EGP Concentrated Value Fund

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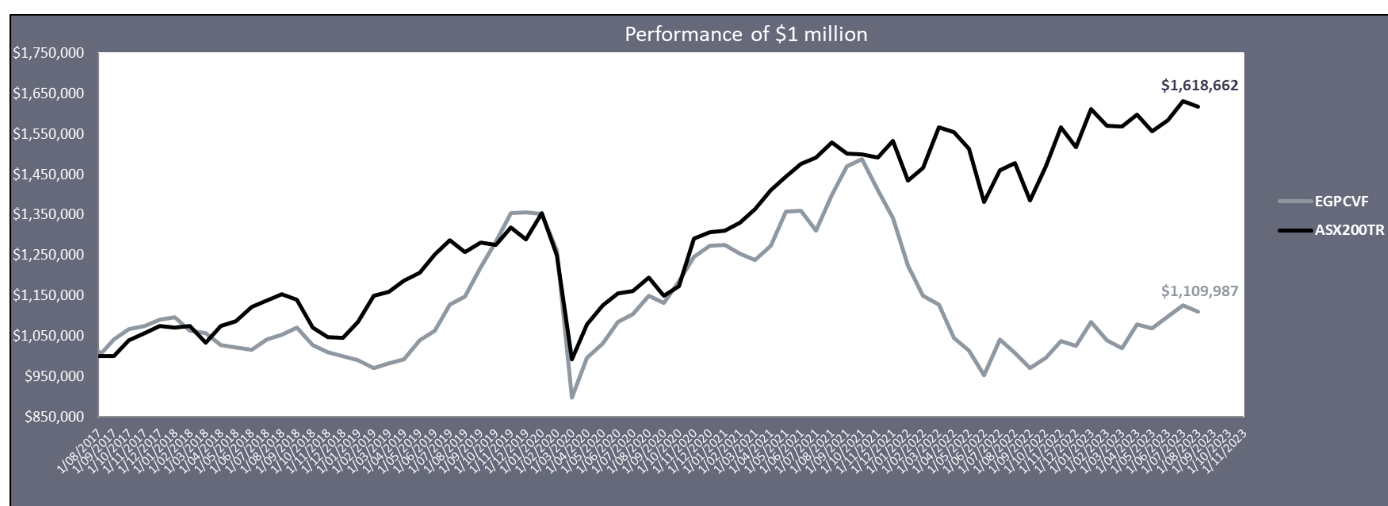
EGP Concentrated Value Fund – 31 August 2023

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%)	2.7%	15.21%
Benchmark FY23	5.8%	1.2%	(6.2%)	6.0%	6.6%	(3.2%)	6.2%	(2.4%)	(0.2%)	1.9%	(2.5%)	1.7%	14.78%
EGPCVF FY24	2.6%	(1.5%)											1.11%
Benchmark FY24	2.9%	(0.7%)											2.13%

*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 (1.5%) in August. Our benchmark fell (0.7%).

As mentioned last month, we have commenced the process of re-opening the fund to new investments, including examining who will run the fund back-end once we re-open. I expect to provide a decision as to how we will proceed in next month's newsletter.

The significant swing to negativity from the Australian market in the early part of August was mostly a reaction to the increasingly poor signs emanating from the Chinese economy. The company specific results out of reporting season were generally better than many had feared (and predicted), though the outlook statements were generally more cautious than I can remember for some time from managements of companies up and down the size spectrum.

There is no country of economic size who is more reliant on China than our own and I have repeatedly said the most significant risk to our economy would likely not come from within, but from a stumbling China. CCP generated data should never be trusted, but even internally produced figures are weakening at an alarming rate. Data not generated by the CCP generally looks even worse still.

There are three things that could help Australia avoid the economic harms most would expect from a serious Chinese economic stumble. The first is that the CCP have learned the Western playbook very well. A mountainous stimulus package is highly probable if conditions get severe enough. Most of the obvious infrastructure with the greatest economic returns are now in place in China, but there are still trillions of dollars more of projects with more marginal benefits that could be invoked if the economic outlook becomes grim enough. The plummeting Yuan will also likely provide some cushioning.

The second is the strength of some larger countries following on from China's rapid urbanisation and economic advancement. The Indian economy seems to be getting ever stronger just in time to pick up the slack from a stumbling China. Indonesia is likewise a quite young and populous country on an impressive growth trajectory and with lots of capacity for sustained GDP growth. Some impressive growth is also being generated out of some larger African countries where China has and is investing significantly which could help find China find outlets for production as local consumption collapses.

Finally, the income streams from Australian mineral wealth seem irrepressible. Australia ranks in the top 5 for exports of nearly every major mineral. We are the world's largest exporter of coal, iron ore, lead, diamonds, rutile, zinc and lithium, second largest of gold and uranium, and third largest of aluminium.

To be sure, iron ore is the most important element for Australia (around one fifth of all company tax paid in Australia derives from Iron Ore – with royalties on top of that!) and its price has roughly halved from the average price through most of 2021, and forward markets look to be pricing falls of another 20 or 30% over the next year or so. But there always seems to be something standing there to catch us when iron ore falls. The vast array of battery minerals are currently doing a good job of providing the assist as iron ore prices fade, along with buoyant gold prices.

And then there is coal revenues, as I have pointed out time and again, short-sighted policy making from Western governments on most fossil fuels (but especially coal) has ensured there will be a structural demand/supply imbalance for decades as the world decarbonises. The unintended consequence of that will be massive profitability for the producers left standing and rivers of taxation gold for governments such as ours, despite their best efforts to hobble the industry.

No One Could Have Predicted That: -

I wrote in June 2020 (.pdf) about my view that Sweden was the only country taking something that remotely approached an evidence based approach to Covid. This recent report into Sweden's Covid response arrives at the same conclusion I did 3 years ago:

"Sweden did much better than other countries in terms of the economy, education, mental health, and domestic abuse, and still came away from the pandemic with fewer excess deaths than in almost any other European country, and less than half that of the United States".

In my June 2020 report I estimated the implicit economic cost of each life "saved" by draconian lock-downs was about $23m compared to the Swedish approach of asking your citizens to behave cautiously. This was my biggest mistake, since Sweden ended up with a better excess deaths outcome over the pandemic period, the cost was in fact infinite

because both health and economic outcomes were ultimately better for Sweden as a result of treating their citizenry like humans rather than imbecilic infants.

The Swedish economy grew 19.07% over the 2019 – 2021 period, whilst the EU grew 3.66%, despite the EU firehosing way more stimulus than the Swedish government did. Governments globally stole all manner of personal freedoms from their citizenry. It is now clear that there was **ZERO** health gain from this putrid behaviour. The incredible loss of mental health, educational achievement and personal freedoms were our own fault. Many of us felt it in our bones that it was not right, and yet complied with all manner of dubious measures, some of us even criticised those brave enough to protest the despicable behaviour of their governments.

Even I consented to receive more than one dose of a vaccine of unknown efficacy despite having already had (almost symptomless) Covid and therefore possessing better immune protection than any vaccine was ever likely to provide. I have never been as sick in my life as I was after the second Covid vaccine dose and I will forever regret complying just because I needed Government approval to move around for my business. I am as far from anti-vax as anyone with a functioning brain can be. So much so that I support the right for daycare centres to refuse to care for unvaccinated children. But I will never again consent to any of the restrictions our government imposed on us through Covid and will certainly never again allow Government coercion to force any type of medical treatment on me.

Portfolio Update: -

Our first investee business to report in August was Cettire (CTT). It was a spectacular result that outperformed even the bullish estimate I made in the June newsletter (.pdf) of $27-28m EBITDA with a headline result of $29.3m. That outstanding result was augmented by the announcement that July got off to a massive start with +120% revenue growth on the previous July. With the operating leverage now firmly on display, it is reasonable to expect that this revenue growth would likely have translated into >120% EBITDA growth. And they have still yet to figure out the best way to exploit China, the worlds largest luxury goods consumer.

Then as he has done several times before, founder and CEO Dean Mintz conducted a block trade post result. Not any ordinary trade, he cashed out $100m, and this was compounded a few days later by a couple of his fellow board members lightening their holdings by half.

I have previously said that with the business now securely profitable and cash generative, that our preference for how we would expect Dean to extract capital from his business is to commence the payment of dividends. Enigmatic founder types tend to go their own way, so we were not especially surprised by his decision, it had been widely expected by shareholders and market commentators. We did as we said we would when I last discussed founder selling, and meaningfully lightened our CTT weighting. Nonetheless, the performance of the business has been so consistently spectacular, I feel compelled to maintain exposure to the upside on offer. Anything like the recent trajectory over the next couple of years could easily see the business worth multiples of the current valuation, that should not be ignored.

More than one fellow CTT shareholder commented that with the business performing on such an explosive trajectory since listing, if there had never been any insider selling, the stock would likely trade more than twice the current valuation. It is hard not to agree. When reconciling the conflicting signals, I was given to think about Richard White, founder and CEO of Wisetech Global (WTC). Richard has sold upwards of $500 million of his WTC holding in the business over the past 5 or 6 years. The buyers of that stock are very pleased with his decision as they have collectively reaped ~$1b of what could have been Richard's profit (i.e. the sold shares are now worth >$1.5b).

At the time of writing, CTT is trading at almost exactly a $1b Enterprise Valuation. I still think that the $55-65m EBITDA range posited in our annual letter is highly likely. At the midpoint, that implies a 16.7x forward EV/EBITDA (ignoring the cash the business would generate if this were achieved – which would further lower the valuation). I doubt there would be another business globally with anything close to the revenue and profitability growth rates CTT has displayed over the past few years trading anywhere near that cheaply (if you know of one, please share it with me). If it were not for our CEO's repeated enthusiasm for selling his own stock, I would have allowed this position to grow to nearer to 15% of fund assets. But if the person closest to the opportunity is behaving this cautiously, it behoves us to allow that behaviour to inform our decision making.

Although outside our top ten holdings now, Redbubble (RBL) is one holding we have been watching closely for signs that the serious missteps of the past couple of years have been addressed, because the inherent quality of the

business model has always impressed me and if I become convinced management is again operating the business correctly, it could again become a larger holding for the fund.

I was surprised at the relatively modest cuts to operational expenses in the June quarter, with June quarter FY23 costs of $28.4m only modestly below the prior periods $29.7m. The horrors of what RBL did to themselves over the past couple of years was most evident on slide 16 of the investor presentation (.pdf), where they explained (confessed?) they have reduced their headcount by 141 roles, or 37%. Implicit in that statistic is that there is still ~240 staff in the business, which strikes me as a remarkably large figure for a hyper-efficient internet retailer that outsources fulfilment.

That a business can continue to function at all after losing more than a third of its staff is testament to the largesse that had crept into the business. Though the RBL model is admittedly more complex than CTT, the comparison of employee benefits expense $3.3m (CTT) versus $82.4m (RBL) for businesses that delivered similar FY23 revenue bases provides a stark reminder of how efficiently an internet retailer is supposed to operate.

The mid-point of RBL's forward guidance for Opex is $96m. The mid-point of forward guidance for GPAPA margin is 24.5%. There is no revenue guidance, but to increase the margin, a reduction in ad spending likely leads to some further diminution in year-on-year revenue. If FY24 sees $440m (~6% below FY2023) @ 24.5%, this implies ~$108m of GPAPA and an operating EBITDA of ~$12m. With D&A running at ~$10.5m, this would see RBL squeak out a modest operating profit in FY2024. As you can probably tell, I am of the view that there is still ample further room to reduce Opex, and if management arrive at the same conclusion once the dust of the first round of major cuts settles, there is meaningful potential upside to the potential profitability posited above.

If RBL makes even only $1.5m of pre-tax profit in FY2024, I would hazard the shares would trade nearer to a $1 valuation than the ~60c at the time of writing. The relief that the company can get to the next phase of its lifecycle without requiring additional equity capital will drive the first part of the upside. The company declared it was "cashflow neutral" in July, which is a traditionally weak month, if further datapoints like that are revealed over the next few months, investor certainty that raising capital can be avoided will give the share price a tailwind.

Further share price gains beyond that would require the realistic prospect of a return to growth and the likelihood that a battle-scarred management will remember the importance of operating leverage when such growth resumes. This would see market participants place an option value on the brightening future of the business. I seldom give significant weight to "macro" factors in our investment theses, but with interest rates now meaningfully higher than the past few years, the insane venture capital behaviour of that period will likely see far more sensible pricing of internet traffic flows. The marketplaces that survive and continue to provide a differentiated customer experience may finally start to deliver the investor returns that have so far been elusive in the sector.

SRG Global was perhaps the most surprising response to their reporting. They delivered a strong result that slightly exceeded the top end of their guidance on and "adjusted basis". These adjustments are of course a "trust" exercise as the $4.5m of integration costs allow management some freedom to paint the target around where the arrow landed, which is why acquisitive businesses are generally riskier than pure organic growth stories. Shares initially responded very well, trending higher before selling off quite sharply as others in the sector reported.

My suspicion is that the poor cashflow was the only element of the report likely to have spooked investors, but SRG has won, and must fund the working capital for ~$600m of pipeline growth in FY23, which in the context of their ~$800m FY23 revenue base is dramatic. Although much of the work won will be performed beyond FY24, there is still a working capital piper that must be paid to get to the larger profits that increased revenue should deliver.

SRG have developed a predictable playbook. Make a forecast for the year ahead with annual results, upgrade it at the AGM, upgrade it again at the half-year result and then upgrade one more time on the home stretch. The implicit opening FY22 forecast was $54.2m EBITDA, they delivered $57.2m. The implicit FY23 forecast was $71.5m EBITDA, they delivered $80.1m (albeit with an ~$5.1m EBITDA assist from the Asset Care acquisition and the accompanying dilution that brought). If the playbook from the past two years holds, the forecast FY24 EBITDA of $96.1m will resolve at >$100m and leave analysts scrambling to upgrade sequentially throughout the year.

The stock is trading at less than 9x forward earnings (EPSA – amortising the contracts is a true non-cash cost provided the acquired businesses continue to win work – should exceed 8c in FY24), which is astonishing when you look at the

track record of execution over the past 4 years. Businesses in more attractive sectors with similar execution, growth rates and outlooks often command twice that multiple.

SRG is suffering somewhat from the same issue as CTT with CEO David McGeorge selling a meaningful portion of his holding just 3 months ago. His last significant sale was of 3.1m shares in September 2018. Between the share price appreciation and the >10c of dividends paid since then, the buyers of his 2018 sale have roughly doubled their money over the intervening period. Despite the shares at various points trading far lower, given the opportunity, I would imagine David would happily take the ~$1.3m of foregone profits back.

If SRG does achieve >8c EPSA in FY24, it will mean that the per share growth has been >10% annually since pre-Covid all from a business that has paid a respectable dividend throughout this period. SRG has a cyclical bent, although far less now with the heavy focus on asset maintenance. It may not be a good enough business to command the market multiple but is certainly good enough to warrant 12 – 14x EPSA, which implies 96c-112c, or >50% upside at the mid-point. Ample upside to justify the current portfolio weighting.

National Tyre (NTD) released a result somewhat below their guidance given with the half-year result. In February, they guided a 2H23 result "close to the 2H22 Operating NPATA of $7.6m". I had thought that extremely ambitious given the first half NPATA was only $1.4m. Given the continuing headwinds in the June half, the NPATA of $5.5m is a respectable outcome, although it is marred somewhat by the significant "normalisations", it appears these "one-offs" that have been a feature of the past couple of financial years as an IT/ERP system upgrade and a series of warehouse consolidations were undertaken may have run their course.

The forward guidance is simply for "an improvement in financial performance in FY24". Given the normalisation in freight costs and the price rises that should now have been completely pushed through, anything below $5.5m NPATA per half would be unacceptable, and something closer to the $7.6m NPATA achieved in H2FY22 would not be an unreasonable target. This implies our earnings expectations for FY24 are $11-15m NPATA, which leaves the current market capitalisation of scarcely more than $80m means ample investment upside exists to justify the current portfolio weighting. The business is carrying some debt introduced to fund the past couple of acquisitions, they should begin making inroads into that in FY24 and will likely resume the payment of dividends if results are towards the upper end of the range outlined above. That management have drawn attention to the 14.33cps of accumulated franking credits shows dividends are on their mind.

Blackwall (BWF) announced they would be making a takeover bid for Pelorus Private Equity in August (.pdf). The companies share many common investors and investments, and the combination may well make sense, but the rationale for the move and the benefits it is expected to bring are hard to assess based on the information provided by management so far. My initial view is that it will substantially dilute our interest in the main reason I like BWF as an investment, which is the management rights of the WOTSO Flexspace business, which is where I saw most of the earnings upside. The hard-assets BWF and Pelorus own are valuable, but will likely act as an anchor to the earnings of the WOTSO management business. The assets that will enter BWF are very good, high-income assets that make it likely the very strong dividend payment capability of BWF will continue and the 5c annual (franked at 25%) dividend is likely to be sustainable. This currently provides a grossed-up yield exceeding 12% annually, which even with rates higher is still very attractive. We will re-assess the position once more certainty about what will happen with the WOTSO management rights has been provided.

Shriro Holdings (SHM) traded meaningfully higher on the confirmation of what I outlined in last month's report. The enormous cash balance will be in large part returned to investors and what will remain is a leaner business which remains net-cash, but still has reasonable growth prospects. After the 25c of dividends and capital returns, the post capital return valuation will be ~$62.5m assuming the entirety of the capital return is priced by investors.

The mid-point of forward guidance is for FY24 EBITDA of $16m, which should deliver ~$8m of NPAT for the year if achieved, meaning the valuation is less than 8x forward NPAT. If management can deliver growth, that will prove to be a very low valuation. If they fail to deliver growth, it implies a >13% post-tax earnings yield from a management that have shown a good willingness to share with investors with their earnings (>60c over the past 5 years including the imminent capital return).

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
June – 2023	RM285.2m

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
June – 2023	RM86.4m

I have repeatedly pointed out the obvious lead indicators that demonstrate United Overseas Australia is near, if not right in the sweet spot that saw the last explosion in earnings in the mid 2010's.

In the May 2023 newsletter (.pdf), I reiterated the importance of the "Unbilled Sales" metric to the future earnings of the business, with this table showing RM26.8m had been added quarterly since the metric bottomed post-Covid. Note B3 of the UOA Development June quarterly (.pdf) showed this already brisk growth accelerated sharply in the quarter with a further RM58.9m added to the unbilled sales figure to bring it to RM285.2m as the business makes its biggest range of new development launches in almost a decade in 2023.

The other factor I reiterated in May as a differentiator for UOA Development versus many property developers is the fast-growing "Other Income" line on the P&L. The inexorable rise of this figure continued in the June quarter, with the RM86.4m figure running comfortably more than twice the RM40.5m of quarterly administrative and general expenses for the Malaysian development arm.

The next few years for UOS will be predictably excellent. Property development can be lumpy in nature and I am generally leery of prediction making, but if UOS does not grow earnings sequentially (half on half, or year on year) in at least 80% of reports in the next 5 years, I will be dumbfounded.

UOS has done everything I have predicted in the past couple of years, they have just reintroduced the interim dividend for the first time since 2019 (as intimated they would in the July report). The interim dividend was half a cent in 2019, it is 2 cents for this report. If they hold the final dividend at 2 cents (highly probable they increase it as the final has typically been larger than the interim), the yield will be >7% on the 55c share price at time of writing.

If they do as I expect and issue a 3c final, the stock will become that rarest of unicorns, a deep value (trading at less than half of true NTA) yield monster (close to double-digit yield) with big growth prospects (depending on the quantum of dilution from the DRP, it is possible, if not likely that UOS will set an EPS record in the next 3-4 years).

The most exciting element of the report for someone who has owned shares in the business since 2008 was this section:

DUO TOWER

Duo Tower is strategically located within The Vertical in Bangsar South. This project consists of 2 blocks of office towers which are supported by well-established amenities and connectivity.

The earthworks of this project has commenced and is expected to be completed in year 2027. This development has an estimated GDV of AUD 419 million.

I recall conversations with Jimmy Kong about these towers being the culmination of, and most valuable opportunity in the Bangsar South development as early as the 2015 AGM. From memory, he said these towers would be 50 floors, the largest in Bangsar South.

Such buildings are why long-term developments of major sites are so valuable (development of the ~60 acres at Bangsar South commenced in 2006). The final few pieces deliver a level of profitability that swamps the earlier developments because the area is so sought after now. The Vertical towers were 40-storey twin towers completed in 2016 with a GDV (Gross Development Value) of $334m. GDV is the expected final saleable value of the property being developed. With GP margins averaging 43.7% over the past decade, the "cost" of the two vertical towers to construct was likely $188m or about $94m each.

One of the Vertical towers was divested in 2020 for $233m (RM700m). I expect the Duo Towers will be even more profitable than the Vertical has been, but even if the outcome only mirrors the value creation of The Vertical, the above snip tells you that over the next 4 years, UOS will invest about $236m to create a pair of assets worth about

$586m, synthesising ~$350m in wealth along the way. This is just one of numerous projects that they are undertaking concurrently, and why I am so confident the earnings for UOADB and therefore UOS are likely to accelerate very rapidly in the coming years. It is also why, despite the very weak investment performance of the holding over the past few years, I am trying to hold the position size near the top 1 or 2 in our portfolio.

Following on from my comments in the "Month that Was" section above about the exceptional profits that are likely to be earned in the coal industry over the coming years, I will write briefly about our sole investment in coal. We own a position in coking coal producer Bathurst Resources (BRL) that sits just outside our top-10.

The company trades at ~$1 per share at the time of writing. It has 191m shares on issue and holds cash at June 30th 2023 of NZ$163.1m (~AU$150m). Meaning the enterprise value (EV) is currently about AU$41m. In FY22 and FY23, BRL earned a combined underlying NPAT of NZ$133.7. With the outlook for coking coal still buoyant, it is likely FY2024 should produce a profit figure somewhere near the average of the past two years (mid-point NZ$66.8m or ¬AU$61.4m). This means that absent some significant change (shares go up, or earnings prospects rapidly deteriorate), the business will likely trade at a negative EV sometime this financial year. This means the market capitalisation would be less than the cash on the balance sheet.

This is a highly unusual situation that rarely arises in modern markets, but such is the dim view investors have of coal producers in the modern era. For those new to the BRL story, there are two key "wrinkles" to the story that should be considered. The first is the L&M/LMCHB litigation (see note 23 of the Annual Report). BRL won the most recent decision (.pdf), but there is an appeal underway to this decision and the legal wrangling seems to have gone on forever. The other is a complicated ownership structure, which sees most of the earnings (and therefore the cash) tied up in the 65% owned BT Mining JV. Management have spoken for years about finding a way to unwind this structure, but to date, no resolution has been found and this impacts the valuation as the JV impedes management ability to return cash to shareholders. Even factoring these wrinkles, a profitable company must surely be worth more than nothing…

There was nothing in the PPK Group annual report that is likely to make the market react in the near-term, but the report is well worth a read to understand the breadth of opportunities the business is pursuing. The new PPE (Power Plus Energy) acquisition looks enormously prospective and if they can accelerate its growth as targeted, the profits from that business will continue to fund the manifold opportunities in the nanomaterials sector. This video on the BNNT LinkedIn page gives a flavour of how they are trying to expand awareness of the nanomaterials they have developed, and such increased awareness will hopefully lead to commercial outcomes. The price of the stock relative to the option value of the suite of technologies seems extraordinary to me, such that we feel compelled to maintain a reasonably large weighting to the position.

Dicker Data (DDR) provided an update on 4 August (.pdf) that set out the first half results and was met with a shrug of the shoulders from market participants. When the same results were tabled at the end of the month, the shares rose about 15%. I have combed the results and their associated presentation for a good reason why the markets love of DDR was rekindled in late-August but cannot see what it was. The positive outlook has been consistent from management, it is perhaps the dawning realisation of the earnings tailwind the 70% expansion of the Kurnell warehouse offers.

We have slowly increased our DDR portfolio weighting from its lows of 4.2% in March this year and with the strong finish to the month, the 5.9% weighting feels about right. DDR is not "cheap", but it is an impeccably well managed business chasing a generational opportunity that has years left to run. Every time we meet with managements of businesses of all stripes, one consistent theme is the increasing proportion of expenditure that is being consumed by technology. There are very few businesses as well positioned to capitalise on that as DDR.

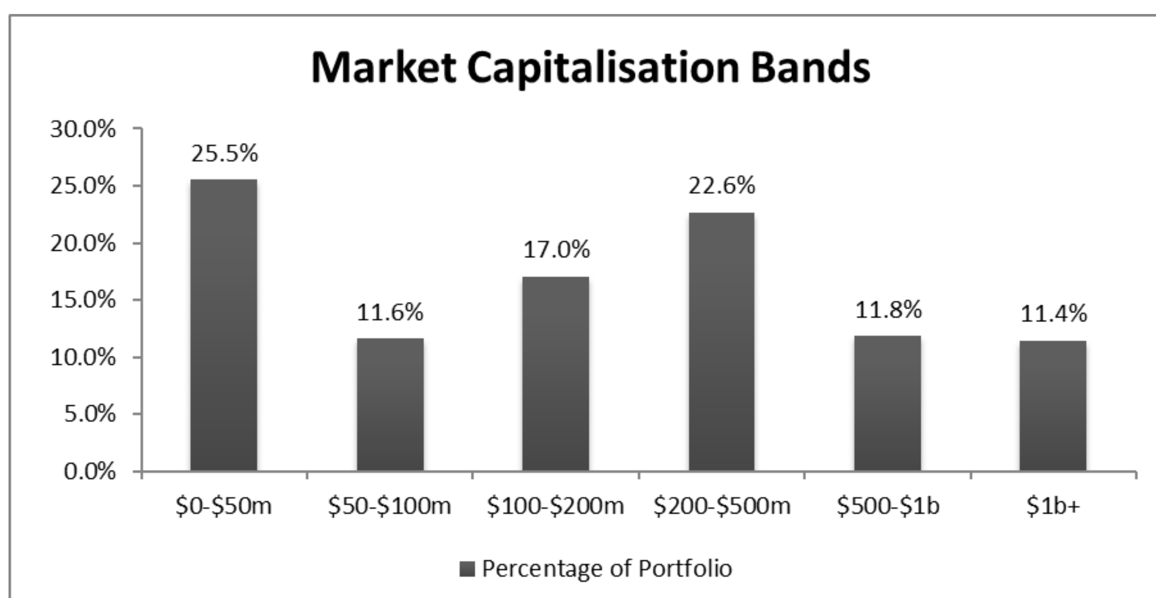
We acquired our first shares in DDR in the months leading up to their warehouse expansion in 2013 (.pdf). Profit before tax for the 6 months to June 2013 was $8.55m. The equivalent figure just 10 years later was $54.9m. We will not count on that figure expanding another 6.4x in the next 10 years. If the corresponding number was almost 3x larger at $150m in the June half of FY2033, we will almost certainly still have a large allocation to DDR in our portfolio and will have held the position for over 20 years.

Key Portfolio Information: -

Our top 10 holdings on 31 August 2023 were:

Rank	Holding	Percentage Equity Weighting	Percentage Portfolio Weighting
1	Smartpay (SMP.ASX)	12.0%	11.2%
2	United Overseas Australia (UOS.ASX)	11.8%	11.1%
3	Shriro Holdings (SHM.ASX)	8.2%	7.7%
4	Tellus (unlisted)	6.5%	6.0%
5	Dicker Data (DDR.ASX)	5.9%	5.5%
6	Cettire (CTT.ASX)	5.5%	5.1%
7	PPK Group (PPK.ASX) inc. White Graphene pre-IPO holding & PPKME	5.1%	4.8%
8	SDI Limited (SDI.ASX)	5.0%	4.6%
9	Blackwall Limited (BWF.ASX)	4.9%	4.5%
10	SRG Global (SRG.ASX)	4.2%	3.9%

Our largest 5 holdings comprise 44.4% of our invested capital, our top 10 holdings are 69% and our top 15 represent 85.8%. Cash and cash equivalents are 7% of the portfolio. The median market capitalisation is $159m. Weighted average market capitalisation is $371m.



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]	0.17
Applications/redemptions	Redemptions only, monthly	Annualised Standard Dev. – EGP Annualised S/D - Benchmark	18.3% 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	56.2% 63.0%
Auditor	Ernst & Young	Cumulative return[2] – EGP Cumulative return[2] – Benchmark	11.0% 61.9%
Custodian/PB	NAB Asset Services	1-year return[2] – EGP 1-year return – Benchmark	10.0% 9.6%
Responsible Entity	Fundhost Limited	3-year annualised return[2] – EGP 3-year annualised – Benchmark	(1.2%) 10.7%
Fund Size	$39m	5-year annualised return[2] – EGP 5-year annualised – Benchmark	1.1% 7.0%
Mid-Price for EGPCVF Units Accumulated Franking per Unit	$0.8545 $0.0002	Buy Price for EGPCVF Units Sell Price for EGPCVF Units	$0.8558 $0.8532

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: