned respective IRR's of 52.3% and 66.0% on these investments.

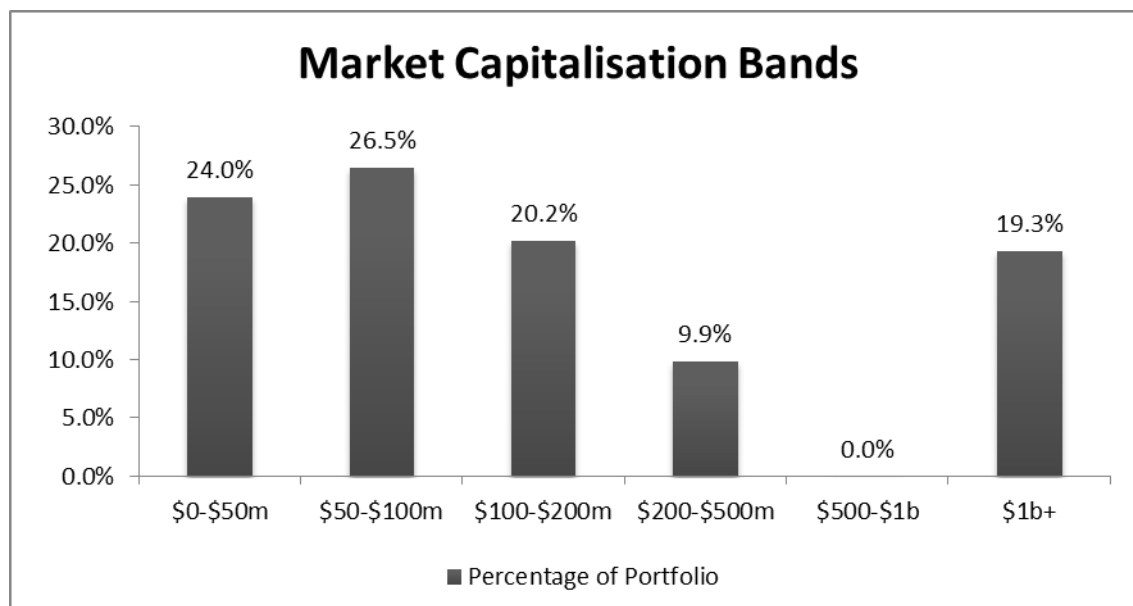
Key Portfolio Information:-

Our top 10 holdings at 31 October 2019 were:

Rank	Holding	Percentage Equity Weighting	Percentage Portfolio Weighting
1	United Overseas Australia (UOS.ASX)	12.4%	10.9%
2	Site Group International (SIT.ASX)	10.6%	9.3%
3	Kangaroo Plantation (KPT.ASX)	7.1%	6.2%
4	Undisclosed Holding	4.8%	4.2%
5	LawFinance (LAW.ASX)	4.5%	4.0%
6	Konekt (KKT.ASX)	4.4%	3.9%
7	Dicker Data (DDR.ASX)	4.3%	3.8%
8	Locality Planning (LPE.ASX)	3.4%	3.0%
9	SDI Limited (SDI.ASX)	3.0%	2.6%
10	Redbubble (RBL.ASX)	3.0%	2.6%

Our largest 5 holdings now comprise 39.5% of our invested capital, our top 10 holdings are 57.6% and our top 15 represent 70.9%. Cash and cash equivalents are 12.5% of the portfolio. The median market capitalisation is \$90.7m.

Market Capitalisation Bands



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	\$50,000	Sharpe Ratio ¹	1.22
Max. Initial investment	\$2,000,000		
Additional investments	\$5,000 (Minimum) \$200,000 (Maximum)	Sortino Ratio ¹	0.85
Applications/redemptions	Monthly	Annualised Standard Dev. – EGP	9.32%
		Annualised S/D - Benchmark	9.07%
Distribution	Annual 30 th June	Largest Monthly Loss – EGP	-4.2%
		Largest Monthly Loss - Benchmark	-6.1%
Management fee	0%	Largest Drawdown – EGP	-9.4%
		Largest Drawdown - Benchmark	-9.4%
Performance fee (<\$50m)	20.5% (inc GST)	% Of Positive Months – EGP	63.0%
Performance fee (>\$50m)	15.375% (inc GST)	% Of Positive Months - Benchmark	63.0%
Auditor	Ernst & Young	Cumulative return ² – EGP	28.4%
		Cumulative return ² – Benchmark	27.6%
Custodian/PB	NAB Asset Services	1 year return ² – EGP	25.0%
		1 year return – Benchmark	19.3%
Responsible Entity	Fundhost Limited	3 year annualised return ² – EGP	N/A
		3 year annualised – Benchmark	N/A
Fund Size	\$73.7m	5 year annualised return ² – EGP	N/A
		5 year annualised – Benchmark	N/A
Mid-Price for EGPCVF Units	\$1.1673	Buy Price for EGPCVF Units	\$1.1691
Accumulated Franking per Unit	\$0.0098	Sell Price for EGPCVF Units	\$1.1656

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.

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