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Erik A. (Tony) Hansen – Investment Manager 30 June 2024

Please find below a cumulative table, which will demonstrate over time what Albert Einstein called ***"the most powerful force in the universe"*** – compound interest. The intention was that over time, relatively modest advantages over the benchmark would accumulate to a substantially superior overall performance (it has been a tough recent period in this regard):

Since Inception Annualised Comparison Tables: -

Financial Year	EGP Concentrated Value Fund (after fees & costs)	Benchmark ASX200TR	Outperformance/ (Underperformance)
2018*	**1.58%**	**12.18%**	**(10.60%)**
2019	**4.63%**	**11.55%**	**(6.92%)**
2020	**1.99%**	**(7.68%)**	**9.66%**
2021	**25.50%**	**27.80%**	**(2.30%)**
2022	**(29.96%)**	**(6.47%)**	**(23.49%)**
2023	**15.21%**	**14.78%**	**0.43%**
2024	**(6.69%)**	**12.10%**	**(18.79%)**
Cumulative	**2.43%[1]**	**77.67%[1]**	**(75.24%)**
Annualised	**0.35%**	**8.72%**	**(8.37%)**

* 2018 is the 10.5 month period from 15 August 2017 (EGPCVF inception) to 30 June 2018
1 Assumes reinvestment of dividends/distributions

The General Market: -

The ***S&P/ASX 200 Annual Total Return Index*** (hereafter referred to as '**the benchmark**') was at 89,031.72 points before the opening of trading on 01 July 2023. Including reinvestment of dividends earned, the benchmark finished FY2024 at 99,807.75 points. The average Australian investing experience in the stock market during FY2024 was therefore a gain of 12.10%.

The benchmark over a period of years will approximate the median result of leading investment companies before fees & charges. Such investment companies are the most probable alternative investments for most fellow Australian investors when they seek exposure to equities.

The benchmark was selected in advance and represented a logical choice in our view. It covers more than $2 trillion in market capitalisation and over 80% of Australian listed stocks by value. It presents no pushover. After fees, nearly 80% of active managers will fail to exceed the benchmark over the medium-term (I unfortunately find myself giving company to this group in recent years!). A research report was included in the FY2015 annual letter explaining this fact in greater detail and is available on our website: www.egpcapital.com.au.

We have explained in considerable detail in previous monthly and annual reports why we selected our benchmark rather than an alternative (the ASX200 is the highest quality Australian equity index). In our view equities focused fund managers using lesser benchmarks are usually setting themselves up to earn larger performance fees than they might deserve.

Since the original EGP fund inception in April 2011 the combined EGP funds have generated an annualised return of 7.62% per annum after all fees and costs. By way of comparison, our benchmark has delivered 8.41% p.a., the Small Ordinaries (Total Return) has delivered 3.20% p.a. (6424.92 – 9950.83) and the Emerging Companies Index (Total Return) has delivered 2.30% p.a. 2341.49 – 3164.34). The choice of one of these alternatives to the ASX200 would clearly have cost our investors significantly in the form of considerably higher accrued performance fees but given our style of investment (fund median market capitalisation is generally smaller than the median of the Emerging Companies Index), these benchmarks more accurately capture in the short term the general performance of the universe we focus our efforts on.

The performance of the Small Ordinaries Total Return (+9.34%) and the Emerging Companies Total Return (+5.29%) were again both notably weaker for FY2024 than the ASX200TR (+12.10%) we use to measure the Fund's performance. We continue to work on the expectation that at some point, hopefully imminent, the disparity between the performance of large and small capitalisation companies will reverse and the smaller companies we favour will once again show they can deliver outperformance.

Our Experience: -

EGP Concentrated Value Fund (hereafter referred to as '**EGPCVF**' or '**the Fund**') commenced 01 July 2023 at $0.8451 per unit after payment of the FY2023 distribution. EGPCVF closed FY2024 at $0.7885.

This resulted in a loss of 6.69% after allowing for all expenses, our second losing year in the 14 years I have run the fund. I am frankly embarrassed to be reporting such dreadful performance given what a relatively benign investment environment we faced in FY2024. Very little worked for us in the portfolio in FY2024, as has been the general case for almost three full years now.

As it should be, no fees were earned by the fund manager, and we have a significant benchmark shortfall to recoup before that can occur.

We still hold ourselves out as being able to generate outperformance over time, fees should be earned only when this aim is achieved.

The Fund has been using the same investment strategy that we used with outstanding success in the initial years of the fund. Given the struggles of our traditional microcap investing in the past few years, as we discussed in the most recent newsletter, we have developed a quantitative strategy to augment our original strategy, which we began to introduce to the fund in May (discussed further below).

The table on the front page sets out the performance history of EGPCVF which was created from the original fund on 15 August 2017. A combined history of both funds EGP has operated since 2011 is set out in **Appendix 1** and should be considered for completeness when assessing performance.

The same holdings that helped us to modest outperformance last year hurt us meaningfully in FY2024. Particularly Cettire, which issued an earnings downgrade in June, causing the share price to halve. We will talk more about that and some brief discussions on other portfolio holdings in the section "Why FY2025 Should Be a Good Year" below.

My Commitment: -

It is now approaching 3 years since the performance of the fund significantly broke down. The fund had not performed as well as I would expect in the few years before that either, but those years were within the normal range expectations. What has occurred since late 2021 was not in my assessment of the range of expected futures…

We were (intra-month) ahead of our benchmark as a fund in early November 2021. Somewhere in that month, the way I see the world and the way the world works diverged considerably. As I have discussed at length in previous reports, part of this is clearly applicable to avoidable mistakes on my part. The valuation for our holdings, such as PPK were way too far ahead of their actual commercialisation timelines, and we erred in not selling the positions down to sizes more in keeping with this reality.

What I have decided is that continuing as is for EGPCVF is impractical without some clear expectations for fellow unitholders. I never created EGP to be an income source (hence the reason for not having a management fee), it was always my hope that given I intended to spend my time investing my family capital, if like-minded investors wanted to join, I would be privileged to oversee some of their capital. If my performance was good (as I expected it to be) I would be able to generate a little extra income via performance fees, that income would be excess to my needs, but would increase the funding available for my charitable goals. My primary hope was to help create generational wealth for the investors that joined early and stuck with me.

If from FY2025 onward we do not begin to generate meaningful outperformance, I will put a vote to investors on the future of the fund. I am thinking of three primary alternatives, though not wedded to these as the only options. The first is that I remove myself as manager and appoint another manager. The challenge in this case is that with the fund well behind our benchmark, such a manager might need to spend an extended period closing the gap before earning meaningful reward for their efforts. The second is to close the fund entirely, this would be difficult morally for me to do because I am singularly focused on making sure that every investor who has stayed with me ends up with a better experience than they would otherwise have had investing in the benchmark. Finally, the fund could be merged with another fund, I have been approached by managers I respect with such offers and if we do not start to generate meaningful outperformance in FY25 and beyond, this might be a viable option for my fellow unitholders to consider.

By meaningful, I am thinking that something close to double-digit outperformance of the benchmark annually until the shortfall is recouped. I will keep track of this metric in FY25 newsletters, but if we do not start to pull well ahead of the benchmark in FY25, I will start to reach out to fellow unitholders for what their view of the optimal pathway forward is.

Fund Origin Story: -

On a few podcast interviews conducted years ago, I talked about how EGP came to exist. Those discussions represent the second half of the EGP creation story, when investing came to dominate. I thought I might go into the first half of the story in this year's newsletter to provide context for why I do things the way I do.

I grew up in a lower middle-class household. My parents were not good with money, but from an early age, money always seemed to grow in my hands. Through school years, there were always jobs and "side-hustles" such as collecting and re-selling golf balls from the dams on nearby courses. My Grandmother's stories of depression-era life, post-war rationing and the like fostered a satisfaction with fewer material needs than my peers seemed to experience and amplified the value of creating a capital base to ensure financial imperviousness from external shocks.

I was always a good student, particularly in mathematics. Not a studious student, but I always worked hard in class to do all class work and complete my homework before class ended so I could have my time to myself after school (usually for money making opportunities). Despite never studying, I always came near the top of the class. I would lose most of my marks in maths tests for not showing workings, just a series of answers to the questions, with no explanation how they were derived, for I usually "just knew" the answer.

No one in my family had ever attended University when I finished high school and despite getting accepted into ANU at the end of my HSC year, I opted instead to go into the workforce, soon after wresting control of a failing family business just before I turned 20 to ensure its bankruptcy was avoided. Once that business was salvaged, I worked for the business it had been sold to for a period and then did a variety of other jobs to support myself and my new family.

In the late 1990's I began to see IQ tests pop up on the internet, and I would occasionally take these tests, always scoring high, but not thinking too much of it, probably mostly because I was sceptical of the veracity of the results. The fact I consistently scored well did sow the seed of not wanting to underachieve my abilities, prompting me to revisit university education. I became a mature age student in my 20's.

I initially undertook the standard "remote" study load of 50% of full-time. But after achieving distinction results or better (despite also working two jobs) early on, impatience got the better of me, so I increased my study load and completed the degree remotely in 3.5 years, only 6 months longer than a full-time student.

Towards the end of my studies, I decided to take the Mensa test to satisfy myself whether the IQ tests I enjoyed taking were legitimate. I ended up joining Mensa. I had moved my family to Sydney and thought that socialising with some smart people would be enjoyable. But passing the test renewed an internal sense of failure to properly exploit my natural abilities.

Through this study period, eliminating our mortgage was a near singular focus, but around the same time the internet was bringing me IQ tests to make me question whether I was making the most of my natural abilities, it also brought me Warren Buffett's writings, and we began building a portfolio with what little savings were not being used to extinguish our mortgage.

After attending a few Mensa meetings, I found that as interesting as it was talking to objectively smart people, few shared my interests in business and investing, and that was more important to where I saw my life heading. I gave that up and instead found likeminded investor types via blogging to create social circles more aligned with my interests.

As this was all happening, the GFC was unfolding and that is where the pathway towards what would become EGP began in earnest. We had paid cash for our Sydney property when we moved here to employ my degree for employment and as the market cratered through the GFC, I took out a line of credit to use for investing and that decision secured our family financial future.

Post the GFC, a structured vehicle that became EGP was created and for years it worked as I expected. When I was contemplating this section for the annual report, I was given to think of an interview in my corporate life where I was asked by an interviewer to discuss a failure experienced in my career. I remember replying that I did not think I had ever experienced true failure, because you can usually see failure coming and course correct before it arrives. Mistakes are inevitable, but true failure can usually be avoided.

After the way the fund has performed since late 2021, I would have a much more comprehensive answer on the question of failure, but the idea of course correction away from complete failure is still a core belief.

The path I settled on to ensure I fully exploited my brain was to spend my lifetime building a highly successful investment fund and use the preponderance of the wealth such an endeavour created to develop a charitable foundation which could be used in the twilight of my life to ensure my life's work left the world meaningfully better than it would have been without my existence.

On Falling Short: -

When you hold yourself out as having the skills to perform an undertaking such as helping people secure their financial future and you fall short of your goals, it has an inevitable impact on your mental state.

I noted earlier this year that former Prime Minister Scott Morrison discussed the anxiety he felt in a position with enormous capacity for impact over the future of the Australian condition. My first thought was that after some of the horrific intrusions into Australians personal freedoms he allowed through the Covid insanity, he had valid reasons to question his own judgement…

On reflection I decided, more charitably that any person who takes on such responsibility and does not experience meaningful anxiousness over the decisions they are making is obviously unfit for the role in the first place.

Like the former PM, I have always experienced a keen sense of the enormous responsibility I have as a fiduciary of my unitholders savings. It was ever-present even when the fund was performing consistently well, but in the past few years when things have not been going well, it has occasionally weighed much heavier. I generally held the view that with an extreme focus on doing all the right things, even under significant duress, one's mental state can be managed.

To that end, I do a 10-kilometre run several mornings each week, lift weights and try to eat well. Walking my dogs daily is also an excellent reminder about living in the moment. The look on my dogs faces when I pull that frisbee out is reminiscent of what I would feel producing a +60% investment return for my investors for the year…

Despite these conscious efforts, knowing how important the work I do is for my unitholders, there have been patches in the past few years where I have been surprised at how much more brittle I felt compared to how mentally impervious I had always assumed myself to be. I have been incredibly fortunate to have all the important relationships in my life performing extremely well, additional challenges in that area may have been a bridge too far.

The instinct to pour yourself harder into your work has always been my "go-to" reaction throughout my professional career, just work harder and the problem will solve itself… Hard work is always a good starting point, but as the saying goes in investing, "The stock does not know you own it", it does not alter the price whether you spent weeks confirming an idea is the best one available to you via deep-dive research.

The past few months spent developing and perfecting the quantitative strategy first discussed in last month's newsletter were an incredible salve for driving me back to peak mental shape. Developing decision rules that optimise outcomes irrespective of market sector, direction or sentiment or has been an excellent framework. A surprising feature of the algorithm we developed is the fact that only around half of all positions the algorithm initiates are profitable. The success relies on the "winners" being roughly twice as profitable as the "losers" on average.

The intellectual challenge of "solving" the algorithm and learning to write the necessary code has also been useful. Learning something new is an underrated mechanism to improve one's mental state, though I maintain regular vigorous exercise is the foundation.

Blending Ideas: -

With the poor performance of the fund these past few years, I have frequently had two of my favourite quotes periodically entering my consciousness. The first is reputedly from Churchill "When you're going through hell, keep going", the other reputedly from Einstein "Insanity is doing the same thing over and over again and expecting different results".

I detest the word unprecedented, but the divergence in the past three years of the performance of large and smallcap businesses is truly that. The basic tenets of reversion to the mean dictate that if we stick with a focused program of investment in smallcaps, we will eventually benefit from this path. This is the "When you're going through hell, keep going" strategy.

As mentioned in the May newsletter, over the course of the past year, I have been working on developing a quantitative strategy for investing. It initially started out as helping a friend with their work, but I have since come to have a great deal of faith in the executability of the algorithm we have built, which is why as discussed in last month's report we will gradually include some of the algorithm's selections where they meet the usual selection criteria we would use. This is the "Insanity is doing the same thing over and over again and expecting different results" strategy.

The exact way I will blend the two strategies in not predictable in advance. In simple terms, like any investment manager, I will be attempting to replace investment ideas with the lowest expected return with the ideas with the highest expected return. The quantitative output has a back tested performance this century exceeding a 20% RoR (Rate of Return) range. Forward expectations drift up and down based on market valuations, but broadly speaking, any new idea from the fundamental/deep-value/microcap side of the portfolio will need to have an expected IRR that exceeds the anticipated IRR of the ideas proposed by the algorithm.

Trusting an Algorithm: -

The biggest challenge for me in developing the quantitative strategy is the fact that it ***should not work***. I wrote well before the pandemic that the largest hedge fund in the world should be operated by Google. They are directly tapped into the main vein of global information; they should be able to predict the financial outcomes of most major trends before anyone else is even aware a trend has begun.

Furthermore, Google and a handful of other large technology businesses are at the forefront of the development of artificial intelligence (AI), which should be able to iteratively test many millions more permutations of more prospective strategies across more datasets than I have any hope of doing.

You can be sure that for someone who has had their entire investing life and taken their family into sound financial security by following the tenets of fundamental investing, learning to trust an algorithm (even one you built and tested personally) has taken time.

In the vein of "it should not work", I have come to view the existence of the considerable edge our algorithm has developed as being a little like the people I see collecting recyclable cans and bottles from other people's recycling bins on rubbish day before the trucks collect them. They are not changing the outcome. The bottles would have been recycled in either case, but they are taking profits for themselves that might otherwise have been missed. The advantage they have is that AI is unlikely to compete away their edge, whereas we will need to be ever alert to the possibility that it will begin to erode ours.

Despite a view that it should not work, for now, it does. We will employ the strategy as part of our assessment of opportunities until the advantage disappears. We hope it lasts many years.

Year	Medallion
1988	17.65%
1989	-7.84%
1990	107.84%
1991	77.25%
1992	65.88%
1993	76.67%
1994	138.63%
1995	75.10%
1996	61.76%
1997	41.57%
1998	81.76%
1999	48.04%
2000	193.14%
2001	64.71%
2002	50.59%
2003	42.94%
2004	48.82%
2005	57.84%
2006	86.86%
2007	144.51%
2008	161.57%
2009	76.47%
2010	57.65%
2011	72.55%
2012	56.86%
2013	91.96%
2014	76.86%
2015	70.59%
2016	69.80%
2017	88.24%
2018	78.43%
2019	76.47%
2020	149.02%
2021	94.12%
2022	37.25%
2023	23.97%
2024 (May)	19.87%

The best-known quantitative investment practitioner is Renaissance Technologies, founded by Jim Simons who died May just gone. Their "Medallion Fund" has famously returned 73.1% per annum for the almost 36 years the fund has operated (shown in the table to the left). The fund has been open only to Renaissance employees since 1993. Medallion Fund evidently sometimes leverages positions up to 20x, which would help explain the strong performance, though one would expect to see such leverage accompanied by more results volatility.

For example, I can get one of the quantitative strategies we have developed to generate returns exceeding those of the Medallion Fund, but it requires an average exposure of around 116% (on average 1.16x leveraged, roughly 176% long and 60% short) and a maximum exposure of ~200% (2x leveraged). The strategy with this kind of leverage expects double digit losses around one month a year and the worst month in back-testing was -24.5% (in October 2018, a month when Medallion made +8.5%).

The incredible performance of the Medallion fund has interesting consequences. A single dollar invested at inception would be worth ~$380,000,000 today. The reason the fund is closed to external investors is it must constrain its size to be able to generate the returns it does. The Medallion Fund apparently has more than US$30B AUM, so it was quite scalable.

The spectacular returns of Medallion have not been replicated by the 3 funds available to outside investors. The Renaissance Institutional Equities Fund (RIEF) appears based on public information to have returned 7.3% p.a. before fees since inception and with the aggressive Renaissance fee structure, the return to investors has apparently averaged more like 3.2% per annum over the ~20 years of operation.

We have discovered scaling issues with the quantitative strategy we have developed. Our strategy presently has a constraint of only about $30m before returns start to slowly diminish. We hope to deal with this by adding additional markets and strategies if the quantitative exposures scale to the point that such a constraint becomes limiting.

We have scrupulously checked our datasets to avoid the common mistakes of "curve fitting" to optimise results. We have been carefully building the algorithm with a focus on improving the risk metrics more than driving the back-tested IRR/RoR. It is more important that the strategy be able to cope with an unexpected shock than to generate an extra couple of points of performance each year. It has been good in that regard, performing well through the main equity's shocks of this century.

The ability of the algorithm to identify opportunities has been the biggest surprise. In back-testing, the best investments flagged include:

1. Buying Nvidia in 2015 @ $28.46 and selling in 2018 @ $254
2. Buying Aristocrat in 2004 @ $2.53 and selling in 2005 @ $12.3

3. It also selected each of Apple and A2 Milk for gains of between 3.5 to 4.4 times in holding periods barely more than a year.

Although we will not apply the short recommendations to EGPCVF, the algorithm has a great record identifying short-selling opportunities. The back-testing flagged WorldCom and Enron and shorted both into bankruptcy early in the century. In the August to November period of 2008 when the GFC was at its most intense, the algorithm proposed shorting Fannie May and Freddie Mac (large businesses that guarantee most American mortgages), with profits on those two positions through that four-month period amounting to 128% and 189.8% respectively. More recently, in March 2023, the algorithm suggested shorting First Republic Bank after it had already fallen from $123 to $13.82, closing the position in June at $0.26 for a 98.1% gain. The algorithm also shorted Permian Resources 10 times over 2019 and 2020 for a total gain of 106.5% despite losing on five of those 10 trades.

The shorting requires incredibly alert risk management and whereas roughly half of the long positions are profitable, only about one-third of the short positions make money.

Managing Two Funds: -

The EGP Long/Short Global Fund launched July 1st, 2024 (Wholesale qualified investors only), the main question I have had from existing investors is whether splitting my focus across two funds will hurt EGPCVF in any way. The answer to that is an easy no. Whilst there will be some modest administrative uptick in managing the second fund, the algorithm is already built for the new fund and operationally, overseeing the trades the algorithm recommend is not onerous and will be split with my business partner in the new fund in any case.

My expectations are that operating the second fund will enhance results for our own fund. The output gives me another source of ideas, and the ideas the algorithm generates have two advantages compared to most current holdings. The first is liquidity, every position suggested by the algorithm must be executable in a single day's trading at less than (usually MUCH less than) one-third of average daily volume.

The second advantage is lack of correlation. The process of building the algorithm gave me an unexpected lesson in the value of diversification. Blending strategies with lower returns but strong discorrelation results in a better total return than strategies that have higher expected returns but higher correlations.

The historic correlation between the ideas proposed by the algorithm and the fund's holdings have been incredibly low. If the forward correlations hold, even a modest exposure to the different strategies should enhance performance. Though if both perform strongly in FY2025, no unitholder is likely to care if the correlations are high.

Why FY2025 Should Be a Good Year: -

There is a dearth of portfolio specific analysis in the annual letter this year. Given the customary microcap wonkishness of most of our newsletters, I feel moral bound to discuss a few positions in further depth.

The easiest to talk about is our largest position United Overseas Australia. The share price closed only half a cent different to its closing price this time last year. This is despite the recurring (rentals, parking, hotels etc) income being up 25% (to ~$157m) last year, after being up 37.8% the year before. Furthermore, the unbilled sales are up 37.7% year on year in March 2023 (last reported) compared to the year prior. This is a business firing on every cylinder of a high-powered V12 engine and being valued like 1993 model, 1.6ltr Lada Niva with a million kilometres on the clock. That you can buy such a spectacularly well-run business for 51 cents on the (incredibly

conservatively) stated NTA dollar remains one of the greatest disputations of efficient-market hypothesis in modern financial markets history.

Smartpay hurt the portfolio quite a badly this year. Their FY2024 results were weaker than I had expected at this time last year. With that said, they confirmed their move into the New Zealand acquiring market will happen this year and if they have anywhere near the success with that rollout that they have had with the Australian rollout, the current share price is laughably undervalued. The current valuation would require zero success in the NZ rollout and some further slowing down in the rate of the Australian growth. These both seem unlikely given the consistently strong execution from the business since they began selling their acquiring product.

As mentioned earlier in the report, Cettire released their first earnings downgrade since listing in 2020. To be sure, the revenue growth remains astonishing given the ever-larger numbers they are cycling. If they hit the mid-point of their $735-745m Sales revenue guidance, they will have delivered 68.8% sales revenue growth on the prior half. The concern of analysts is not for revenue growth, but the significant margin compression that occurred in the June quarter.

Second half margins are seasonally weaker for Cettire, last year the EBITDA margin split was 8.9%/5.5% 1st half/2nd half. With the first half margin in FY2024 already falling to 7.36% and management guiding to increased marketing aggression in the second half, I had expected the second half EBITDA margin to be weaker, perhaps in the 3.5-4% range. It is therefore unsurprising that the guidance for a ~1.9% EBITDA margin in the second half was not well taken by the market.

Business analysis is always done through a forward-looking lens, rather than a rear-looking one, the question we must try to answer is “does this mean the business is structurally broken”. The ability to keep eyes posted a little further out on the horizon can help us hold through weak periods provided the thesis is generally sound. Given the broad-based issues in the luxury good segment in the first half of 2024, some margin weakness is understandable. Furthermore, the sale of Cettire’s major rival, Farfetch to Korean company Coupang likely saw a rationalisation of inventory over the half. Last reported inventory levels for Farfetch were US$436m, more than enough to cause a meaningful market-wide diminution of margins depending on how aggressively Coupang decided to push that inventory level down. Coupang shares were up 32% in the June half, indicating market participants are confident that value can be extracted from the Farfetch carcass.

At the closing price in June, assuming a modest runoff in the cash balance as the massive negative working capital balance on December 31st unwinds, the Enterprise Value of Cettire is ~$380m and the midpoint of FY2024 EBITDA guidance provided in June is $33.5m. This is an EV/EBITDA multiple of ~11.3x. For a negative working capital business with the growth trajectory Cettire has demonstrated since listing to trade at this valuation implies analysts expect earnings to be lower in FY2025 than in the financial year just completed.

If the low margin environment of the final quarter of FY24 continues, that is a possibility. More likely though is that as the Coupang liquidation unwinds, margins will normalise leading into the vital Black Friday/Cyber Monday/Christmas trading period and even if first half EBITDA margins do not quite return to the 7.36% from last December half, continuing revenue growth should help Cettire at least maintain, or possibly grow 1st half EBITDA.

With sales revenue growth slowing from +89% in the December half to +69% in the June half as the business cycles ever larger revenue figures, it is prudent to assume it will be below 50% in this December half. I will plump for +35-45% sales revenue growth. The midpoint of that will be ~$495m sales revenue for the December 2024 half. To match the $26m of EBITDA they will cycle that half would require a margin of 5.25%. This feels achievable even if the period suffers some continued discounting behaviour from major brands and Coupang. If Cettire at least match their

December half from last year, I expect the stock will be much higher than it currently trades as the current pricing is implying falling earnings. One downside to Cettire being such an incredibly lean operation is that there is very little fat to cut if the lower margin environment does persist beyond this half. Management always could switch off the growth engine (marketing), which would see margins immediately much higher, but at the longer-term cost of slowing the build of their loyal customer base of repeat purchasers.

Finally, we will review Site Group International (SIT). At the June 30th closing price of 0.3c per share, the business is now a sub-$10m nanocap. Given the paucity of cashflow in each passing quarter since Covid decimated their training business, such a low valuation is to a degree, understandable.

It is easy to forget SIT still hold 38.4% ownership of the 30-hectare development site in the Clark Freeport and Special Economic Zone (CFSEZ) after selling off pieces (61.6%!!!) to stay alive. Triangulating the fair value of development land inside the CFSEZ is difficult as transactions are rare, and the pricing is not always made public. Then there are the usual issues of comparing like with like, depending on how central the location and other features of the land sold (leasehold tenure and Floor Area Ratio (FAR) being key elements).

There have been land sales in the past year exceeding US$5m per hectare inside CFSEZ, but the best guide to the value of the land came from the bill tabled by the Philippines Government last year contemplating converting some of the leasehold land in CFSEZ to freehold. The linked article mentions an implied per hectare valuation of US$4.2-US$13.3m to the government from such a move. The mid-point of that valuation is ~US$8.8m per hectare.

Globally, according to ChatGPT, freehold land typically commands a 20-50% premium to long-term leasehold land. Also, from ChatGPT *"Overall, the price differential in the Philippines aligns with global trends where freehold properties are more expensive than leasehold properties. This premium can range significantly, but freehold land generally costs around 20-50% more than comparable leasehold land, reflecting the added benefits and security of ownership"*.

If we apply this discount to the midpoint of the "freehold" price range above, we come up with a "leasehold" price range of US$5.8m-US$7.3m". All efforts to triangulate a valuation for the land SIT hold in Clark produce a figure many multiples of the current market capitalisation. In our models, I am using US$3-4m, which places a US$90-120m value on the property, or AU$52-78m on the 38.4% stake SIT still hold in the land.

Even if you assume usurious transaction costs and all manner of other value leakage, if the company can keep itself afloat long enough to finally get the lease extension and FAR increase complete, long-suffering shareholders should be in for an impressive payday.

Further to that, the business is forecasting US$17m of revenues out of their fast-growing Saudi Arabian training business in calendar 2025. Traditionally, the international training business has commanded 40-60% gross profit margins, even if we assume the low-end of that figure, if achieved that would imply something in the order of AU$10m of gross profit in 2025, which even if management are VERY relaxed with their operating cost discipline, should see a pre-tax profit of at least $5m.

That is about as asymmetric an opportunity as you are likely to see in capital markets, with both an asset play and an operational business that under the right conditions could each be worth more than 5 times the current market valuation.

Distributions: -

The distribution based on FY2024 will again be quite small. Because our performance has again been weak, with few realised gains, we are only really distributing the dividends the fund has received. I estimate about 2 cents per unit (cpu) will shortly be paid to all unitholders, there will again be almost 0.7 cpu of franking credits distributed along with it.

The Final Word: -

Much like last year, I don't feel like I made a lot of significant decision errors in FY2024. With hindsight, the bankruptcy of Farfetch alongside a slowing economy with its predictable impact on luxury goods consumption should have seen me trim our Cettire position more aggressively. My tendency towards the long view here has clearly hurt us as I was inclined to think the opportunity to gain market share was likely to have more long-term benefit to the business than any short-term profitability headwinds. I sometimes forget just how manic market participants will become when a weak quarter or two hinder their ability to look further out onto the horizon.

I am incredibly excited for the gradual inclusion of more of the quantitative strategy into our fund. We had only 2.1% of the fund in quantitative ideas at the close of the financial year, depending on how quickly some current microcap positions take to work out, I will be disappointed if that figure is not in the 15-25% range by this time next year.

As always, unitholders may feel free to call (0418 278 298), or email (tony@egpcapital.com.au) if something is on your mind. I pride myself on being transparent and freely available to all investors who have placed their faith and future wealth into my hands.

Best Regards,

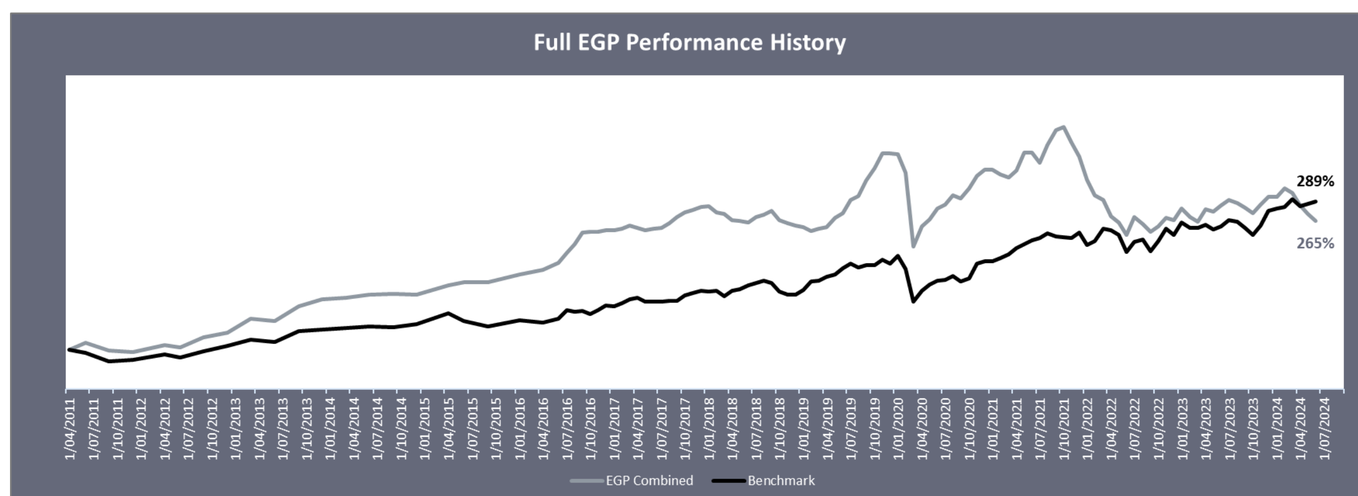
Erik A. (Tony) Hansen
Chief Investment Officer
EGP Capital

Appendix 1:

Combined performance of EGP Fund No. 1 (operating from 01 April 2011 to 15 August 2017) and EGP Concentrated Value Fund (operating since 15 August 2017):

Financial Year	Combined Funds (after fees)	Benchmark	Outperformance/ (Underperformance)
2012*	2.99%	(10.46%)[1]	13.45%
2013	32.58%[1]	22.75%[1]	9.83%
2014	24.71%[1]	17.43%[1]	7.28%
2015	9.04%[1]	5.68%[1]	3.36%
2016	13.19%[1]	2.13%[1]	11.06%
2017	20.75%[1]	15.89%[1]	4.86%
2018	3.39%[1&2]	13.01%[1&3]	(9.62%)
2019	4.63%[1]	11.55%[1]	(6.92%)
2020	1.99%[1]	(7.68%)[1]	9.66%
2021	25.50%[1]	27.80%[1]	(2.30%)
2022	(29.96%)[1]	(6.47%)[1]	(23.49%)
2023	15.21%[1]	14.78%[1]	0.43%
2024	(6.69%)[1]	12.10%[1]	(18.79%)
Cumulative	164.62%[1]	188.65%[1]	(48.71%)
Annualised	7.62%	8.33%	(0.71%)

* 2012 is the 15-month period from 1 April 2011 (fund inception) to 30 June 2012 (first full financial year)
1 Assumes reinvestment of dividends/distributions
2 Comprises the 1.78% earned by EGP Fund No. 1 Pty Ltd between 1 July 2017 – 15 August 2017 & the 1.58% earned by EGPCVF between 16 August 2017 – 30 June 2018
3 Comprises the 0.75% earned by the benchmark between 1 July 2017 – 15 August 2017 & the 12.18% earned between 16 August 2017 – 30 June 2018



	1-Year	3-Years	5-Years	10-Years	Inception Annualised
Combined EGP Funds	(6.69%)	(9.02%)	(0.73%)	4.50%	7.62%
Benchmark*	12.10%	6.37%	7.26%	8.38%	8.33%
Value Added	(18.79%)	(15.39%)	(7.99%)	(3.88%)	(0.71%)

*ASX200TR Index

Appendix 2:

EGP Concentrated Value Fund

Address: Post Office Box 1873,
Macquarie Centre, NSW, 2113

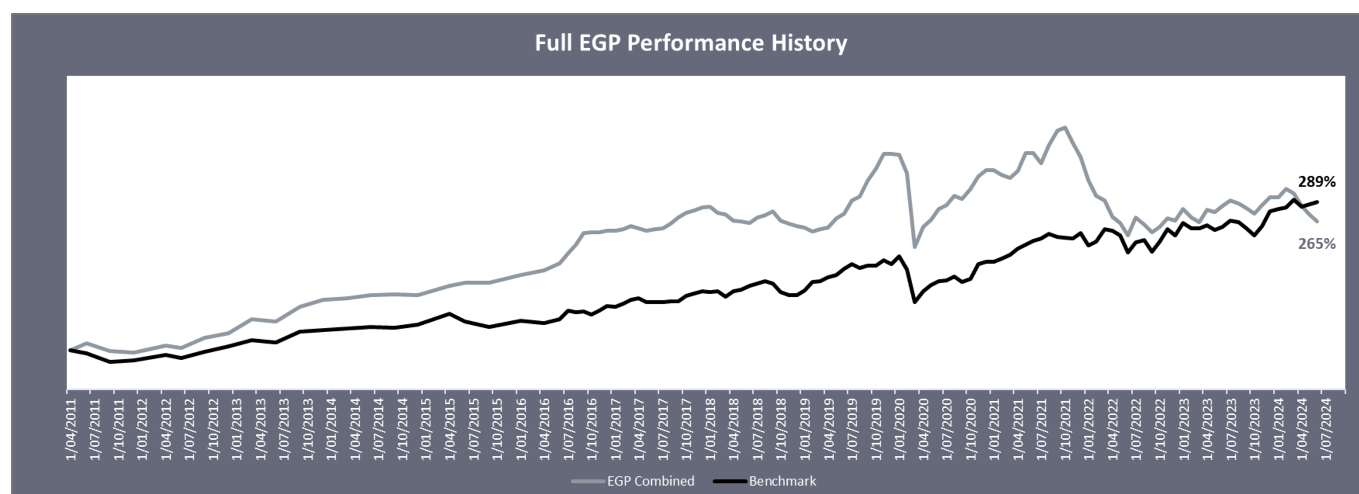
Mobile: 0418 278 298

EGP Concentrated Value Fund – 30 June 2024

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%)	(2.0%)	(2.4%)	3.9%	3.6%	0.0%	3.5%	(2.0%)	(5.2%)	(3.9%)	(3.0%)	(6.69%)
Benchmark FY24	2.9%	(0.7%)	(2.8%)	(3.8%)	5.0%	7.3%	1.2%	0.8%	3.3%	(2.9%)	0.9%	1.0%	12.10%

*August 2017 is the period from August 15th-31st for both the fund and the benchmark in the above tables.



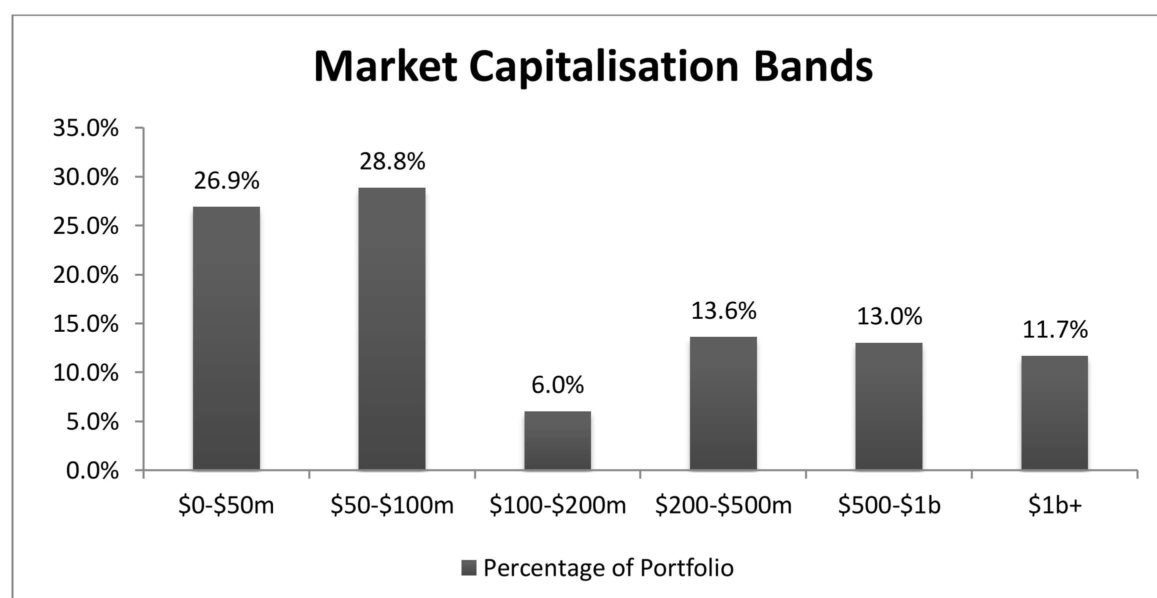
The fund fell 3.0% in June. Our benchmark gained 1.0%. As discussed in the annual letter above, Cettire halved in June after downgrading EBITDA margin for the June quarter. The quantitative exposure of the fund was increased to 2.1% at the beginning of the month, this element of the portfolio fell slightly less than the rest of the portfolio (-1.7%).

Our top 10 holdings at 30 June 2024 were:

Rank	Holding	Percentage Equity Weighting	Percentage Portfolio Weighting
1	United Overseas Australia (UOS.ASX)	13.0%	11.2%
2	Smartpay (SMP.ASX)	10.6%	9.2%
3	Shriro Holdings (SHM.ASX)	8.2%	7.0%
4	Dicker Data (DDR.ASX)	7.1%	6.1%
5	Stealth Group (SGI.ASX)	6.0%	5.1%
6	Matrix Composites (MCE.ASX)	6.0%	5.1%
7	SDI Limited (SDI.ASX)	5.9%	5.1%
8	PPK Holdings (Including PPKME and White Graphene) (PPK.ASX)	5.3%	4.6%
9	Blackwall Limited (BWF.ASX)	4.5%	3.9%
10	Bathurst Resources (BRL.ASX)	3.9%	3.3%

Our largest 5 holdings now comprise 44.9% of our invested capital, our top 10 holdings are 70.5% and our top 15 represent 86.1%. Cash and cash equivalents are 14% of the portfolio. The median market capitalisation is $93.9m. Weighted average market capitalisation is $2067m (tiny positions in a few global mega-caps in the quantitative exposure lift this figure).

The market capitalisation graph is set out below:



As always, investors with any questions, suggestions, comments, or investment ideas should feel free to drop me a line – Tony@egpcapital.com.au

EGP Concentrated Value Fund FY2024 Performance Letter

Fund Features		Portfolio Analytics	
Min. initial investment	$50,000	Sharpe Ratio[1]	-0.16
Additional investments	$5,000 (Minimum) $200,000 (Maximum)	Sortino Ratio[1]	0.00
Applications/redemptions	Redemptions only, monthly	Annualised Standard Dev. – EGP Annualised S/D - Benchmark	17.58% 14.76%
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	54.2% 63.9%
Auditor	Ernst & Young	Cumulative return[2] – EGP Cumulative return[2] – Benchmark	2.4% 77.7%
Custodian/PB	NAB Asset Services	1-year return[2] – EGP 1-year return – Benchmark	(6.69%) 12.10%
Responsible Entity	Fundhost Limited	3-year annualised return[2] – EGP 3-year annualised – Benchmark	(9.02%) 6.37%
Fund Size	$32m	5-year annualised return[2] – EGP 5-year annualised – Benchmark	(0.73%) 7.85%
Mid-Price for EGPCVF Units Accumulated Franking per Unit	$0.7885 $0.0066	Buy Price for EGPCVF Units Sell Price for EGPCVF Units	$0.7897 $0.7873

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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