EGP Concentrated Value Fund

Address: Suite 2, Level 16, 56 Pitt Street

Sydney, NSW, 2000

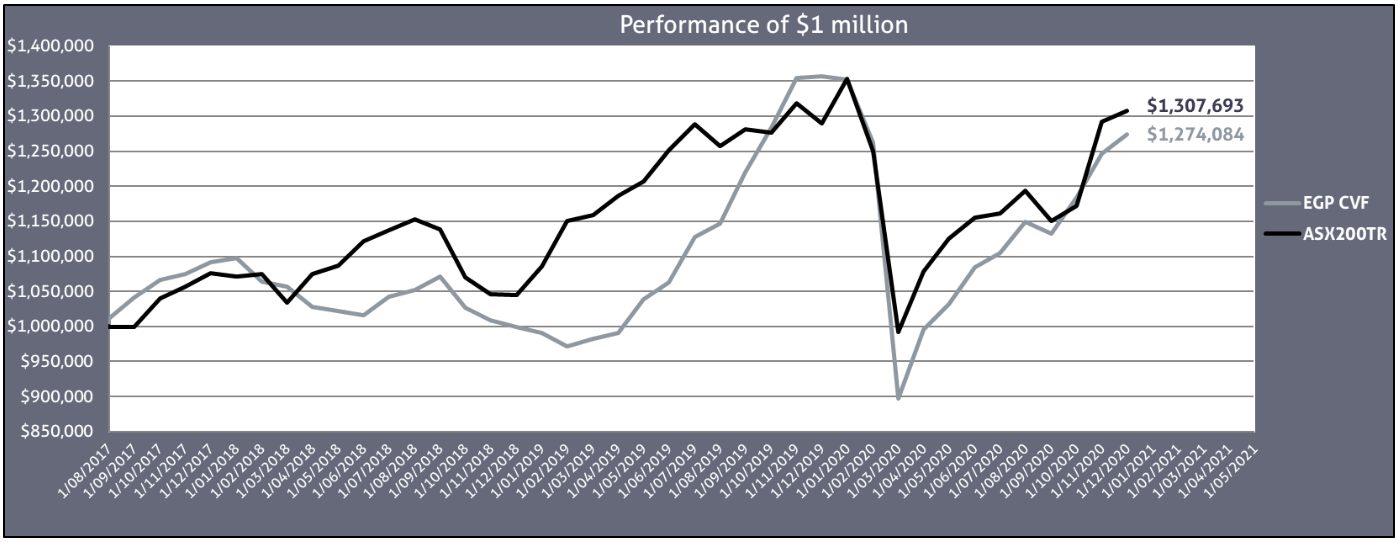
Mobile: 0418 278 298

EGP Concentrated Value Fund – 31 December 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%)	(6.7%)	(28.9%)	11.0%	3.6%	5.1%	1.99%
Benchmark FY20	2.9%	(2.4%)	1.8%	(0.4%)	3.3%	(2.2%)	5.0%	(7.7%)	(20.7%)	8.8%	4.4%	2.6%	(7.68%)
EGPCVF FY21	1.9%	4.1%	(1.5%)	4.6%	5.3%	2.2%							17.55%
Benchmark FY21	0.5%	2.8%	(3.7%)	1.9%	10.2%	1.2%							13.20%

*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 rose 2.2% in December. Our benchmark rose 1.2%.

Despite sharp falls in two of our larger holdings (LAW and SIT), the fund posted another good gain in December, outperforming our benchmark. There was no news of note in the portfolio, save for a large earnings upgrade from Shriro (SHM), which was then offset by the largest shareholder selling down their holding to get below 20% as they were subject to a takeover offer requiring them to do so (or bid for SHM).

Quarterly Investor Conference Call: -

We started a conference call series for the September Results and committed to run it each quarter. We will run the December quarter meeting Thursday 14 January at 12:30pm. Like last time, investors are welcome to either submit their questions prior, or to ask them on the day. We will not have a presentation, the meeting will simply be a question-and-answer session, where I shall answer questions until there are none left. The meeting link is available here: https://us02web.zoom.us/j/87040329651?pwd=dSt4THBLU3hIWldadC9UdXUvdkJUdz09 (passcode: 999424). This will also allow any questions about the unitholder meeting on 22 January to be asked prior to the event.

Searching for Eleven Figures. Part Two: -

The first in this series was published last month which for those who missed it might be worth revisiting (.pdf) to understand the context of what the series tries to demonstrate. For those unwilling to revisit the first in the series, in simple terms, it is an attempt to see how far out we might need to look to see our larger holdings reach a $10b valuation (11-figures).

This instalment will look at the holding we have which has the least work to do to get to $10b, Dicker Data (DDR). The "least work" to get to a $10b valuation as DDR is the largest market capitalisation holding in the fund with a valuation of $1.72b at the $10 share price at the time of writing. Assuming no further equity issuance (there will be at least some as DDR run a dividend reinvestment plan), a $10b valuation would require a share price of ~$58, or a ~5.8-fold increase. We will examine what is a realistic timeframe to achieve this under optimistic and less-optimistic scenarios. Looking out in this way makes it easier to hold through the vicissitudes the market periodically throws at us. DDR would have been close to the easiest share on the ASX to hold since it IPO'd at 20c in 2011, but despite a share price graph that looks relentlessly "up and to the right", DDR share price has observed 14 share price retractions of more than 20% (using end of day pricing – more if you use intraday) through this period, including 4 of more than 30% "peak-to-trough" including the pandemic fall of about ~50%. Retaining your shareholding through these moves has not necessarily been easy but was made easier if one was able to focus their eye a few years out to tune out the share-price ructions.

Twenty largest holders of quoted equity securities

Name	Number Held	Percentage of Issued Shares %
Mr David John Dicker	63,750,000	50.40%
Ms Fiona Tudor Brown	56,250,000	44.47%
Mr D Dippie & Mrs J Dippie & Bramwell Grossman Trustees (Dippie Family A/c)	925,925	0.73%
Bluedale Pty Ltd (Comb Superannuation Fund A/c)	602,310	0.48%
Mr S F Borness & Mrs C A Borness <Celerity	240,000	0.19%
Estate of Mrs J M Bond	227,700	0.18%
Mr Zhen Li	204,279	0.16%
Mrs Susie Heidi Brookes	162,071	0.13%
Bluedale Pty Ltd (Comb Superannuation Fund A/c)	160,900	0.13%
Mr A Pulitano	100,000	0.08%
EGP Fund No 1 Pty Ltd	95,000	0.08%
Mr P Pulitano	80,721	0.06%
Denman Income Limited	73,668	0.06%
Mr N J Remfrey & Mrs S A Remfrey	71,250	0.06%
Mr R Keown & Mrs T J Keown	63,290	0.05%
MR B Robins	52,868	0.04%
Mr T H N Trinh	36,044	0.03%
Secomber Investments Pty Ltd	36,000	0.03%
J A Glass & Co Pty Ltd (Glass Family Account)	31,900	0.03%
Mr M A R Heilin & Mrs S L Helin	30,000	0.02%
Mr L H Trinh	30,000	0.02%
	123,223,926	97.41%

The picture above shows the original funds holding in DDR at 30 June 2012, we had just begun our accumulation of the DDR stake we hold to this day (we began buying in late April and early May 2012, there were 183,613 shares traded from the time we started buying until the June 30th balance date, so we spoke for 51.7% of all traded volume from the time we started buying for more than two months, such was the illiquidity at the time. The business at the time of our first purchases was capitalised at ~$50m and DDR has been about the most valuable lesson of my investing career in:

1. The value of elite management and good incentives; and

2. How much value can be created even in a difficult industry when flawless execution is demonstrated.

DDR is a distributor of IT equipment/software. There is secular growth in that market as you would expect with virtually all businesses increasingly reliant on technology. It is estimated that the annualised growth in secular IT spend has been 5.1% per annum for the past 5 years, it is hard to imagine that rate reduces meaningfully in coming years, most industry commentators predict modest acceleration in the rate.

Furthermore, the proportion of IT expenditure that is routed through distributors is growing. We have seen estimates that the distribution market growth has been nearer to 7% annually for the past few years and as suppliers try to make their distribution more efficient by utilising specialist distribution.

More specifically to DDR itself, annualised revenue growth in the 5 years to 30 June 2020 has been 13.6%. What you therefore have in DDR is a distributor in one of the fastest growing sectors of the economy with the industry (distributors) growing at above-trend rates and DDR itself is the "best-of-breed" within that industry.

The question investors must ask themselves is does the future look like the past? With respect to DDR, we will make two sets of revenue assumptions. The "optimistic" assumption is that for at least the next decade, DDR will be able to grow revenue at 10.5%. This is meaningfully below the past decade which despite it being our "optimistic" assumption makes sense because DDR have steadily added new vendors through that period, we expect the rate of new vendor additions will slow and the scale of those new vendors is also likely to be smaller relative to the enlarged DDR business. Plus, we prefer even our optimistic assumptions to be conservative.

For our "pessimistic" assumptions, we will assume DDR is only able to grow at 5.5% annually. This is quite close to expected system growth and would require an enormous diminution in performance compared to every year since DDR listed in 2011. With an 80% increase in warehouse space to start the year in 2021 enabling distribution of items previously impossible due to space constraints, the likelihood of only matching system growth is very low.

As to expenses, over the past 5 years, all costs below the "COGS/Inventory" line have grown at 7.23%, or at 53.1% of the rate of revenue increase. This is the "secret sauce" of a good distribution business - ∑13.6% revenue growth + 7.2% cost growth = 23.9% NPAT CAGR.

Our "pessimistic" assumption will be that despite the new, purpose-built factory and offices being specifically designed to optimise productivity, expenses will henceforth grow at 60% of the rate of revenue. Our "optimistic" assumption is that the design works as expected and increased scale and efficiency mean expense growth can be further moderated and kept to 50% of the rate of revenue growth.

The other key inputs are gross margins (GM), for which the simple average over the last 10 halves has been 9.2%. We will use this as the "pessimistic" input as with increased scale, we expect this will be an effective floor. The best GM halves have been 9.6-9.8%, scale only helps so much with margins, and our "optimistic" assumption will be that the GM can average 9.7% over the out years.

For simplicities sake, I have used $2b as the starting revenue number which should be conservative for CY2020. The above-described inputs generate the following outputs (with the same caveat as last months that these estimates will definitely be wrong, but to derive a valuation, we need a framework):

Pessimistic	Revenue Low	Gross Profit	Expenses	PBT	NPAT	Growth
CY2020	$2,000m	$188.0m	$109.5m	$78.5m	$55.0m	-
CY2021	$2,110m	$194.1m	$113.1m	$81.0m	$56.7m	3.2%
CY2022	$2,226m	$204.8m	$116.8m	$88.0m	$61.6m	8.6%
CY2023	$2,348m	$216.1m	$120.7m	$95.4m	$66.8m	8.4%
CY2024	$2,478m	$227.9m	$124.7m	$103.3m	$72.3m	8.3%
CY2025	$2,614m	$240.5m	$128.8m	$111.7m	$78.2m	8.2%
CY2026	$2,758m	$253.7m	$133.1m	$120.7m	$84.5m	8.0%
CY2027	$2,909m	$267.7m	$137.4m	$130.2m	$91.2m	7.9%
CY2028	$3,069m	$282.4m	$142.0m	$140.4m	$98.3m	7.8%
CY2029	$3,238m	$297.9m	$146.7m	$151.3m	$105.9m	7.7%
CY2030	$3,416m	$314.3m	$151.5m	$162.8m	$114.0m	7.6%
CY2031	$3,604m	$331.6m	$156.5m	$175.1m	$122.6m	7.5%
CY2032	$3,802m	$349.8m	$161.7m	$188.2m	$131.7m	7.5%

Optimistic	Revenue Low	Gross Profit	Expenses	PBT	NPAT	Growth
CY2020	$2,000m	$194.0m	$109.5m	$84.5m	$59.2m	-
CY2021	$2,210m	$214.4m	$115.2m	$99.1m	$69.4m	17.3%
CY2022	$2,442m	$236.9m	$121.3m	$115.6m	$80.9m	16.6%
CY2023	$2,698m	$261.8m	$127.7m	$134.1m	$93.9m	16.0%
CY2024	$2,982m	$289.2m	$134.4m	$154.9m	$108.4m	15.5%
CY2025	$3,295m	$319.6m	$141.4m	$178.2m	$124.7m	15.1%
CY2026	$3,641m	$353.2m	$148.8m	$204.3m	$143.0m	14.7%
CY2027	$4,023m	$390.2m	$156.7m	$233.6m	$163.5m	14.3%
CY2028	$4,446m	$431.2m	$164.9m	$266.3m	$186.4m	14.0%
CY2029	$4,912m	$476.5m	$173.5m	$303.0m	$212.1m	13.8%
CY2030	$5,428m	$526.5m	$182.7m	$343.9m	$240.7m	13.5%
CY2031	$5,998m	$581.8m	$192.2m	$389.6m	$272.7m	13.3%
CY2032	$6,628m	$642.9m	$202.3m	$440.6m	$308.4m	13.1%

The consensus PBT for CY2020 for DDR is ~$80m, which at a 30% tax rate implies a $54m NPAT. At $10 per share, the market capitalisation is ~$1,720m, meaning the implied multiple is currently 31.8x. 2020 is almost over and the market is forward looking, consensus for CY2021 NPAT appears to be ~$60m meaning the implied "forward looking" multiple is about 28.5x.

The current multiple the market ascribes DDR is therefore 28-32, with the mid-point being ~30x. In a low interest rate environment, with a business such as DDR that has metronomically grown its earnings, 30x feels full, but reasonable in light of the historic 95% dividend payout ratio that means the growth is generally delivered at an incredibly high incremental return on capital.

Returning to the tables, we estimate that if the "pessimistic" table were the outcome delivered, that in the terminal year (2032) that the multiple the market is willing to ascribe to the business would likely have contracted to the range of 22.5-27.5, as despite the high dividend payout ratio, ~8% annual earnings growth does not support a multiple much higher than that (unless interest rates are still zero in another decade, but that is another story).

For the "optimistic" table, we have posited a potential multiple range of 27.5-32.5x, which if NPAT growth averages ~15% for the next 12 years as the optimistic outcome implies is not an outrageous expectation.

Readers of the first instalment (.pdf) of "Searching for Eleven Figures" will after reading this screed on the valuation of DDR have a better understanding of why we are so enamoured of the RBL opportunity. The IRR's available based on our most pessimistic RBL valuation were higher than the highest IRR's from our most optimistic DDR valuation (though the IRR's need to be adjusted based on the now higher valuation the market is now ascribing to RBL).

To look at the valuations, I have prepared 4 tables based on the high/low multiples posited for the pessimistic/optimistic outcomes:

Pessimistic DDR - 22.5x	
$(1,720.0)	31/12/2020
$53.9	30/06/2021
$58.5	30/06/2022
$63.4	30/06/2023
$68.7	30/06/2024
$74.3	30/06/2025
$80.2	30/06/2026
$86.6	30/06/2027
$93.4	30/06/2028
$100.6	30/06/2029
$108.3	30/06/2030
$116.4	30/06/2031
$125.1	30/06/2032
$2,963.5	31/12/2032
8.51%	IRR

Pessimistic DDR - 27.5x	
$(1,720.0)	31/12/2020
$53.9	30/06/2021
$58.5	30/06/2022
$63.4	30/06/2023
$68.7	30/06/2024
$74.3	30/06/2025
$80.2	30/06/2026
$86.6	30/06/2027
$93.4	30/06/2028
$100.6	30/06/2029
$108.3	30/06/2030
$116.4	30/06/2031
$125.1	30/06/2032
$3,622.0	31/12/2032
9.97%	IRR

Optimistic DDR - 27.5x	
$(1,720.0)	31/12/2020
$65.9	30/06/2021
$76.9	30/06/2022
$89.2	30/06/2023
$103.0	30/06/2024
$118.5	30/06/2025
$135.9	30/06/2026
$155.3	30/06/2027
$177.1	30/06/2028
$201.5	30/06/2029
$228.7	30/06/2030
$259.1	30/06/2031
$293.0	30/06/2032
$8,481.0	31/12/2032
18.56%	IRR

Optimistic DDR - 32.5x	
$(1,720.0)	31/12/2020
$65.9	30/06/2021
$76.9	30/06/2022
$89.2	30/06/2023
$103.0	30/06/2024
$118.5	30/06/2025
$135.9	30/06/2026
$155.3	30/06/2027
$177.1	30/06/2028
$201.5	30/06/2029
$228.7	30/06/2030
$259.1	30/06/2031
$293.0	30/06/2032
$10,023 ✓	31/12/2032
19.89%	IRR

We can see that after factoring for a 95% dividend payout ratio, the pessimistic outcome coupled with the 22.5x terminal multiple generates an IRR of 8.51% and the optimistic outcome coupled with the 32.5x terminal multiple generates a 19.89% IRR. None of the above calculations factor for the value of franking credits, which given the enormity of the dividend stream are definitely a factor that should be considered. Adding the full value of franking credits to the IRR's would increase them by 1.7-1.8%.

The implicit mid-point of the calculation above is 14.2% at $10 per share, which is a perfectly excellent investment outcome if achieved, but is below the 20% minimum (to allow a sufficiently high margin of safety) we use as our mid-point hurdle at the time we deploy new capital into any investment. For the mid-point of the range to be in our "buy-zone", the DDR share price would need to drop to about $6.85. Coincidentally, the last time we purchased DDR shares was at $6.70 in early May 2020. The corollary of the "buy price" of $6.85 is that our intended "sell price" requires mid-point of expected IRR to fall below 10%. For that to happen, based on the range of assumptions above, the share price would need to exceed $14.50.

Our effective "do nothing" range is $6.85-$14.50, with the caveat that if we have other opportunities that meet our target IRR, and our cash levels are below where we would prefer them, then the holdings that have the lowest prospective IRR based on our range of expectations are always available as a funding source.

What should management do?: -

Exactly what they have been doing… A business that has grown the value of its shares 50-fold in less than a decade and returned a further ~6x the IPO price in dividends in that same period needs no advice from anyone about what to do. The best advice anyone could give is "keep doing what you have been doing".

The terminal multiple of 32.5x applied to the 2032 projected earnings gets us to the "eleven figure" target implied by the name of the series. It is possible given the high incremental return on capital DDR generate that they could get to a $10b valuation sooner than 2032 if they chose to lower their dividend payout ratio and apply a little more retained earnings to growth. This is unlikely, David Dicker has repeatedly stated his view that the raison d'être of business is to put their earnings into the pockets of their owners. His oft stated view is that if a really attractive investment opportunity came along and the cost of capital meant it made sense to raise some equity to fund the investment, then that's what they would do.

Which brings us to the other thing management could potentially do to accelerate into the eleven-figure destination, find another acquisition of the quality they made in the 2014 Express Data (ED) acquisition. The ED acquisition was apparently referred to internally as the "deal of the century", a deal with the same qualitative attributes is likely to be hard to find. This is confirmed by the fact that it has been 6 years since the ED acquisition without a follow on. Both David Dicker and the rest of the executive team have repeatedly stated they would almost certainly debt-fund any acquisition, prove the bona-fides of the acquisition decision, then raise equity at the higher price ascribed once the market realised what a good deal it was. This type of self-belief, particularly from a management team with as high an insider ownership as the DDR team have is comforting as a minority shareholder.

The one advantage DDR has in their hunt for an acquisition is that the price the market now ascribes to DDR equity is meaningfully higher than it was in 2014, as such finding "accretive" acquisitions should be easier than it was then. Despite that, the discipline of the DDR management team will ensure that there will be demonstrated economic benefits for any acquisition and that they will be careful to ensure any business acquired will thrive under the DDR system.

A Fond Farewell to 2020: -

There are a huge number of people and pundits wishing 2020 "good riddance". I cannot understand the inclination. Despite the unusual challenges the year presented, there was much of value to be extracted from 2020, just as there is every year. We should never wish our lives away, but always delight in every passing year, no matter the joys or difficulties it brought us. To be sure, our investment outcomes in 2020 fell well short of what I would describe as an acceptable level, but they have allowed us to build a base for several strong years of outperformance. The one "good-riddance" is this will be the last time I will discuss COVID-19 in my updates…

The most surprising lesson for me was just how quickly "democratic" governments around the world reverted to authoritarianism at the first sign that the citizenry would not resist/would tolerate it. The next most surprising lesson was how easily most citizens will relinquish their rights during a "crisis", even if the crisis is not that much of a crisis at all.

The biggest learning from 2020 was an improved understanding of how easily Nazism might have taken hold in 1930's Germany as a credulous citizenry just ate up every piece of misinformation they were fed by media, governments and other organisations without much in the way of questioning the veracity of the information being jammed down their throats.

There will also (hopefully) be some excellent epidemiological outcomes for any similar future events too. Perhaps I am being Panglossian in my outlook, but if an event of similar presentation should come along in future years, the world will be much better prepared. My strident hope is that a key learning from COVID-19 will be an approach more based in risk/reward or cost/benefit than the approach taken by most countries in 2020.

Any future epidemics are likely to have much greater efforts placed in capturing more accurate data, earlier upon which to make decisions. If a virus with an Incidence Fatality Rate (IFR) of just 0.23% (.pdf) should come along again (such as SARS-COV2), I am convinced the overreaction demonstrated globally in 2020 would be unlikely to prevail again, this should be celebrated.

We would instead take the more prudent approach of securing the elderly and the vulnerable; enact some social-distancing measures and an increased focus on personal hygiene. If a more deadly virus were to present (such as 1918's Spanish Flu – H1N1), which is estimated to have had an IFR of between 3-5% (13-22x worse than COVID), the global apparatus for dealing with such an event is now in place, with the 2020 reaction to SARS-COV2 a perfect template for an event of similarly deadly presentation as Spanish Flu.

The difficulty COVID presented was that it was an uncommonly contagious virus amongst people not predisposed to a base level of immunity (East Asians primarily demonstrated much higher immunity level due to the preponderance of coronaviruses that have evolved in that region over millennia). Estimates vary and are distorted by the lockdowns undertaken in most countries. The midpoint of studies pinpoints a level of contagion for COVID that is roughly 8x the level of seasonal influenza. Fortunately, the fatality of SARS-COV2 seems to be only about half of a strong seasonal flu. If this is right, a "let it rip" strategy would have resulted in ~2.6 million deaths globally (roughly 4x a strong seasonal flu outcome) in 2020, meaning the lockdowns undertaken globally saved perhaps 800,000 lives in 2020 (given the current estimated 2020 COVID deaths of 1.8m), which is no small feat.

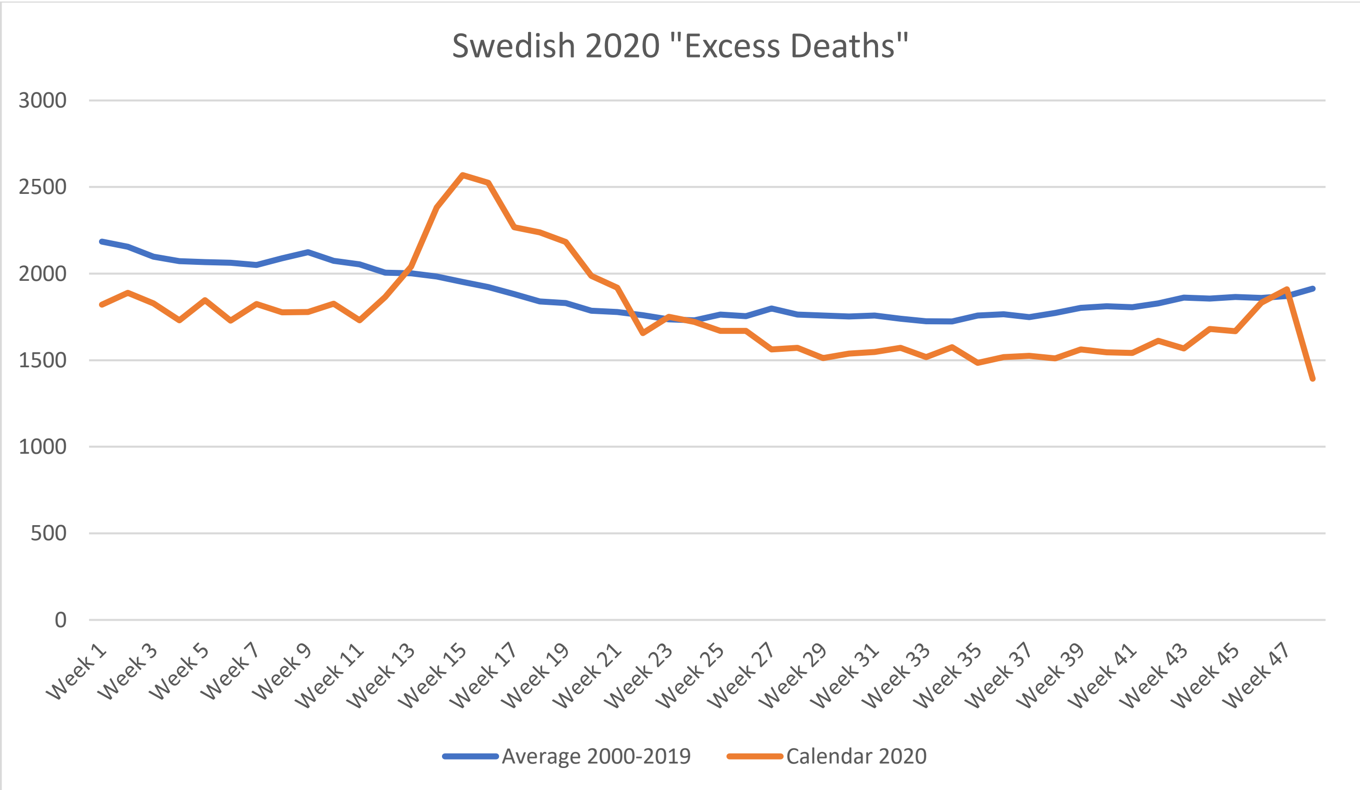
To wrap some financial data around this, the IMF estimated in January that 2020 global GDP growth would be 3.3%. The current estimate is for a contraction of 4.9%. Even if politicians globally had reacted with more equanimity to the threat COVID-19 presented, it is reasonable to assume the target of 3.3% growth would not have been achieved. If we instead assume that a more stoic approach to the pandemic might have seen flat global GDP, the mathematics implied is that ~US$4.3t of economic activity was shed in 2020 by the chosen global policy path. This implies the cost of each life saved by the estimate above is something in the order of $5.4m of economic loss.

Global GDP is currently estimated to bounce back to just below 2019 levels by the end of 2021. That being the case, a "do nothing approach" to the pandemic would likely see the cumulative loss of global GDP of ~US$6.3t in 2020 and 2021. If we assume the lockdowns have meaningfully slowed the spread of COVID-19 and another ~1.2 million lives will be saved by the interventions undertaken in 2021, this lowers the cost of each life saved to ~US$3.15m, which as unpleasant as it is to say, is too high a price to pay to save lives which at the median were a little more than 2 years older than the median life lost on the year. The reason I take optimism from 2020 is that I sincerely doubt the expensive economic catastrophe caused by overly aggressive lockdowns in 2020 will be repeated unless there is a genuine (i.e. demonstrated by the data) benefit to be earned by doing so.

The gold-standard for measuring the effects of a pandemic is to measure "excess deaths". The most effective way to do this is to take the population adjusted deaths from prior years and compare them to the year to date "all cause" deaths. Sweden became a global pariah because of the relatively "light touch" approach with minimal regulatory impost on their citizenry other than asking them to behave sensibly as the virus ran its course. With this in mind, to understand how reliable mainstream reporting about the horrific outcomes as a consequence of this "lax policy" was, I mulled over some actual statistics to see how 2020 all-cause death compares to Swedish historic rates to get a sense of how reliable the media portrayal of the Swedish response has been.

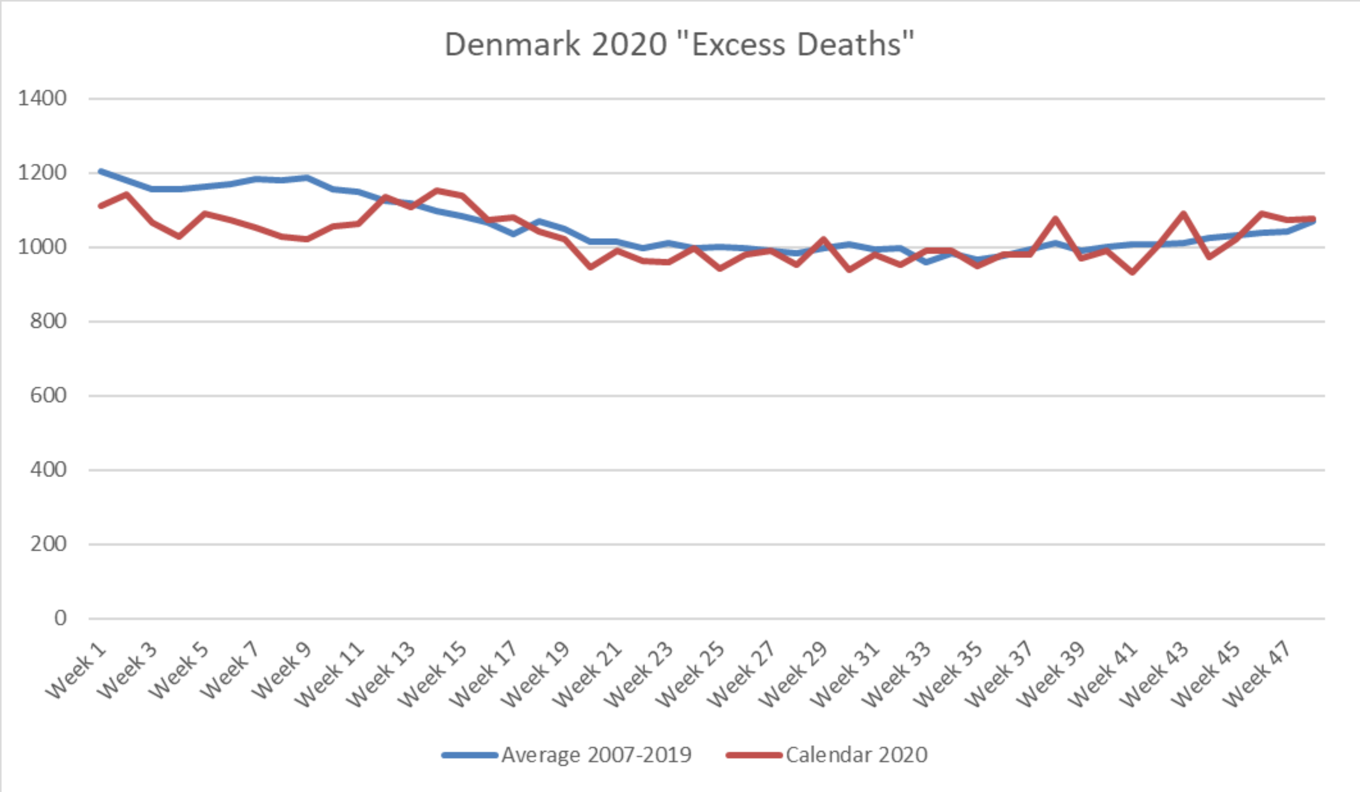
The historic data for death rates for most countries can be accessed here. Actually reviewing death rates for 2020 against historic norms is much more statistically useful than saying "country A has had B deaths, which means it has performed worse than country X which has had Y deaths", such statements are useless unless they examine how all-cause deaths for the examined period compare to historic norms.

People are universally surprised when I show them, but the population adjusted death rate for Sweden from 2000-2019 for the first 48 weeks of the year is 90,287 people. In 2020 so far, the population adjusted "all-cause" deaths for Sweden after the first 48 weeks are 84,965 (5.9% below the 21st century population adjusted average!):



The bleating masses will scream "it's irrelevant unless you compare to Sweden's neighbours, so I quickly made the same checks against Sweden's closest neighbour Denmark. Denmark certainly did not have the "COVID" experience of Sweden in weeks 14-21 of the year that are visible on the previous graphic but compared to the Swedish 2020 all cause death which is running 5.9% below historic levels, Danish all-cause deaths for the first 48 weeks of 2020 are running 2.7% below historic averages as shown on the following graph. The spreadsheet underpinning these graphs is here.

It would be nice to see this sort of statistically literate and ideologically impartial examination of data by journalists when they present information on important matters such as the handling of a pandemic response, but I shall not be holding my breath for fear that it would inevitably lead to unconsciousness.



The information presented prior is not intended to "trigger" anyone with any ideological disposition, but rather to encourage all readers to sceptically assess anything put in front of them as evidence and if something does not feel right, use first principles, and look at the original data for yourself, impartially.

The reason I ask my readers to do this is that globally significant media organisations, NGO's, government bodies and the like have disgraced themselves with their behaviour and reporting in 2020. The media organisations I can understand, they often have an ideological bent in their readership they need to feed, and bad news sells. The organisation whose poor behaviour has most troubled me in 2020 has been the World Health Organisation, for an entity I had previously assumed would have been enormously useful in a year such as 2020, it has made every post a loser. From parroting the Chinese line about COVID-19 being under control in January (as China locked down internal flights, but kept open international), to giving advice they reversed at almost every step, if that organisation is not dismantled and rebuilt from the ground up in coming years, it will never have any credibility again.

The ZFC update: -

CEO of The ZFC, Brad Hughes (brad.hughes@thezfc.com.au) and I travelled to Brisbane this month for a series of excellent meetings with talented prospective partner fund managers from the Sunshine State.

We are in the process of finalising our investment committee and will then begin building our website and creating the fund infrastructure.

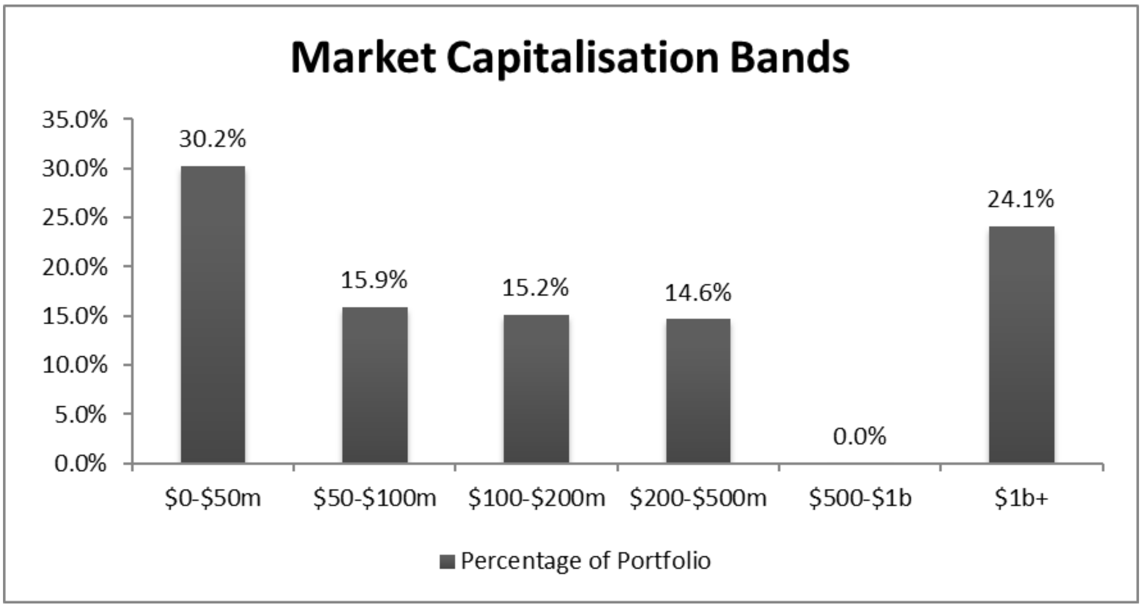
As always, prospective investors, or managers who are willing to operate with a ZFC compliant fee-structure are invited to contact Brad or myself. Brad will be available on the quarterly investor call should anyone wish to direct any questions at him.

Key Portfolio Information: -

Our top 10 holdings on 31 December 2020 were:

Rank	Holding	Percentage Equity Weighting	Percentage Portfolio Weighting
1	United Overseas Australia (UOS.ASX)	10.6%	10.1%
2	Redbubble (RBL.ASX)	8.3%	7.9%
3	Undisclosed	7.4%	7.1%
4	Smartpay (SMP.ASX)	6.1%	5.9%
5	PPK Group (PPK.ASX)	5.3%	5.0%
6	Dicker Data (DDR.ASX)	5.3%	5.0%
7	LawFinance (LAW.ASX)	5.1%	4.8%
8	National Tyre & Wheel (NTD.ASX)	4.0%	3.8%
9	Kangaroo Plantation (KPT.ASX)	3.4%	3.3%
10	Site Group International (SIT.ASX)	3.2%	3.0%

Our largest 5 holdings now comprise 37.7% of our invested capital, our top 10 holdings are 58.6% and our top 15 represent 72.1%. Cash and cash equivalents are 5% of the portfolio. The median market capitalisation is $109.3m. Weighted average market capitalisation is $430m.



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]	-0.16
Additional investments	$5,000 (Minimum) $200,000 (Maximum)	Sortino Ratio[1]	0.79
Applications/redemptions	Monthly	Annualised Standard Dev. – EGP Annualised S/D - Benchmark	20.01% 16.77%
Distribution	Annual 30th June	Largest Monthly Loss – EGP Largest Monthly Loss - Benchmark	-28.9% -20.7%
Management fee	0%	Largest Drawdown – EGP Largest Drawdown - Benchmark	-33.9% -26.7%
Performance fee (<$50m) Performance fee (>$50m)	20.5% (inc GST) 15.375% (inc GST)	% Of Positive Months – EGP % Of Positive Months - Benchmark	65.9% 65.9%
Auditor	Ernst & Young	Cumulative return[2] – EGP Cumulative return[2] – Benchmark	27.4% 30.8%
Custodian/PB	NAB Asset Services	1-year return[2] – EGP 1-year return – Benchmark	(6.1%) 1.4%
Responsible Entity	Fundhost Limited	3-year annualised return[2] – EGP 3-year annualised – Benchmark	5.3% 6.7%
Fund Size	$81m	5-year annualised return[2] – EGP 5-year annualised – Benchmark	N/A N/A
Mid-Price for EGPCVF Units Accumulated Franking per Unit	$1.1177 $0.0040	Buy Price for EGPCVF Units Sell Price for EGPCVF Units	$1.1193 $1.1160

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.

Appendix 1: -

Combined funds cumulative return since inception: