EGP Concentrated Value Fund

Address: Suite 2, Level 16, 56 Pitt Street
Sydney, NSW, 2000

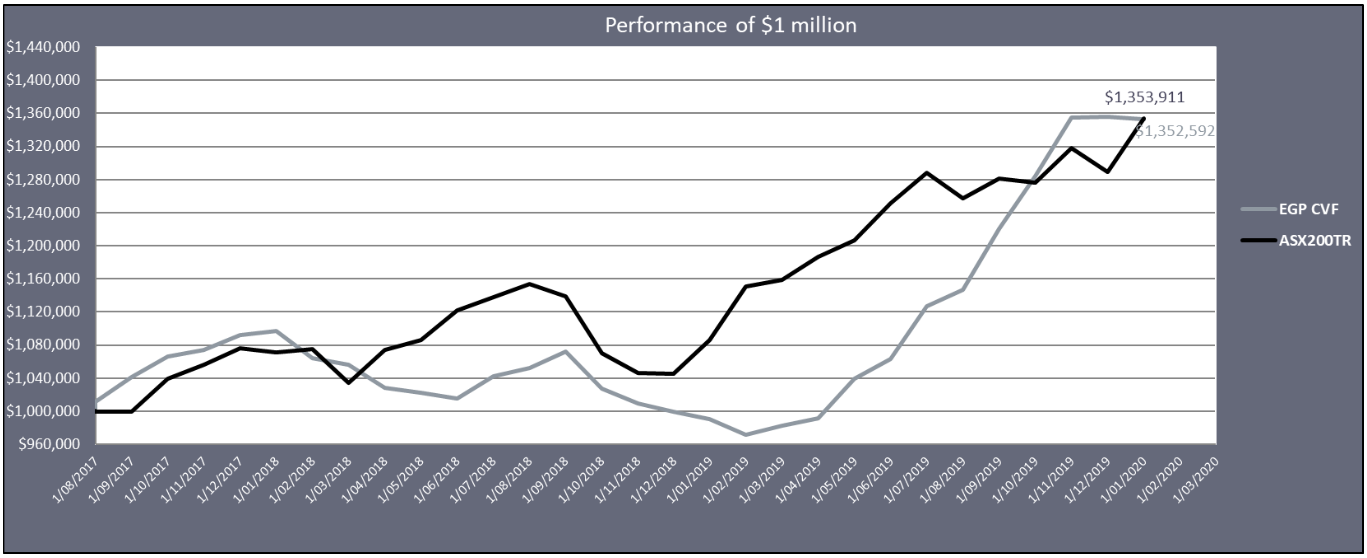
Mobile: 0418 278 298

EGP Concentrated Value Fund – 31 January 2020

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%	5.5%	0.1%	(0.3%)						27.27%
Benchmark FY20	2.9%	(2.4%)	1.8%	(0.4%)	3.3%	(2.2%)	5.0%						8.20%

*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 fell by 0.3% in January. Our benchmark rose by 5.0%.

Trading in Kangaroo Plantation (KPT) was suspended most of the month as the damage to the plantations from the bushfires is assessed. We have marked the stock at $1.50 per share. We think there's a good chance the shares will trade lower than that at least initially when the stock resumes trading but given the significant insurance payments the company will be due, the considerable land value and the generally decent survival rates of fire effected E. Globulus, we think there's a reasonable chance the price will settle around that level.

And Now for Something Completely Different: -

Most of our investors will understand the way I think of EGPCVF as a fund manager is as though it was my personal portfolio, or a family office, that happens to have some external funds attached. Obviously, given Sue (Mrs. Hansen) and I now have under 5% of the total fund assets, I must also consider the liquidity potentially necessary to fund any redemptions, but broadly, the intention to invest is exactly the way I would if the entire fund was our own assets.

To that end, as stated in our product disclosure statement, we have reserved a capacity for doing unlisted investing. We rarely expect this to be a large part of what we do, but occasionally opportunities in the unlisted space will be much better than anything we can find in the listed space. Should that be the case, we don't want some ill-advised rule/mandate preventing us from generating superior risk adjusted returns for our investors where they're available.

In October 2019, we invested what was at the time a little less than 1% of the fund into a business called Covertrue Group Pty Ltd. Covertrue is the owner of Liberty Signs (https://www.libertysigns.com.au/). The fund now owns 11.7% of this business. The opportunity was brought to us by Ross and Mark at Brenowen (http://www.brenowen.com/) an independent corporate advisory business. We have partnered with Phil Hopper and Chris Liell-Cock who have owned and operated the business for the past 6 years.

I won't delve deeply into the economics of the purchase transaction but suffice it to say the returns should comfortably hurdle the 20% IRR we target when investing your capital. Despite the very low interest rate environment that has prevailed for the past few years pushing the average multiples of listed businesses much higher, small owner-operated businesses are generally still transacting at similar multiples as they always have.

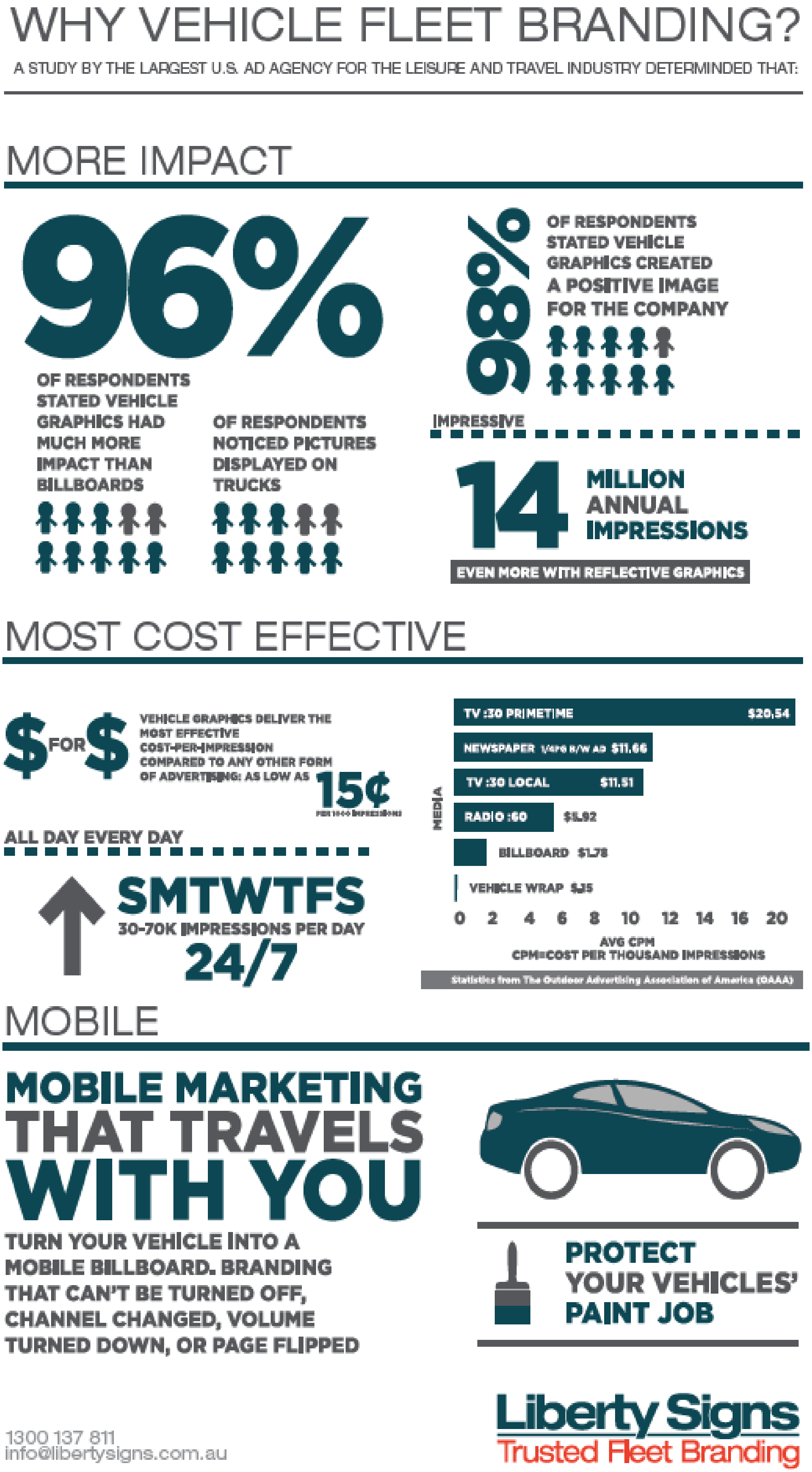
There are some valid reasons for this pricing dichotomy, the main one being that owner-operated businesses are often intrinsically tied to the talents of their owners. Invariably, in different hands the business is not nearly as attractive. The other key driver weighing on valuations for small private businesses is the virtual disappearance of traditional banks from financing such deals. This means "vendor financing" is a primary means by which such sales are transacted, with many vendors being understandably reluctant to fund a buyer who may not be nearly as talented an operator of their business.

This owner-operator risk in buying small private businesses is usually resolved one of two ways. The first is to partner with vendors holding managerial positions, retaining meaningful equity stakes whose value the vending party would be keen to see maintain or increase its value. The second one is to have an earn-out, or series of earn-out payments' dependant on the performance of the business in future financial periods. Such earn-outs are likely to incentivise even a vendor with no further managerial input into the business to provide as much help as required to the new owners/managers to maximise their opportunity to optimise the earn-out payments.

We always thought the Liberty Signs business would be an attractive one when we participated in the transaction, but subsequent to the transaction and in becoming more familiar with the business and the market opportunity, we have become much more bullish about it. Signage on vehicles is the primary revenue source for Liberty. Like me, I'm sure you've noticed an ever-larger proportion of the vehicles driving around have signage. The size and type signage used has also grown, with many vehicles now wearing a complete "skin".

There are a number of reasons we have become more bullish, we have set out on the next two pages a couple of studies conducted into the effectiveness of a fleet of wrapped vehicles in improving brand awareness and intent to purchase. One subject of the study was Heinz, which is a consumer products brand. I mentioned to Chris and Phil that such brands would be the most obvious beneficiary of this type of product application, but they insist there's ample evidence of very high value to even a company that sells a product or service with a much more infrequent purchase decision. The effect of brand elevation into the consciousness of people seeing the vehicle repeatedly means that when that infrequent purchase comes to pass, the company front of mind still has an enormous advantage.


Liberty Signs
Vehicle Fleet Specialists
FLEET HOUND powered by Wrappli
HOW EFFECTIVE IS YOUR FLEET BRANDING?
WHAT WAS DONE
A campaign was run in Melbourne where 50 vehicles were wrapped and had a range of digital prints applied. These were augmented with cutting edge technology to measure, track and prove the effectiveness of the campaign – transparency of results.
REALTIME TRACKING
As the vehicle travels along, the Fleet Hound detects nearby people, calculates the distance from the vehicle and the duration they are in proximity of the vehicle. It can also calculate the unique number of impressions – identifying how often and when an individual sees the vehicle.
DIGITAL HEAT MAP OF BRAND EXPOSURE
1137 KM
Avg distance by other drivers
300 KM
Total distance in campaign
UPGRADE TO HEINZ
FLEET HOUND
CAMPAIGN RESULTS
The realtime tracking allows reporting of the progress of the advertising campaign – calculating the reach, frequency and number of impressions. This can be viewed and calculated on individual vehicles and also across the whole fleet. Exposure added +12.6% uplift in unaided awareness of the product, +8.1% uplift in purchase intent after one month on the road (figures are based on survey by Spark Foundry Research).
The device counts the number of people within a 30 metre radius.
Campaign metrics calculated
Campaign results
How far are people from the car.
Dwell time — average time unique people are around the car.
Driver location tracked.
Reach 40.2%
Frequency 3.3
No of impressions 6.3M
=
Uplift in unaided awareness of the product +12.6%
Uplift in purchase intent +8.1%


WHY VEHICLE FLEET BRANDING?
A STUDY BY THE LARGEST U.S. AD AGENCY FOR THE LEISURE AND TRAVEL INDUSTRY DETERMINDED THAT:
MORE IMPACT
96%
OF RESPONDENTS STATED VEHICLE GRAPHICS HAD MUCH MORE IMPACT THAN BILLBOARDS
OF RESPONDENTS NOTICED PICTURES DISPLAYED ON TRUCKS
98%
OF RESPONDENTS STATED VEHICLE GRAPHICS CREATED A POSITIVE IMAGE FOR THE COMPANY
IMPRESSIVE
14
MILLION ANNUAL IMPRESSIONS
EVEN MORE WITH REFLECTIVE GRAPHICS
MOST COST EFFECTIVE
$ FOR $
VEHICLE GRAPHICS DELIVER THE MOST EFFECTIVE COST-PER-IMPRESSION COMPARED TO ANY OTHER FORM OF ADVERTISING: AS LOW AS
15¢
ALL DAY EVERY DAY
SMTWTFS
30-70K IMPRESSIONS PER DAY
24/7
TV :30 PRIMETIME $20.54
NEWSPAPER $11.66
TV :30 LOCAL $11.51
RADIO :60 $5.92
BILLBOARD $1.78
VEHICLE WRAP $.15
MEDIA
0 2 4 6 8 10 12 14 16 20
AVG CPM
CPM=COST PER THOUSAND IMPRESSIONS
Statistics from The Outdoor Advertising Association of America (OAAA)
MOBILE
MOBILE MARKETING THAT TRAVELS WITH YOU
TURN YOUR VEHICLE INTO A MOBILE BILLBOARD. BRANDING THAT CAN'T BE TURNED OFF, CHANNEL CHANGED, VOLUME TURNED DOWN, OR PAGE FLIPPED
PROTECT YOUR VEHICLES' PAINT JOB
1300 137 811
info@libertysigns.com.au
Liberty Signs
Trusted Fleet Branding

The second of the studies appended shown indicates that the "cost per impression" of vehicle graphics is as low as 15 cents per view, or less than one-tenth of the cost of billboard signage. Another advantage over billboard signage is obviously the mobility, so it's being seen by different people in different locations, widening the audience reach.

The wrapping of a vehicle could potentially assist in demonstrating the vehicle should be classified as "business use", which might also be beneficial for Fringe Benefits Taxation (FBT) payers (as always, you should seek and take advice in respect of taxation matters).

The amazing return on investment characteristics of vehicle wrapping have us very excited about the prospects for our investment in Liberty Signs. The attractive ROI characteristics are amply demonstrated by the appended studies, but we thought we'd take the opportunity to address the many, many business owners who receive the EGP newsletter each month and particularly to the ones who are investors in the fund. Contacting the team at Liberty Signs is an incredible chance for you to exploit an outstanding advertising opportunity that has a low cost and a high prospective return, with the side benefit that any enhancement in the value of the Liberty Signs business as a consequence of your using their service will circle back around to you via your ownership of the business in the fund. Should you have the opportunity to refer a potential customer to Liberty, please contact the General Manager, Chris Remedios directly via email Chris.remedios@libertysigns.com.au, or via the national dial number 1300 137 811 or info@libertysigns.com.au.

Finally, I should note that this unlisted investment, like our others will be carried at cost until such time as we have a significant reason to revalue. Such a reason might include if a meaningful portion (perhaps in excess of 5%) of the equity were to transact at a different price to our carrying price. Alternatively, if the company were to find an acquisition and raise capital to effect it, that would also be a valid reason to re-price (as we did with Tellus Holdings when they raised equity in January 2019), based on the capital raising price.

Future Small Private Equity Style Opportunities: -

Our interest in the Liberty Signs deal extended to more than just the attractive returns that business looked capable of providing. As part of our commitment to widening the Zero Management Fee industry, we are hopeful of eventually bringing a small Zero Management Fee Private Equity style fund to market. There appears to us to be an enormous capital vacuum due to the renewed conservatism of the major banks, particularly in the deal-size space which is too small for traditional Private Equity funds. We are hopeful of eventually partnering with Ross and Mark at Brenowen, once the efficacy of the concept is proven, possibly after completing a couple more "Liberty Signs style" transactions.

Any EGPCVF investors who are wholesale qualified and would potentially be interested in participating in any future private deals in the style of the Liberty Signs deal are welcome to express their interest to us by email and should similar types of transactions arise in future, we can run them past you.

The Zero Fee Collective: -

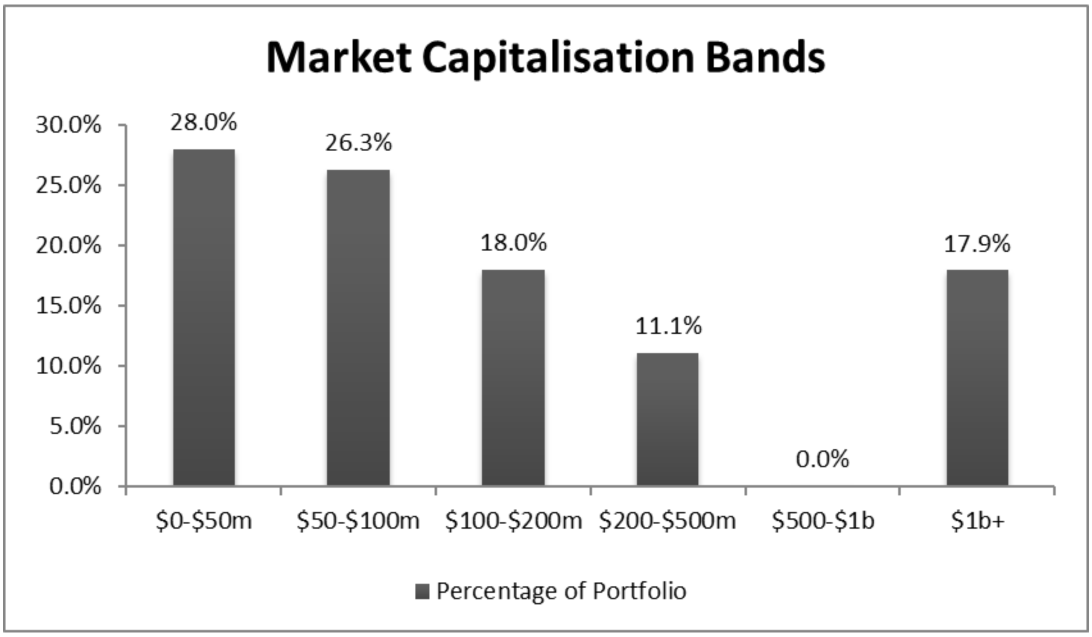
Pre-registrations of interest in The ZFC continue to grow. Please keep sending emails expressing interest to ZFCInvestors@egpcapital.com.au to ensure you're kept abreast of developments. We remain committed to a launch in the second half of 2020 at this stage. Fund managers interested in being part can contact us ZFCManagers@egpcapital.com.au so we can discuss how you might be part of the initiative.

Key Portfolio Information: -

Our top 10 holdings at 31 January 2020 were:

Rank	Holding	Percentage Equity Weighting	Percentage Portfolio Weighting
1	United Overseas Australia (UOS.ASX)	11.6%	10.0%
2	Site Group International (SIT.ASX)	8.8%	7.6%
3	Smartpay (SMP.ASX)	6.0%	5.2%
4	LawFinance (LAW.ASX)	5.9%	5.0%
5	Undisclosed Holding	4.5%	3.9%
6	Kangaroo Plantation (KPT.ASX)	3.9%	3.4%
7	Dicker Data (DDR.ASX)	3.5%	3.0%
8	Undisclosed Holding	3.3%	2.8%
9	Undisclosed Holding	3.2%	2.7%
10	Undisclosed Holding	2.8%	2.4%

Our largest 5 holdings now comprise 36.8% of our invested capital, our top 10 holdings are 53.5% and our top 15 represent 65.1%. Cash and cash equivalents are 14% of the portfolio. The median market capitalisation is $84.1m. Weighted average market capitalisation is $406.1m.



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 Max. Initial investment	Closed to new investors	Sharpe Ratio[1]	1.01
Additional investments	$5,000 (Minimum) $20,000 (Maximum)	Sortino Ratio[1]	0.94
Applications/redemptions	Monthly	Annualised Standard Dev. – EGP Annualised S/D - Benchmark	9.32% 9.30%
Distribution	Annual 30th June	Largest Monthly Loss – EGP Largest Monthly Loss - Benchmark	-4.2% -6.1%
Management fee	0%	Largest Drawdown – EGP Largest Drawdown - Benchmark	-9.4% -9.4%
Performance fee (<$50m) Performance fee (>$50m)	20.5% (inc GST) 15.375% (inc GST)	% Of Positive Months – EGP % Of Positive Months - Benchmark	63.3% 63.3%
Auditor	Ernst & Young	Cumulative return[2] – EGP Cumulative return[2] – Benchmark	35.3% 35.4%
Custodian/PB	NAB Asset Services	1-year return[2] – EGP 1-year return – Benchmark	36.5% 24.7%
Responsible Entity	Fundhost Limited	3-year annualised return[2] – EGP 3-year annualised – Benchmark	N/A N/A
Fund Size	$90m	5-year annualised return[2] – EGP 5-year annualised – Benchmark	N/A N/A
Mid-Price for EGPCVF Units Accumulated Franking per Unit	$1.2297 $0.0104	Buy Price for EGPCVF Units Sell Price for EGPCVF Units	$1.2315 $1.2278

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.