EGP Concentrated Value Fund

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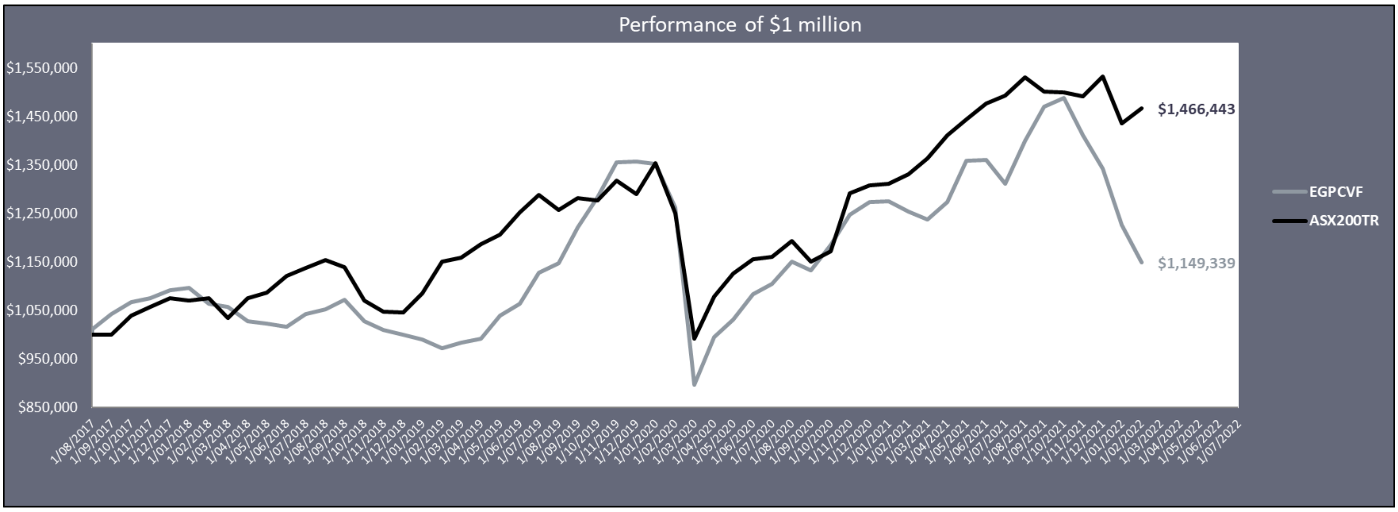
EGP Concentrated Value Fund – 28 February 2022

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%	1.2%	(5.2%)	(4.8%)	(8.7%)	(6.2%)					(15.51%)
Benchmark FY22	1.1%	2.5%	(1.9%)	(0.1%)	(0.5%)	2.8%	(6.4%)	2.1%					(0.67%)

*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 (6.2%) in February. Our benchmark rose (2.1%). Maintaining a positive outlook considering the bleak performance of our portfolio over the past 4 months is not easy, especially considering we were ahead of our benchmark mid-month in October. Speaking to another fund-manager through the month was somewhat reassuring, he mentioned at its widest his fund needed to rise 110% to get back to his benchmark. When I asked how he got back in front of the mark, he said just focusing on what he knew to work, things eventually turned. We have even had a few intrepid unitholders ask if I would re-open the fund so they can add to their investments. I will not do this as the surest way to return to delivering outperformance is to remain at our current modest asset levels.

I am truly puzzled at the muted response to some truly excellent results among our holdings as presented in the reporting season completed this month. There is no better example of a truly brilliantly run business that is not appreciated by public market investors than our largest holding, United Overseas Australia (UOS). For a property developer to deliver the consistent results they have through the past few years, despite an overheated Malaysian property market (their primary operating market), and then Covid crippling their large Hotels/Hospitality business is nothing short of remarkable. Three years ago, net tangible assets (NTA) were 92 cents per share, and the shares traded at 67 cents per share.

Through the challenges mentioned in the intervening three years, the business paid 6.5 cent in dividends and grew NTA per share by 16 cents to $1.08, yet the shares now trade below their price three years ago at 65 cents. If prospective investors had any concerns around the quality of the NTA, the fact that every asset they sell settles at a premium to carrying value should dispel those concerns. Furthermore, through the past three years, cash has ballooned from $277m to $688m as several major projects were completed and the company patiently waited for the best opportunity to deploy their war chest. Even if you were uncertain about the security of the property values, cash is cash. The company is demonstrably positioned to exploit the weakened state of many competitors post-Covid.

Cettire (CTT) released a first half that trounced all but the most optimistic investors expectations, with revenues growing at 192% half on half, despite cycling the massive 476% growth from the prior comparable period. The revenues are not trifling figures either, with gross revenue of $154.1m in the half (from $52.7m in the prior half). They also pointed out in the results presentation that revenues had accelerated to +242% growth in January.

The company is doing exactly what it said it would do in their prospectus. Spending some of their IPO proceeds on improving brand awareness and investing on further improving the technology that enables them to scale so quickly. The only real negative from the report was the substantial increase in customer acquisition cost that all retailers observed in the December 2021 quarter. Given the high historic retention rate (and therefor the high “lifetime value” of each acquired customer), this is likely the right approach, but market participants have moved on from the “growth at all costs” mentality. CTT spent 16.1% of revenue on sales and marketing compared with 8.8% in the prior period (Excluding the $7.6m investment in branding). The question investors need to solve for themselves is what would the impact to revenues have been if they had maintained the expenditure at prior levels?

If revenue growth could have been held at for example 80% (down from the reported 192%) with 8.8% maintained in sales/marketing, then the business would have been handsomely profitable, rather than loss-making (the reported pre-tax loss would reverse to a slightly smaller pre-tax profit number in my estimation). If, however, maintaining S&M at 8.8% would have caused revenue growth to fall to say 20 or 30%, then it could be argued that classifying CTT as a growth business is unjustified as there need to be a certain organic momentum behind a good growth business. With a laser-focused CEO owning >60% of the shares and executing exactly how he has promised to, I remain very positive on CTT’s prospects, but this did not stop the share price falling almost 30% on the month.

Shriro Holdings (SHM) have reported $59.1m of EBITDA and $33.2m of NPAT over the past two years. There were both headwinds and tailwinds from Covid through that period, but the annual average of ~$24.5m of EBITDA and ~$16.6m of NPAT should be a fair representation of the approximate earning power of the SHM businesses right now. The enterprise value of SHM is less than $87m at 99c per share (having made a near $10m working capital investment in the half due to supply chain issues). This values the business at about 3.5x EV/EBITDA or at an after-tax earnings yield of 19.1%. One could be forgiven for assuming SHM must have some terrible prospects, or massive capital needs.

In fact, SHM have a fast-growing capital light growth avenue in their International BBQ business (up 29.4% in the December half including 115% growth in the US segment) and the business has declared 12 cents of dividends over the past year, which is a >12% yield, or >17% grossed up for Franking Credits. The half just gone was negatively impacted by the retail lockdowns through the July-September period, but the results presentation mentioned that January had seen modest (3.8%) growth compared to last January, meaning the worst of Covid is likely behind the business now.

Smartpay (SMP) do not report in February as they have a March balance date, but their last trading update indicates their Australian terminal rollout is proceeding beautifully. This did not stop the share price falling more than 15% on the month. All I can attribute this negativity to is the poor results released by larger competitor Tyro payments during February. The delivery of the two companies stands in stark contrast which makes the similar movements in share price all the harder to understand. SMP have averaged about 300 new terminals into the Australian market every month over the past year, given the challenging operating environment over that period, it would be reasonable to assume they could easily accelerate that pace as things open. They do not need to for the stock to be cheap. At 62c per share, the market capitalisation is ~$130m. There was a private equity offer not so long ago for the NZ business at a $70m valuation, those assets have only become more valuable as Covid accelerates the dominance of non-cash transactions. This implies a ~$60m valuation to the Australian business which is frankly jaw-dropping.

I estimate the incremental EBITDA margin on each terminal SMP places in Australia is at least 45%. The last update indicates even under Covid lockdowns, they can place about 300 terminals per month that earn about $4,400 of revenue annually each. This means without any improvement in the current situation, SMP should be able to add around $7.1m of EBITDA to the Australian business each year (3600 terminals x $4,400 per terminal x 45% EBITDA margin). It is hard to conceive of there not being multiple strategic buyers willing to pay 10x EV/EBITDA for such quality earnings. This implies the Australian business can ***ADD*** $71m of market value each year. The whole business is being valued at around $60m and is already profitable at current revenue levels.

National Tyre (NTD) announced their underlying EBITDA was flat against the prior period as they digest several recent acquisitions, this saw the share price fall more than 20% compared to the pre-announcement price. Like SHM, investors appear to have taken a short-sighted view on a minor trajectory hiccup. The company points out the current revenue run-rate of the business is $560m. Assuming no further acquisitions, we expect ~10% EBITDA margins once all synergies are realised, meaning we think the business can earn ~$56m of annualised EBITDA within about 2 years. I think the business is now of a good enough earnings diversity and quality to command at least a 6-7x EV/EBITDA valuation once these integrations are completed. If I am correct that means a $336-$392m enterprise valuation, or approximately 80-120% equity upside from current prices.

Li-S Energy (LIS) continued their months long precipitous share price fall in February, now trading below the IPO price! We read an article through the month that brought what I consider the largest risk to the fore, another battery developer creating something as good or better than the (currently) world-leading tech LIS are trying to commercialise. Fortunately, although part of the research is potentially useful (a way to stabilise an allotrope of sulphur not normally stable at room temperature), the results were otherwise somewhat overstated as the claimed cycle life is based on testing that is seemingly unrepresentative of what can be achieved in a scaled-up cell.

The tests were only in a coin cell (coin cells are common research tools but are unrepresentative of what can be achieved in a commercial scaled up cell). Furthermore, the electrolyte/sulphur ratio used was 20:1 – to get an energy density to beat Lithium ion this must be less than 2:1 (as the electrolyte is the heaviest part of a Li-S battery). This "electrolyte flooding" masks any polysulfide shuttle effect and artificially extends cycle life. Finally, the sulphur weight ratio in the cathode is only 50%, this needs to be nearer 80% to hit the necessary specific capacities for high energy density. When faced with the best challenge to the LIS technology I have seen to date, the LIS battery remains the best of the next-generation battery prospects. Hopefully LIS management will be foresightful enough to get in touch with the Drexel University researchers and try to incorporate the useful parts of their research advancement into the LIS technology if possible.

Anyone still not fully up to date with the enormous range of opportunities PPK Holdings (PPK) are pursuing with their BNNT capability and why we are so bullish despite the massive share price reversal should read the Executive Chairman's report (.pdf) at the start of the half year results release.

Finally, large shareholder Osmium Partners have decided to turn activist on the Redbubble (RBL) board. Their letter to the board eloquently demonstrates the deep undervaluation of RBL, which they say is worth $5-7 per share to a strategic buyer. I concur, it is a potentially incredibly valuable strategic asset to the right buyer. The full letter is well worth reading (.pdf).

Microcaps are Hard, Part II Reprised: -

Before we run through this month's profiled holding below, I wanted to revisit the LPE thesis in last month's newsletter. Only a few days after the newsletter was sent, LPE conducted a massively dilutionary capital raising to get involved in a project at best tangentially related to the current operations of the business (a biomass energy generator linked primarily to a cryptocurrency mining venture). This hammers home the aptness of the headline of this series. There are enormous challenges to successfully running a microcap business, extraneous "macro" factors beyond management control such as currency movements, commodity prices and the like are among them. Then you have "micro" factors relevant to the specific industry in which a business operates, swings in wholesale power prices being the most observable one in the case of LPE. Then you have what might be called "nano" factors specific to the business itself. These mostly pertain to culture, staffing and management decisions and behaviours.

One of the key methods investors seek to protect themselves against such nano-factors is to own microcaps with large insider ownership. The likelihood of management making poorly considered, or unacceptably high-risk decisions is usually mitigated by the executives of a business having a meaningful portion of their net worth tied up in a business.

Unfortunately, the substantial shareholdings of the Chairman and CEO of LPE did not prevent what appears to be a very dangerous capital allocation decision. They are massively diluting existing shareholders who have funded the business all the way to the cusp of enormous profit growth in a relatively low risk, predictable business to attempt a "moonshot" in a venture with more risks than I can possibly list here.

Over the past couple of years, I (and other seasoned equity investors) have repeatedly explained in great length and the simplest of terms to LPE management what is required to get market participants to value their business more appropriately. Simply ensure the operating costs grow meaningfully more slowly than the operating profits, to the point it becomes obvious the business is capable of funding its own growth should it decide to.

Instead, LPE management appear to have fallen victim to the siren song of "paid helpers" who have persuaded them that the issue is that the LPE story is not "sexy" enough. Instead of working hard to demonstrate the business is financially viable in its current form, management repeatedly change investor relations providers and external advisors, hoping shifts in strategy or the presentation of the story will catch the markets eye.

The fund did not participate in the equity raising. Although it will likely be a moot point, we will also vote our holding against the second tranche of the placement. As shareholders, we will hope that the deal works out to generate a good return for LPE. The downside of that is that it might embolden management to conduct further future ill-advised deals.

I neglected in last month's report to cite the most comparable business to LPE on the ASX. TPC Consolidated (TPC.ASX) was as recently as three years ago struggling as a sub-scale electricity retailer. Through disciplined cost control and strong revenue growth, the business grew profits explosively and the share price has responded growing five-fold in that three-year period from about 70c to above $3.50. LPE could easily have followed this same example but have instead rolled the dice on a very high-risk venture in industries where not only do management have no experience, but very few people anywhere have any meaningful experience.

Microcaps are Hard, Part III: -

The fundholding we will profile this month is IMEXHS (IME). IME operate businesses in the radiology industry. Their revenues are generated by software systems – primarily PACS (picture archiving and communication systems) and RIS (Radiology Information Systems), and radiology services (Radiology outsourcing, teleradiology etc) through the RIMAB business.

My interest in IME originated when Doug Flynn and Damian Banks joined the IME board. Long-time EGP followers will remember our very happy experience with Konekt (KKT), which after trading well below intrinsic value for the first few years of our investment, it eventually culminated in a series of ever higher takeover offers. I was incredibly impressed with Damian's results in a difficult industry and always said I would like to see his skillset applied to a business with more attractive economics. I have a theory that "A-Grade" people tend to be attracted to other "A-graders" and despite having only interacted online, my sense is that CEO Dr German Arango will prove this heuristic true.

My interest in the listed radiology industry runs further back to a pitch I heard in late 2013 for Pro-Medicus (PME), a business which has a similar range of products (more on this below) to IME. PME stock was trading at around 40c at the time, and by the time I got far enough along in my research to understand what a good business it was, the share price had almost doubled. At every future PME result, strong delivery would see the price rise further and we never ended up owning the stock. In the intervening 8.5 years, the share price has risen more than 100-fold (>70% per annum).

PME has been a prodigious business, but the valuation has virtually always required investors to take an extremely rosy view of the future (which has so far come to fruition to be fair). By way of example, comparing the December 2021 result to the December 2014 result, we can see that PME has grown its revenue by 26.4% per annum over the intervening 7 years from $8.59m to $44.33m for the half. Costs have grown at 14.6% per annum from $5.98m to $15.53m.

The numbers are now larger, meaning continued compounding at the same rate is unlikely. If we (generously) assume the next 7 years will mirror the past 7, the December 2028 PME result would report revenue of $228.5m and costs of $40.3m for a massive half yearly profit before tax (PBT) of $188.2m, or an annualised PBT of $376.4m. Assuming a tax rate of 30%, this would leave an NPAT for the FY2029 year of $263.5m. The current market capitalisation of PME is about $4.6b, meaning the stock is currently priced at 17.5x 7-years forward earnings assuming the law of large numbers does not slow down the incredible results PME has been able to deliver historically in future years. This lofty valuation is despite the near 40% fall in the PME share price in the last 6 months. PME is more of a software pure play than IME as it doesn't have the radiology services business attached, as such it will likely always attract a higher valuation.

PME has therefore demonstrated the sectors investment attractiveness when a "product/market fit" can be found. The key difference between the PME/IME products and services is the market they are targeting. If we were to compare the radiology software industry to the Enterprise Resource Planning (ERP) software industry, PME would be more like SAP, whereas IME would be a challenger product more like the ERP systems challenger vendors like Constellation Software offer.

The radiology industry can be thought of as having six customer tiers. Tier 1 clients are small 1 or 2 person practices that might only pay perhaps $5-10k per annum in radiology software costs. Tier 4 clients might be medium sized hospitals for example and might spend as much as $1m per annum on these imaging software services.

PME are almost exclusively targeting tier 5/6 clientele. These are (for example) multi-campus hospitals that are spending perhaps $5m or $10m per annum on radiology software. PME are unlikely to market their products and services below tier 4 and IME are unlikely for at least the next few years to market their products and services to anyone above a tier 4 client. The market size for medical imaging and radiology software is currently estimated to be US$3.2bn and forecast to grow to US$4.9b (9% annually) over the next 5 years.

The US (which speaks for almost half of global radiology expenditure) has perhaps 250 or 300 facilities that would qualify as tier 5 or 6 operators. The addressable market for radiology software in these centres is perhaps a quarter or a third of the revenue opportunity. Fortunately for IME, this leaves about 10,000 clinics in the tier 1-4 market they are targeting, and a revenue opportunity that is 3 or 4 times larger than the one PME is pursuing.

The difficulty for IME then is how to reach these customers cost-effectively. For PME to directly approach a multi-campus hospital that will spend say $8m per annum on radiology software makes sense, for IME to have a salesperson approach a 2-person radiology business that will spend say $8k on radiology software is a much more marginal prospect, or at least necessitates a much higher expenditure on marketing to increase the installed revenue base. IME's use of distribution partners is currently their primary path to market for their software. The business now has 35 distributors, whose understanding of the benefits of IME's products will be growing as further implementations are completed. The ideal for IME would be to get operators of their target market to become aware of, download and start using their products without the need to interact with a distributor, in much the way a Xero customer self-installs their product then figures out the "plan" they need and just starts using it, but such rapidly scalable uptake is unlikely.

Despite the Covid-induced difficulties of growing over the past few years, annualised recurring revenue (ARR) has grown by 67% per annum from $4.4m in 2019 to $20.4m in 2021. The most compelling software product IME sell is the Acquila in The Cloud (AITC) cloud native software as a service (SaaS) product which launched about 18 months ago. It has gone from zero to an ARR of $2.5m at the last report and grew 165% in 2021 despite the difficulties Covid presented in rolling out a new product.

There are multiple reasons to expect that IME's revenues should continue growing at a fast clip for many years. Normalisation of hospital treatment protocols, travel, and movement post Covid will all provide tailwinds. Continued expansion of the distributor network, for example in January, IME announced a deal to enter the Thai radiology market with a local distributor. Furthermore, the industry itself has incredible tailwinds. Japan has 230x as many MRI units per head of population as Colombia (where IME is headquartered), over time less economically developed countries will move closer to developed countries in the way they use medical imaging. There are about 95 million MRI's performed globally of which about 40 million are conducted in the US alone. The number of medical images being taken each year is growing steadily and the need for more efficient ways to process these is self-evident. As noted earlier, the "system forecast" for growth is 9% per annum, for a microcap like IME, anything less than 2-3x system growth would be a failure.

As to the economics of the AITC, like many SaaS products, it is high margin, we estimate incremental margins exceed 80%. Unfortunately like most software products, to maintain the cutting-edge features required to stay ahead of the competition means extensive (and expensive) continuing research and development. Current software R&D expenditure for IME exceeds $1m per annum (internally developed software in the half year accounts increased by ~$580k). Discussions with management lead me to estimate as much as 70% of that expenditure is in widening the product features (i.e. a customer says "can the product do this?" and if it cannot, management decide to add that feature if they expect it will add value for other clients). Whereas perhaps 30% is what you would call true "maintenance R&D", ongoing improvements to user experience and interface that should be considered ordinary operating expenditure.

The remaining software revenues outside of AITC are $4.6m ($7.1m software ARR as of December 31st) are not growing quite as swiftly as the AITC business. To generate a valuation for the software business, we need to look a few years out and try to assess where IME might be able to get revenues to. With the jewel in the crown (AITC) growing at >100% and having more than 100 customers and a strong pipeline, the most difficult question is what speed will the remaining revenues grow at? The other important question is how much of the additional revenue gets eaten up in maintenance R&D?

As the installed base gets larger, and the product features grow, the number of clients that will find a shortcoming in the product capability should fall. I would estimate that at say $25m software revenue, the 70/30 split of enhancement/maintenance would likely reverse to more like 30/70. The current ~$1-1.5m R&D impost I estimate might grow to $3-4m at $25m revenue. But whereas perhaps $300-450k of the current ~$1m software development is true maintenance R&D, that perhaps $1-1.5m would be the "true" maintenance R&D charge at that level of revenue.

It seems reasonable given the continued geographic and product expansion and small revenue base that including the very fast growth of AITC software revenues/ARR's across the entire software base are likely to be able to grow at between 20-30% annually for at least the next few years. Looking 5-years out at either end of that range generates figures of $17.7m-26.4m. So $25m does not seem like too hairy-chested a target for the software business 5-years out.

What would fall to the bottom line for IME investors from $25m of ARR? Hopefully almost nothing as we would want management to be spending all the free cashflow generated on marketing to find new customers and continue to grow the revenue base as fast as possible, given the massive total addressable market (TAM) being pursued…

But for the purposes of valuation, we can try to estimate what the cashflows that could be generated if a growth program was not being pursued. Assume margins of 80% are unachievable, and on $25m of revenues, only 60% is achieved (a $10m OPEX cost base for the standalone software business seems aggressive). That would leave $15m of free cashflow before R&D, or $13.5m if my $1.5m "true" maintenance R&D estimate is correct. This would be a highly sticky and reliable set of cashflows. They could be conservatively capitalised at 7.5% per annum in my estimation. This implies a valuation of the software business 5-years out if it can achieve a $25m revenue at about $180m.

Valuing the RIMAB business is relatively simpler as there are more observable transactions at which to value radiology businesses. There has consistently been substantial hunger in private equity markets for good radiology services businesses. The recent purchase of Everlight Radiology (AFR – subscription needed) was conducted at 15x EBITDA.

The [2018 acquisition of I-MED](#) (AFR – subscription needed) confirms the large multiples private equity will pay for good radiology assets. Listed player Integral Diagnostics (IDX) generates an annualised $80m of EBITDA based on the December 2021 half annualised and commands a $1b enterprise valuation for an EBITDA multiple of 12.5x.

This indicates EBITDA multiples for larger radiology businesses are in the mid to high teens for change of control transactions and more like 12 or 13x under ordinary trading conditions. The 6.6x EBITDA IME paid for RIMAB does not look excessive considering these data points, especially given more than 80% of the consideration was in scrip that presently trades more than 45% below the issue price. RIMAB is unlikely to ever command the multiples mentioned above (as it is smaller and has its primary operations in a frontier market – Colombia), but it demonstrates the perceived quality of a good radiology business to trade buyers and equity markets.

One advantage RIMAB has over the very large radiology businesses listed above is that it earned only $1.5m of EBITDA in the financial year prior to IME's acquisition, so it should be able to comfortably outgrow those businesses. If RIMAB can grow EBITDA at 20% annually for the next 5 years (first half EBITDA was up 25%), it would earn about $4m of EBITDA at the same time as the $25m of revenue for the SaaS businesses is posited above. If such execution can be achieved, the business should command a meaningfully higher EBITDA multiple than the 6.6x IME paid.

But for conservatism, we will apply a 6-7x EBITDA multiple. This indicates that if RIMAB can get to $4m of EBITDA in 5 years, the business would be worth $24-28m. At 95c per share, the enterprise value (EV) of IME is roughly $27m. A legitimate case can be made that if the RIMAB business is well executed, you are getting the most important asset (the software business) for free.

If we sum the $26m mid-point for the RIMAB business with the $180m estimate for the prospective value of the software business 5-years out if it can get to at least $25m of ARR, we arrive at a $206m prospective enterprise valuation if things worked out as described. Given the current $27m valuation, this would require approximately a 50% annualised growth in valuation, which whilst not quite as spectacular as the 70% managed by PME since I passed it up in 2013, would certainly be an outstanding outcome for investors in IMEXHS at current levels.

However, unlike PME when I discovered it 9 years ago, one need not take a rosy view of IME's future to derive an excellent investment outcome. If I were to ask the IME board and management to be frank about where they think they can take the business by 2027, I would hazard they would have internal ambitions higher than $25m of SaaS revenue and $4m of RIMAB EBITDA.

The ZFC update: -

Cipher Fund is expected to launch in 2022.

Brad will be arranging meetings with Fund Managers in Brisbane on 14/3/22. Any Brisbane based managers who wish to secure a meeting should contact Brad.

Brad will be arranging meetings in Melbourne with Fund Managers at a future date to be confirmed.

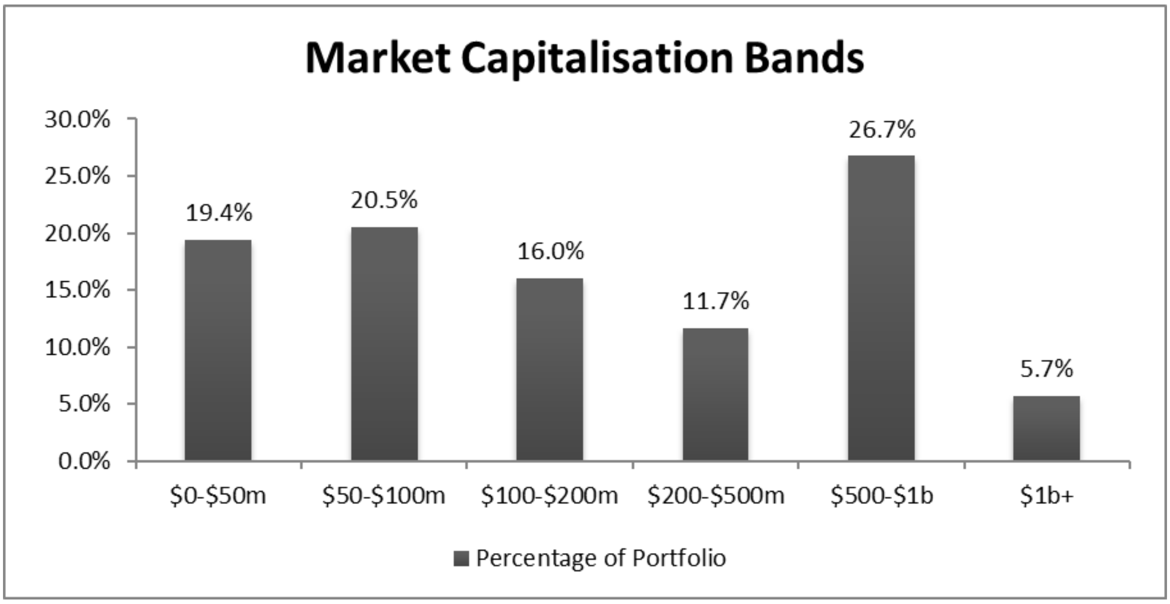
Prospective managers and investors are invited to contact CEO of ZFC, Brad Hughes (brad.hughes@thezfc.com.au) or myself.

Key Portfolio Information: -

Our top 10 holdings on 28 February 2022 were:

Rank	Holding	Percentage Equity Weighting	Percentage Portfolio Weighting
1	United Overseas Australia (UOS.ASX)	10.7%	10.2%
2	Smartpay (SMP.ASX)	6.8%	6.5%
3	Cettire (CTT.ASX)	6.6%	6.3%
4	Shriro Holdings (SHM.ASX)	6.3%	6.0%
5	Dicker Data (DDR.ASX)	5.7%	5.4%
6	PPK Group (PPK.ASX) inc. White Graphene pre-IPO holding	5.5%	5.2%
7	Blackwall Limited (BWF.ASX)	5.0%	4.7%
8	Tellus (unlisted)	4.8%	4.6%
9	Li-S Energy (LIS.ASX)	4.0%	3.8%
10	National Tyre & Wheel (NTD.ASX)	3.8%	3.6%

Our largest 5 holdings comprise 36.0% of our invested capital, our top 10 holdings are 59.1% and our top 15 represent 75.5%. Cash and cash equivalents are 4.6% of the portfolio. The median market capitalisation is $146.2m. Weighted average market capitalisation is $439m.



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]	-0.15
Additional investments	Fund Closed	Sortino Ratio[1]	0.32
Applications/redemptions	Redemptions only, monthly	Annualised Standard Dev. – EGP Annualised S/D - Benchmark	19.2% 15.1%
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	61.8% 67.3%
Auditor	Ernst & Young	Cumulative return[2] – EGP Cumulative return[2] – Benchmark	14.9% 46.6%
Custodian/PB	NAB Asset Services	1-year return[2] – EGP 1-year return – Benchmark	(8.4%) 10.2%
Responsible Entity	Fundhost Limited	3-year annualised return[2] – EGP 3-year annualised – Benchmark	5.8% 8.4%
Fund Size	$65m	5-year annualised return[2] – EGP 5-year annualised – Benchmark	N/A N/A
Mid-Price for EGPCVF Units Accumulated Franking per Unit	$0.9406 $0.0045	Buy Price for EGPCVF Units Sell Price for EGPCVF Units	$0.9420 $0.9392

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: