EGP Concentrated Value Fund

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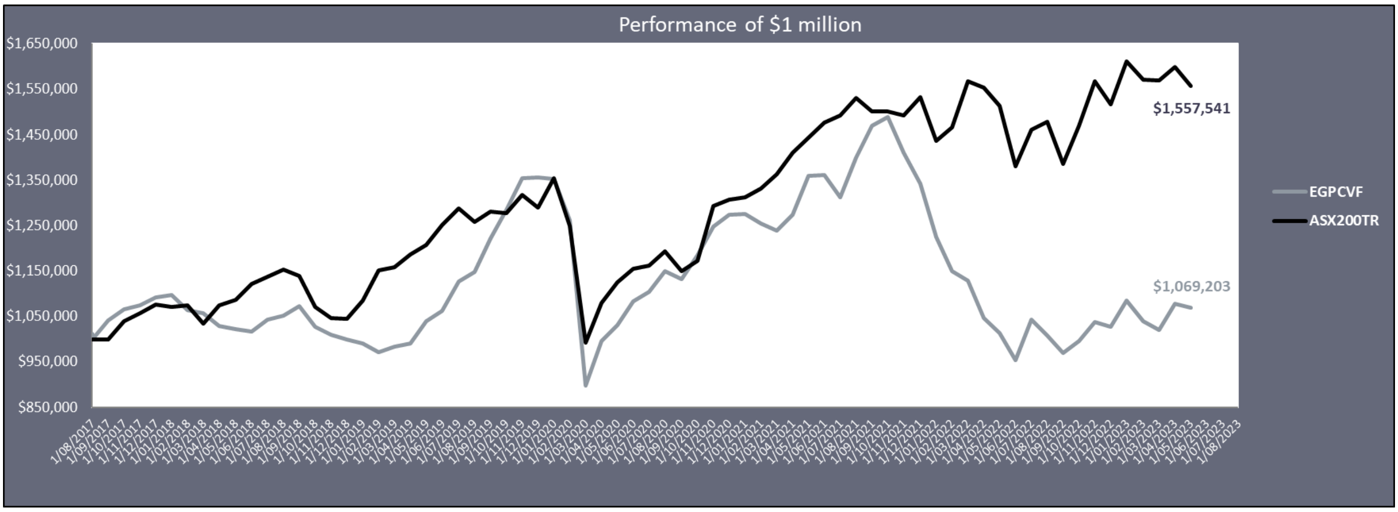
EGP Concentrated Value Fund – 31 May 2023

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%	(0.9%)		12.21%
Benchmark FY23	5.8%	1.2%	(6.2%)	6.0%	6.6%	(3.2%)	6.2%	(2.4%)	(0.2%)	1.9%	(2.5%)		12.80%

*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 (0.9%) in May. Our benchmark fell (2.5%). We beat the benchmark in May, but at various points through the month, our advantage was much wider. Given what a tough month it was for small-caps (down 3.3%), we will take any outperformance against our large-caps benchmark.

Portfolio Update: -

There were a couple of strong performers that accounted for most of our outperformance in May. Firstly, was PPK Holdings (PPK), which has been our largest source of portfolio pain for the past 18 months suddenly found some buying in the early part of May. There was nothing especially significant announced that would have caused the rise, with a $100k prize (.pdf) from Boeing received in their 55% owned subsidiary not nearly a sufficient explanation for the ~$50m increase in market capitalisation at the monthly high. Most of the rise must be attributed to a combination of some persistent director buying from the largest shareholder and perhaps an early exhaustion of the tax-loss selling that often seems to abate well before the end of financial year for companies suffering from it. PPK did find a way to finish the month down more than 20% from the mid-month highs, the vicious swings in small cap share prices over the past couple of years shows no sign of abating.

The quarterly update from United Overseas (UOS) was very, very good and as always was studiously ignored by market participants, with shares finishing down about 12% at below monthly highs and less than half NTA. The augmentation of the unbilled sales figure I drew attention to in the March report continued. Since bottoming in December 2021, the table inserted here shows how the figure has steadily risen, and we expect will end the year far higher still.

Quarter	Unbilled Sales
December – 2021	RM92.5m
March – 2022	RM122.9m
June – 2022	RM123.9m
September – 2022	RM181.1m
December – 2022	RM203.4m
March – 2023	RM226.3m

UOS' sales cadence seems to be steady and growing and they have more launches planned for 2023 than for any year since 2015. Everything the business is doing smacks of extreme outlook confidence; this despite the continually cautious outlook statements in market documents. I have always defaulted to "listening" to the actions of people more than their statements as they are more consistently reliable.

I have described numerous key differentiators for UOS compared to most other property developers previously. The most important is their eschewal of debt for property development. But another important one is enormous and consistently growing "Other Income" category, which comprises rental, parking, cleaning, security services and similar services (recurring incomes).

Quarter	Other Income
December – 2021	RM46.9m
March – 2022	RM51.1m
June – 2022	RM53.3m
September – 2022	RM68.9m
December – 2022	RM74.1m
March – 2023	RM74.6m

This revenue stream comfortably exceeds all costs for running the entire property development business, meaning the entity would be profitable even if the development business somehow failed to make money. It never has in the 35-year listed history of the business. But IF somehow it did, the business would remain profitable.

The disconnect in valuation for UOS remains among the most mystifying things I have observed in a long career in financial markets. You have a pair of founders who have demonstrated an incredible capacity for wealth creation, with $1.73b (at incredibly conservative book values) created from only a handful of millions in only 35 years, with many more 10's of millions returned along the way to shareholders in dividends, buybacks, and capital returns. Yet this can be purchased for around 50 cents in the dollar, or about the value of the cash on hand. Participants must be assuming the founders will try to steal away the minority interests at some point, but the best indicator of future behaviour is past behaviour and these founders have acted honourably for more than 3 decades in the public eye.

Cettire (CTT) had a very strong share price response to a mid-month update about the sales for the first four months of 2023. The strong momentum the business has demonstrated since listing continued, unlike almost every other online retailer of late. As with PPK, the initial excitement wore off and the share price closed well down from the mid-month highs. We met with management late in the month and I struggle to recall a management with such cool confidence about the prospects of their business. Given their continued rapid sales growth in the face of virtually all other retailers post-Covid declines, that confidence would seem well founded.

The update stated that sales growth had re-accelerated to 160% in April and that the company expected this to continue through the remainder of FY23. I asked what the nexus of this acceleration was and there was a combination of reasons. Firstly, it was around this time last year that CTT really reversed path on the explosive post-IPO marketing expenditure. For the first time, they have begun to cycle this demurer marketing spend and this will continue as this lower marketing spend as a percentage of revenue has been maintained since. A second reason for the acceleration is the natural language sites in Japanese, Korean and Spanish going live in the first part of this year. This has seen revenues in these language markets rapidly going from “almost zero to meaningful”.

The achievement of successfully rolling out these languages cannot be overstated. The site now has over 150,000 products from around 2,500 brands displayed, with ~400,000 displayable products available through their network. Building a proprietary language translation tool that coherently displays that many product descriptions with reasonably sound accuracy is an incredible achievement. To have done this with a staff count of only about 50 is truly extraordinary. The sales run rate for CTT now approaches $500m, I doubt too many companies have ever achieved $10m of sales per employee.

Finally, the continued growth of trust in the brand is seeing repeat rates accelerate. Revenue from returning customers is now 59%, up from 46% about 15 months ago and around 34% at IPO. A key plank of our CTT thesis was always the idea that if most customers had a good experience, they would be likely to return. This thesis is playing out in spades and the economics of returning customers is head and shoulders above first-time customers. They cost less to acquire and spend more, with lower return rates. Everything about the returning customer is better and they are now the biggest part of the revenue base.

Managements stated ambition is to be the largest luxury goods marketplace in the world. Given Farfetch are generating about 7x CTT’s revenue, they have some work to do, but with CTT growing at >100% and FTCH at single digits, the laws of mathematics would imply this bold goal can be achieved much sooner than most would be expecting, at least if recent trends hold.

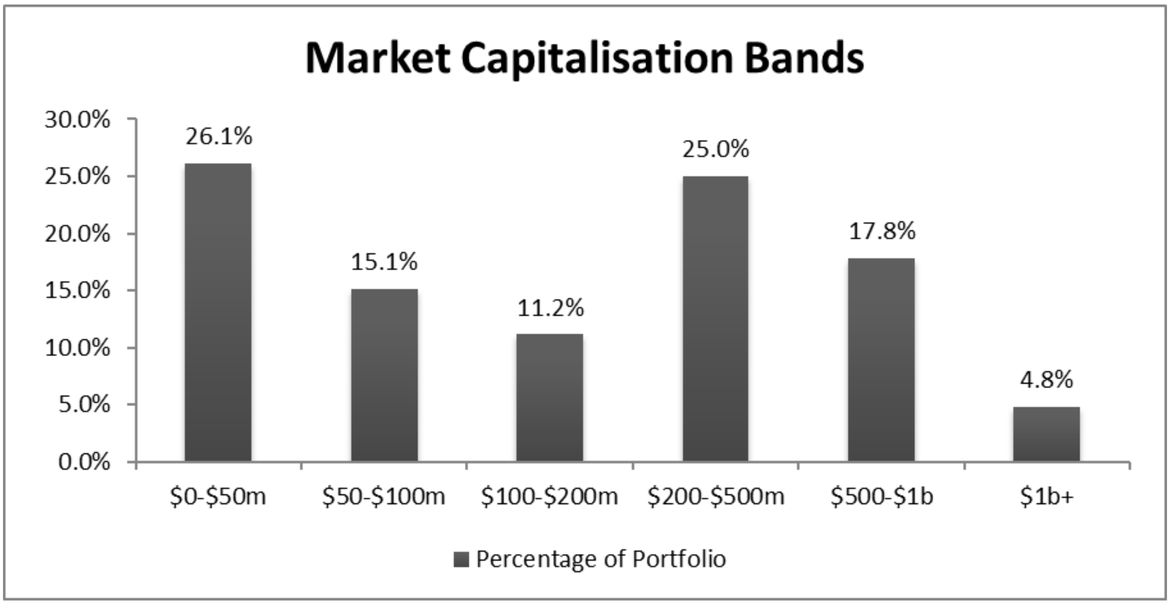
The key risk to the CTT share-price remains the behaviour of founder and major shareholder Dean Mintz. An article in The Australian that he was (again) intending to sell a tranche of stock torpedoed the share price gains achieved after the update, when it proved false, the share price recovered most of the losses. In discussions with management, I indicated such a sale would likely see EGP sell our holding. My explanation is that to someone outside the business, further insider sales indicate a lack of conviction in the sustainability of the business model. The business is also now securely profitable, and should insiders desire a cash return on their investment, dividends or other capital returns are the logical way to do this given the negative working capital business model has very little need for retained capital.

Key Portfolio Information: -

Our top 10 holdings on 31 May 2023 were:

Rank	Holding	Percentage Equity Weighting	Percentage Portfolio Weighting
1	Smartpay (SMP.ASX)	13.6%	11.8%
2	United Overseas Australia (UOS.ASX)	12.1%	10.5%
3	Shriro Holdings (SHM.ASX)	7.2%	6.2%
4	Tellus (unlisted)	6.8%	5.9%
5	Cettire (CTT.ASX)	5.7%	5.0%
6	PPK Group (PPK.ASX) inc. White Graphene pre-IPO holding & PPKME	5.5%	4.7%
7	Dicker Data (DDR.ASX)	4.8%	4.2%
8	Blackwall Limited (BWF.ASX)	4.7%	4.0%
9	SRG Global (SRG.ASX)	4.7%	4.0%
10	SDI Limited (SDI.ASX)	4.5%	3.9%

Our largest 5 holdings comprise 45.4% of our invested capital, our top 10 holdings are 69.5% and our top 15 represent 86.1%. Cash and cash equivalents are 13% of the portfolio. The median market capitalisation is $158.1m. Weighted average market capitalisation is $335m.



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]	-0.17
Additional investments	Fund Closed	Sortino Ratio[1]	0.12
Applications/redemptions	Redemptions only, monthly	Annualised Standard Dev. – EGP Annualised S/D - Benchmark	18.6% 15.4%
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	55.7% 62.9%
Auditor	Ernst & Young	Cumulative return[2] – EGP Cumulative return[2] – Benchmark	6.9% 55.8%
Custodian/PB	NAB Asset Services	1-year return[2] – EGP 1-year return – Benchmark	5.5% 2.9%
Responsible Entity	Fundhost Limited	3-year annualised return[2] – EGP 3-year annualised – Benchmark	1.2% 11.4%
Fund Size	$44m	5-year annualised return[2] – EGP 5-year annualised – Benchmark	0.9% 7.5%
Mid-Price for EGPCVF Units Accumulated Franking per Unit	$0.8441 $0.0059	Buy Price for EGPCVF Units Sell Price for EGPCVF Units	$0.8454 $0.8429

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: