

EGP Concentrated Value Fund



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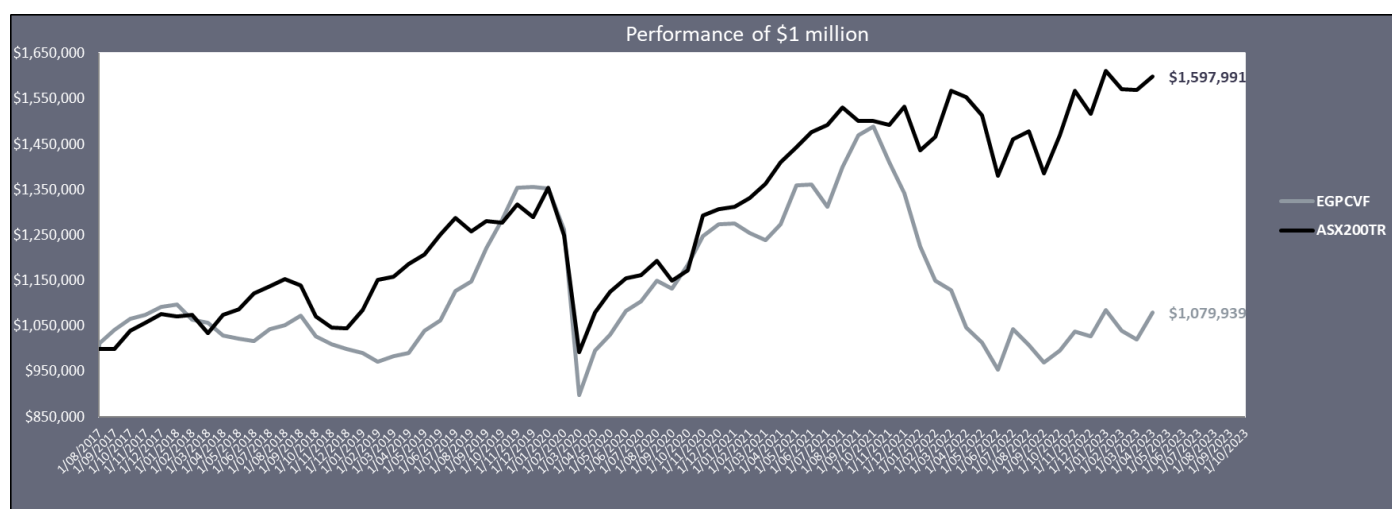
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EGP Concentrated Value Fund – 30 April 2023

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%)	(1.9%)	(7.3%)	(3.0%)	(6.0%)	(29.96%)
Benchmark FY22	1.1%	2.5%	(1.9%)	(0.1%)	(0.5%)	2.8%	(6.4%)	2.1%	6.9%	(0.9%)	(2.6%)	(8.8%)	(6.47%)
EGPCVF FY23	9.4%	(3.2%)	(3.8%)	2.6%	4.3%	(1.1%)	5.6%	(4.0%)	(2.0%)	5.7%			13.17%
Benchmark FY23	5.8%	1.2%	(6.2%)	6.0%	6.6%	(3.2%)	6.2%	(2.4%)	(0.2%)	1.9%			15.47%

*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 5.7% in April. Our benchmark rose 1.9%. Unlike the past few months, outperformance early in the month held up through the second half of the month. There were only a few announcements that contributed to the positive outcome (a couple discussed below), the remainder was just a reversal of sentiment in a few of the holdings that have hurt the portfolio performance in the past few months.

I got to around the 20th of the month and remembered I should have had a quarterly investor call to attend and realised only then that I had forgotten to schedule it in the previous month's newsletter. Given we usually get between 20-30 attendees, I was surprised that not even one contacted me to ask me what had happened. Given no one noticed, I will probably schedule the next one in the June newsletter and stick with a semi-annual meeting from then on, given the relatively modest portfolio turnover we have, there is not a lot of fresh information to discuss with only a 3-month gap between calls.

Portfolio Update: -

The "needy" state of the microcap market discussed in last month's newsletter demonstrated itself first in an announcement early in the month by one of our smaller investee businesses, LIS Energy (LIS), the continuing proof of the R&D program set out in their prospectus when they announced the results from their latest 20-layer battery saw the share price initially rise 50%, before moderating later in the month. This information was nothing new to long term followers of the business but was obviously reassuring to the market more broadly. The business can now confidently state that their next generation battery could (for example) in the same volume of space, be lighter, and move an Electric Vehicle much further than the existing commercially available batteries. The weight advantages of the LIS batteries means that aerial applications should be the first commercial application, and that market will be substantial enough to create a large business. The exciting thing for LIS shareholders is that the exquisite capability of the battery (compared to other "next generation" batteries) leaves me increasingly confident that the largest commercial opportunities in EV's and other spaces allow a high probability LIS can create not a just a large business, but a massive, global business. The recent [LIS newsletter](#) (.pdf) explains the R&D progress better than I could.

The needy status was further confirmed by the reaction to the SmartPay (SMP) late in the month. The company announced only ~1200 terminal additions, which was below the ~1500 they have averaged for the past 3 quarters, yet the share price hit new all-time highs. The announcement was accompanied by confirmation SMP had signed a letter of intent with the processing partner they use for the Australian acquiring business to replicate the operation in New Zealand. Even this was not especially new information, SMP has flagged the opportunity to move the New Zealand fleet from a lease business to an acquiring business almost a year, only timing has been uncertain.

The announcement implies the change is relatively imminent. With that said, I anticipate the commencement of the New Zealand acquiring business is unlikely to occur in earnest until sometime next year (2024). The announcement makes clear the NZ acquiring deployment will occur on the next generation android technology that is currently under development, and the prudent way SMP operate means they will ensure the technology is bulletproof before they attempt a widespread rollout.

Despite the opportunity being a little out into the future, it is something to be genuinely excited about. I estimate the Australian business is worth 75 – 80% of the current business valuation (implying the NZ business is 1/3 to ¼ as valuable as the Australian business under present operational structures). The Australian acquiring business has ~15,700 terminals and the NZ leasing business has ~30,000 terminals. This demonstrates that an acquiring terminal is many times more valuable than a leasing terminal. If the NZ acquiring economics proved to be equivalent to those demonstrated in Australia, if you could flip a switch and have the entire fleet acquiring instead of leasing tomorrow, the NZ business would go from being worth 25-33% of the current Australian business to being almost twice as valuable.

It has taken SMP about 4 years of rolling out acquiring in Australia to get to 15,700 terminals. Even with the acceleration over the past year, the ~30,000 NZ terminals would take almost 5 years to create from scratch. Converting an existing customer that already knows and trusts SMP in NZ will be much easier than finding and persuading their Australian customer base has been.

If it takes 4 years to convert the NZ customer base from leasing to acquiring and the Australian business maintains the ~6k terminal additions they managed this year, then 4 years hence, you will have both businesses with 30,000+

acquiring terminals each. If the ~\$4500 revenue per terminal holds (with inflation and the trend to cashless, it seems likelier to rise than fall), the revenue base on 60k terminals at that point would be ~\$270m. This compares very favourably to the ~\$78m revenue the business will report this year. You will find very few businesses that have a realistic prospect of growing their revenues 3.5-fold in the next 4 years. This should also be accompanied by a steadily widening EBITDA margin and a sharply widening NPAT margin as the superior economics of the acquiring business and the attendant operating leverage works its magic.

The risks to SMP remain the same, regulatory is the primary one, but the environment has been a favourable one of late, demonstrated by the NZ opportunity arising as they model their payments environment on the current Australian model. Technological change is always possible, but as I have pointed out so often, at some point a merchant and a customer need to interact and while that is the case, there is a place for SMP if their customers continue to appreciate their service. The Net Promoter Score of 70 being achieved by the Australian acquiring business is streets ahead of the Big 4 banks, from whom most of their business is being won. It is also comfortably better than the other payments challengers such as Square and Tyro. This being the case, it is hard to see why SMP should not continue to win market share faster than these businesses.

The ZFC update: -

Brad and I have recently been advised by JANA that proposed Cipher Fund will not be able to proceed in partnership with them. We are advised this decision is based on several factors including JANA clients' position in the current regulatory and business environment and updated costings. In our latest meeting, JANA made it clear there remained internal support for the project, but the above client-based factors necessitated this decision.

This is disappointing, particularly considering the continued outstanding performance of the manager set we had intended to comprise the first wave of managers, but without the institutional backing of JANA, or someone similar, a sufficiently large scale to launch with all the required regulatory and compliance structures will be difficult.

Brad will be in contact with prospective Managers and should anyone have any queries; please do not hesitate to contact us.

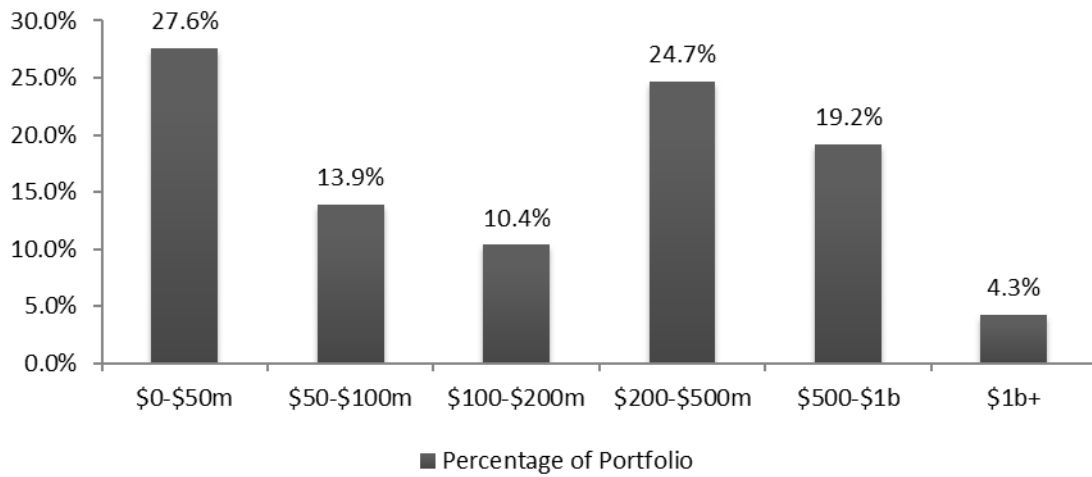
Key Portfolio Information: -

Our top 10 holdings on 30 April 2023 were:

Rank	Holding	Percentage Weighting	Equity	Percentage Weighting	Portfolio
1	Smartpay (SMP.ASX)	13.5%		12.8%	
2	United Overseas Australia (UOS.ASX)	12.6%		11.9%	
3	Shriro Holdings (SHM.ASX)	6.8%		6.4%	
4	Cettire (CTT.ASX)	6.5%		6.2%	
5	Tellus (unlisted)	6.3%		6.0%	
6	SRG Global (SRG.ASX)	4.8%		4.6%	
7	Blackwall Limited (BWF.ASX)	4.8%		4.5%	
8	PPK Group (PPK.ASX) inc. White Graphene pre-IPO holding & PPKME	4.6%		4.3%	
9	Matrix Composites (MCE.ASX)	4.5%		4.3%	
10	Dicker Data (DDR.ASX)	4.3%		4.1%	

Our largest 5 holdings comprise 45.8% of our invested capital, our top 10 holdings are 68.8% and our top 15 represent 85.7%. Cash and cash equivalents are 5.6% of the portfolio. The median market capitalisation is \$174.4m. Weighted average market capitalisation is \$331m.

Market Capitalisation Bands



As always, investors with any questions, suggestions, comments, or investment ideas should feel free to call (0418 278 298), or send me an email – Tony@egpcapital.com.au

Fund Features		Portfolio Analytics	
Min. initial investment	Fund Closed	Sharpe Ratio ¹	-0.16
Additional investments	Fund Closed	Sortino Ratio ¹	0.13
Applications/redemptions	Redemptions only, monthly	Annualised Standard Dev. – EGP Annualised S/D - Benchmark	18.7% 15.5%
Distribution	Annual 30 th 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)	20.5% (inc GST)	% Of Positive Months – EGP	56.5%
Performance fee (>\$50m)	15.375% (inc GST)	% Of Positive Months - Benchmark	63.8%
Auditor	Ernst & Young	Cumulative return ² – EGP Cumulative return ² – Benchmark	7.8% 59.8%
Custodian/PB	NAB Asset Services	1-year return ² – EGP 1-year return – Benchmark	3.1% 2.8%
Responsible Entity	Fundhost Limited	3-year annualised return ² – EGP 3-year annualised – Benchmark	2.7% 14.0%
Fund Size	\$45m	5-year annualised return ² – EGP 5-year annualised – Benchmark	1.0% 8.3%
Mid-Price for EGPCVF Units	\$0.8514	Buy Price for EGPCVF Units	\$0.8527
Accumulated Franking per Unit	\$0.0058	Sell Price for EGPCVF Units	\$0.8501

¹ Sharpe and Sortino Ratios calculated using the Monthly Benchmark ASX200 Total Return Index

² Return is net of all fees and costs and assumes reinvestment of dividends. 1, 3 and 5 year figures are rolling annualised figures.

Past performance is not an indicator of future performance.

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Appendix 1: -

Combined funds cumulative return since inception:

