EGP Concentrated Value Fund

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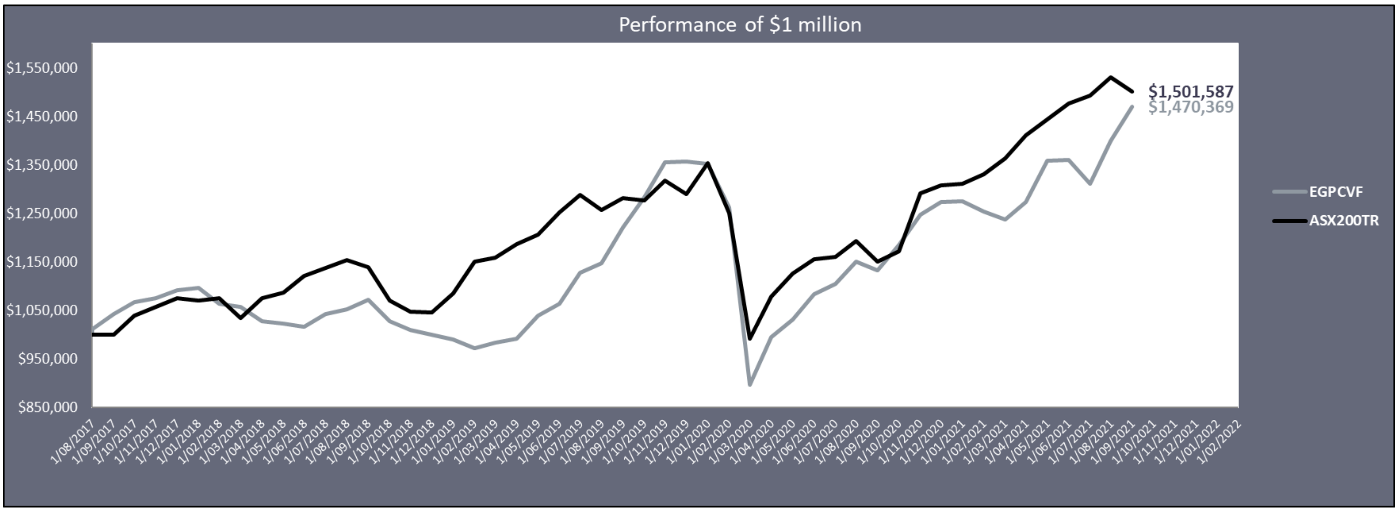
EGP Concentrated Value Fund – 30 September 2021

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%	0.1%	(1.7%)	(1.3%)	2.9%	6.7%	0.1%	25.50%
Benchmark FY21	0.5%	2.8%	(3.7%)	1.9%	10.2%	1.2%	0.3%	1.5%	2.4%	3.5%	2.5%	2.3%	27.80%
EGPCVF FY22	(3.6%)	6.7%	5.1%										8.08%
Benchmark FY22	1.1%	2.5%	(1.9%)										1.71%

*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 5.1% in September. Our benchmark fell (1.9%). It was again a very good month for the fund in absolute terms, and even better in relative terms. The market could not quite sustain 12 consecutive months of positive returns, falling in September for the first time since the previous September. Our own positive result is largely attributable to the listing of Li-S Energy (LIS) which we have discussed at some length in the past few newsletters. I first wrote about

LIS in our April 2020 monthly report (.PDF), right in the teeth of the global Covid-19 panic. The piece holds up well in hindsight, with the story unfolding more perfectly in the intervening 17 months than we could have planned with PPK up about 6-fold since then and LIS around four times our average cost at the months closing price as market participants gradually realised the significance of the developments we discussed at that time.

The heightened volatility I have lately promised has been very evident in the portfolio this month. After the LIS price spike on listing, the stock briefly became the funds largest holding, and the fund was at one stage a couple of days before the end of the month up more than 10% against our benchmark which was down by ~4% at that point. With three large positions in LIS, PPK and Cettire (CTT) all trading in volatile price ranges, as the market struggles to come to a consensus about their correct valuations, unitholders should expect larger monthly swings than we have generally had previously, save perhaps for the first half of 2020.

I have had a few of our unitholders jokingly remind me of my prediction in last month's newsletter that I would **"be surprised if the stock ever trades below $1 per share (the IPO price is 85c)",** given the share price did not trade below $2, in the first few days, my forecasting skills were rightly lambasted with a tongue firmly in cheek by those few. I would happily be wrong in that direction time and again provided being incorrect is as profitable for the fund as it has been in the case of LIS so far. The share price may well continue to drift lower, such a nascent technology as the Li-S battery is incredibly difficult to value, it could be worth tens of billions if it captures meaningful market share (we have attempted to enumerate the financial scale of the opportunity in previous reports) or very little if some boffin develops a cheaper/better solution. This is always possible with emerging technologies with large addressable markets, smart people will always pursue such problems. It is for this reason my views on climate change are more sanguine than most. The incredible ingenuity of the earth's best and brightest will mean that technological solutions to the end of fossil fuels we cannot yet conceive of will arise as the economic incentive to pursue them arises in kind. Hopefully they will be less environmentally destructive than the first few generations of renewables.

The second reason is of course because the benefits of some of the coldest parts of the planet becoming more habitable as the world warms may well outweigh the downsides of some of the hottest areas becoming less habitable, but that is a conversation for folks of a more zealous demeanour than mine to get pulsating neck veins about.

Sceptics might think the LIS team have serendipitously stumbled onto their solution to the shortcomings of the Lithium-Sulphur battery much like Sir Alexander Fleming did with penicillin almost a century ago. For the scientifically minded among our readers, a thorough perusal of this paper (.PDF) which was co-authored by the professors working for LIS is a long, but worthwhile diversion. The paper discusses in some illuminating detail the twenty-eight most prominent prospective chemistries the scientists worked through before the "eureka moment" came with the Boron Nitride Nanotube (BNNT) solution to their Lithium-Sulphur problem.

The most exciting development for LIS shareholders is the potential early revenues from their Lithium Nano-mesh product. The Nano-mesh was developed as part of the solution to the issue of dendrite growth that had hobbled the cycle life of Li-Sulphur batteries. The first prototypes indicate that problem is now solved, what many investors had not fully countenanced is the fact that dendrite formation, whilst less of an issue in Li-ion batteries, still materially reduces the useful lives of the current generation of batteries. Adapting the LIS Nano-mesh into the current installed factory base for the next generation of Li-ion batteries will produce batteries meaningfully superior to the current generation with minimal process change required and only a modest cost difference. Given the toxic heavy metals and predisposition to combustibility of the current generation of batteries, extending their lives and improving their safety case at modest change to cost by adding the Nano-mesh to the manufacturing process sounds like the ultimate no-brainer.

We modestly trimmed our LIS position in the craziness of the first couple of days trading. The remainder of our holding is escrowed, so we will watch with interest as Dr. Finniear and his team try to capitalise on the massive opportunity of the best known commercially viable and scalably producible battery chemistry.

We have commenced buying PPK shares with the proceeds of our LIS sales. The mispricing of the two businesses is one of those mystifying market dislocations we long for as money managers. PPK has a majority stake in LIS and a raft of other near-term commercial opportunities, yet LIS has a larger market capitalisation. I have no commercial basis for this view, but if the LIS battery is successfully commercialised, we expect the profits to PPK from selling the BNNT required to produce the Li-S batteries would rival the licensing/royalty income LIS would earn.

Further to that, inside of PPK tent are opportunities to develop a new generation of bullet-resistant glass, hardened alloys, and precious metals among others. That is not to mention the White Graphene business we discussed in last months newsletter. Knowing as we now do the scale of that opportunity, I would happily bid upwards of four times the price we paid for our original small stake in the seed-round (we would have taken most of the seed round, but the bidding was strong, and we were heavily scaled back). Depending on the rate and cost of production from the next iteration of manufacturing equipment they are using the seed capital for, a fourfold valuation increase may be undercooking the opportunity.

Your Homework Project: -

We have two retail businesses in the fund (and a third we may reveal next month if we complete our buying in October). As we approach Christmas, it would be enormously valuable to my maintenance due diligence if our unitholders and readers could do some of their Christmas shopping through Cettire or Redbubble and report back on the customer experience.

We have years of anecdata on Redbubble but would still value any feedback. Our primary interest lies with Cettire, if you are inclined to purchase a luxury good for someone this Christmas, use Cettire. I would love an email from you to describe the experience. Of particular interest is the returns experience, so if anyone has cause to return a product, any details on the process and how user-friendly it was would be welcomed. The one criticism of Cettire that seems to carry water is that the returns process is ungainly, which is not uncommon for a drop shipping business, we would nonetheless value feedback on purchases from both businesses and have put out the request in October to ensure unitholders have plenty of time to shop and can use the lowest cost shipping options and still receive their products in time for Christmas.

The other option for EGP unitholders wanting their Christmas purchasing dollar to assist the fund is to consider an Everdure by Heston BBQ from Shriro. If one must spend money, better to do so with a business in which you have an economic interest.

Quarterly Video Conference: -

We will run the Quarterly video conference for the September quarter on October 19th at 12:30 pm. The details are as follows:

Join Zoom Meeting:

https://us02web.zoom.us/j/83969873419?pwd=alpiVlEwRHFCUGh6bzE2U1VFM0M3Zz09

Meeting ID: 839 6987 3419

Passcode: 258523

Unitholders (and non-Unitholders) are welcome to submit questions by email beforehand or ask them in person on the day.

I will ensure the recording works this month so those who are unable to make the event can watch at their leisure.

The ZFC update: -

As mentioned in last month's report, the Cipher Fund launch will now be in or around Q2 of 2022.

Brad has discussed this delay with our prospective Managers.

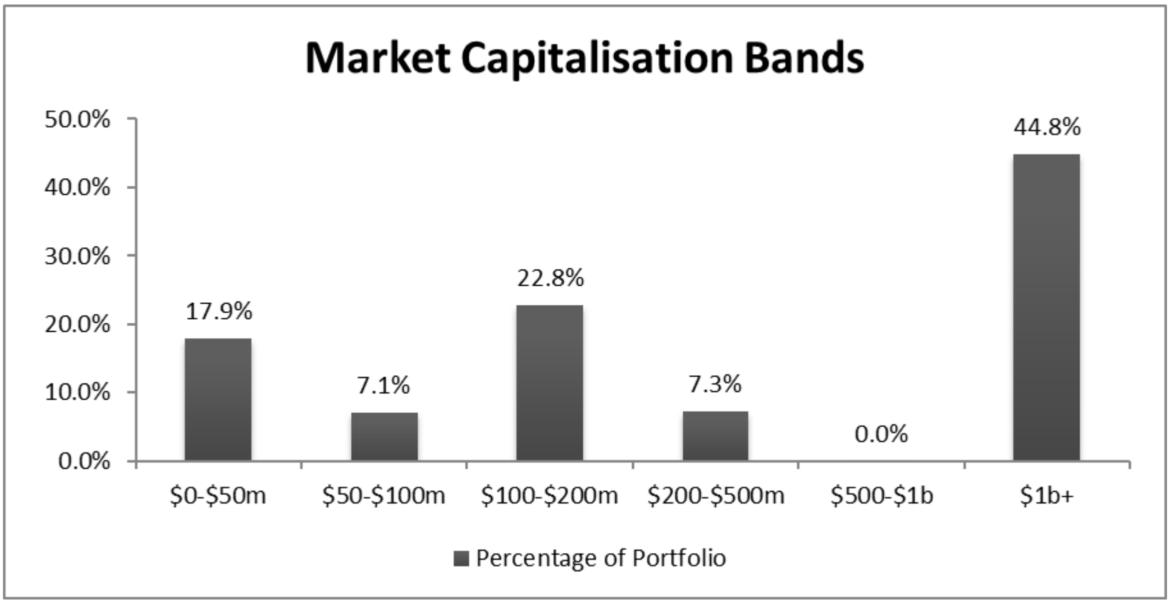
Prospective managers and investors are invited to contact CEO of ZFC, Brad Hughes (brad.hughes@thezfc.com.au) or myself.

Key Portfolio Information: -

Our top 10 holdings on 30 September 2021 were:

Rank	Holding	Percentage Equity Weighting	Percentage Portfolio Weighting
1	PPK Group (PPK.ASX) inc. White Graphene pre-IPO holding	9.8%	9.4%
2	United Overseas Australia (UOS.ASX)	9.0%	8.6%
3	Cettire (CTT.ASX)	8.7%	8.3%
4	Li-S Energy (LIS.ASX)	7.6%	7.2%
5	Redbubble (RBL.ASX)	6.0%	5.8%
6	Smartpay (SMP.ASX)	5.5%	5.3%
7	Shriro Holdings (SHM.ASX)	5.2%	5.0%
8	National Tyre & Wheel (NTD.ASX)	3.9%	3.7%
9	Dicker Data (DDR.ASX)	3.8%	3.6%
10	Tellus (Unlisted)	3.6%	3.5%

Our largest 5 holdings now comprise 41% of our invested capital, our top 10 holdings are 63% and our top 15 represent 77%. Cash and cash equivalents are ~4% of the portfolio. The median market capitalisation is $227.4m. Weighted average market capitalisation is $651m.



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	Fund Closed	Sharpe Ratio[1]	-0.13
Additional investments	Fund Closed	Sortino Ratio[1]	0.84
Applications/redemptions	Redemptions only, monthly	Annualised Standard Dev. – EGP Annualised S/D - Benchmark	18.9% 15.3%
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	66.0% 70.0%
Auditor	Ernst & Young	Cumulative return[2] – EGP Cumulative return[2] – Benchmark	47.0% 50.2%
Custodian/PB	NAB Asset Services	1-year return[2] – EGP 1-year return – Benchmark	29.8% 30.6%
Responsible Entity	Fundhost Limited	3-year annualised return[2] – EGP 3-year annualised – Benchmark	11.1% 9.7%
Fund Size	$87m	5-year annualised return[2] – EGP 5-year annualised – Benchmark	N/A N/A
Mid-Price for EGPCVF Units Accumulated Franking per Unit	$1.2033 $0.0039	Buy Price for EGPCVF Units Sell Price for EGPCVF Units	$1.2051 $1.2015

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: