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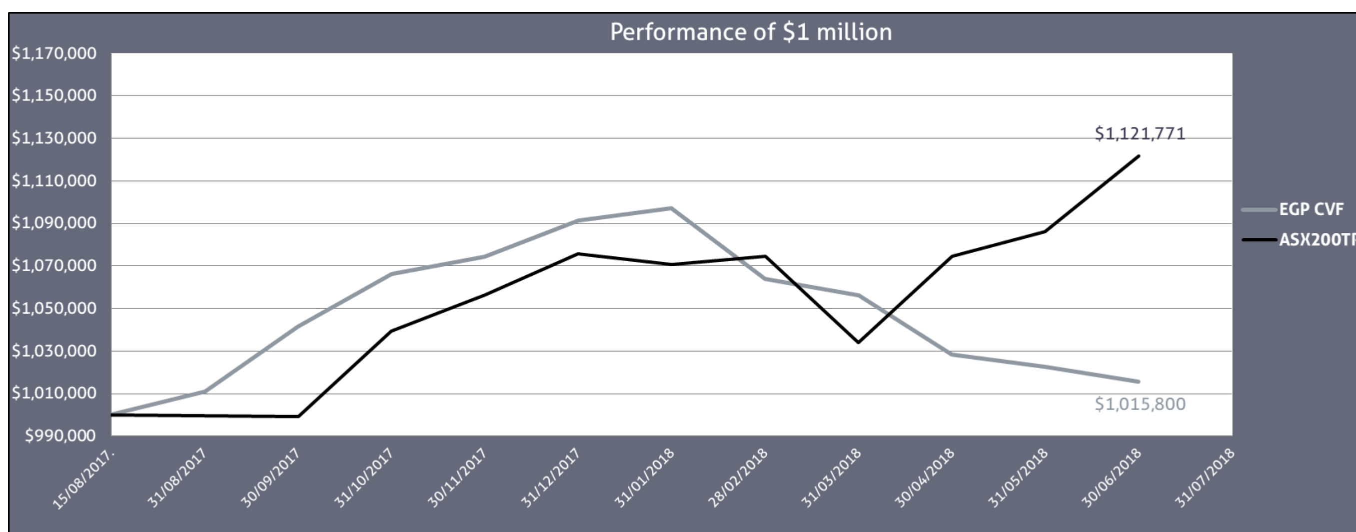
Erik A. (Tony) Hansen – Investment Manager 30 June 2018

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 plan is that over time, relatively modest advantages over the benchmark will accumulate to a substantially superior overall performance:

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%)**
Cumulative	**1.58%[1]**	**12.18%**	**(10.60%)**

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



The General Market:-

The ***S&P/ASX 200 Annual Total Return Index*** (hereafter referred to as '**the benchmark**') was at 56,174.93 points at the inception of EGP Concentrated Value Fund on 15 August 2017. Including reinvestment of dividends earned, the benchmark finished FY2018 at 63,015.41 points.

The average Australian investing experience in the stock market during the 10.5 months period our fund operated in FY2018 was therefore a gain of 12.18%.

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 the majority of 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 about $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. 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.

Our Experience:-

EGP Concentrated Value Fund (hereafter referred to as '**EGPCVF**') commenced on August 15th 2017 at $1.0000 per unit. EGPCVF closed FY2018 at $1.0158.

This resulted in a gain of 1.58% after allowing for all fees and expenses. The EGPVCF uses the same investment strategy and benchmark that we have had in place with another fund that has been operating since 2011. The underperformance against the benchmark was our first ever since the inception of the original fund in 2011. The graph and table on the front page set out the performance history of EGPCVF which was created in August 2017. A combined history of both funds EGP has operated since 2011 is set out in **Appendix 1**.

FY2018 was the worst year in relative terms in the more than 7 years our funds have operated. The responsibility for the poor performance of course rests entirely on my shoulders. A very meaningful inflow of new capital to EGPCVF in August needed to be allocated and the short term performance of those decisions over the 10.5 months since has been unequivocally disappointing.

One of the great difficulties of equity investment involves the 'long and unreliable feedback loop'. Decisions that we make in terms of capital allocation over the year are rarely proven to be good or bad decisions within the year they are made. Poor decisions can occasionally look very good in the short run and good decisions sometimes look like mistakes initially in terms of how the market measures the business valuation. We rely on the sage advice of Benjamin Graham in this regard - *"In the short run, the market is a voting machine but in the long run it is a weighing machine"*.

One way I like to test the short-term outcomes of the decision making over the course of the year is to look at what would have happened if we had simply done nothing and taken the same portfolio allocation from 30 June last year to 30 June this year. The results of this particular test look very poor this year, with the "do nothing" return amounting to about 12% including dividends. This result would have been more than 8% better than the 3.39% result the combined funds (see **Appendix 1**) have reported over the course of FY2018, and much closer to the 13.01% result the benchmark generated over the full financial year.

Naturally, given we had almost $40m of capital inflows into EGPCVF August, we would not have enjoyed a 12% return, the return would have been quite near to the return we actually experienced as the un-deployed cash would have greatly diluted the result. The implication of that of course is that the capital allocation efforts within the fund in FY2018 have generated no value yet. The 'yet' is important here, because we think the portfolio has meaningfully better embedded value than at the same point last year. The

intrinsic values of our holdings are, in our view, materially higher than the value the market is presently ascribing to them. To give some brief outline of this, we will talk briefly about our 5 largest holdings:

1. (UOS.ASX) United Overseas Australia (11.3%) – The property developer focused primarily on Kuala Lumpur trades at 68 cents per share (cps). Our estimate of the Net Tangible Assets (NTA) per share at 30 June 2018 is that it should be slightly above $1.00 assuming currency (MYR/AUD) around current levels. In order for the stock to trade at NTA, it would need to rise more than 47%. In our view, NTA is extremely conservatively stated. Further to this, the same NTA at the June 30 2008 report was 26.5 cps, and at June 30 1998 was about 4.5 cps. So we own a stock with a 10 year record of compounding per share NTA at 14.2% annually and a 20 year record of 16.6% per share NTA compounding (the per share NTA also excludes two significant capital returns the company has made in the last 12 years). Businesses that consistently compound their value at mid-teens rates customarily trade at meaningful premiums to their NTA unless there's a compelling reason to think the historic rate of growth is unlikely to be repeated. Given UOS have been generating similar rates for over thirty years, we think the odds are in our favour of good results in coming years. This is not to say we expect UOS will necessarily trade at, or around NTA, as this has happened only a couple of times in their 31 year history. What we do expect is that in 5 years' time it is a slim likelihood it will have delivered a below market return over the interceding 5 years.

2. (KPT.ASX) Kangaroo Island Plantation Timbers (9.3%) – We've talked frequently about the investment proposition with KPT, so most will be familiar with it. The approval of the wharf has clearly taken longer than we anticipated, saying we're surprised to find ourselves having overestimated the efficiency of an approval process involving Government is an understatement. We consider the likelihood of a refusal highly improbable; given the current massive financial support Kangaroo Island requires from South Australian taxpayers, it would be an act of economic vandalism of epic proportions not to allow an opportunity to increase the island's self-sufficiency with a strong, vibrant and sustainable industry. As to the question of timing, we'll be extremely disappointed if we don't hear an announcement about the wharf before the end of FY2019. In the meantime, about 400,000 green metric tonnes of future supply are added to the asset with every year that passes. The market value of KPT if a wharf is approved (without major alterations causing variation in the economic viability of the project) is presently comfortably in the order of twice or more of the current valuation in our estimation. There are also significant tailwinds in the high-quality hardwood fibre market. Structural supply shortages are imminent and pricing has already begun to reflect this fact with an 8.2% rise in chip prices agreed for 2018. The operating leverage inherent in KPT's operations mean at least twice the increase in annual cash would be observed from future AU$ increase in woodchip prices should the forecast supply shortage be proven correct flows (on a percentage basis – i.e. 5% increase in price >=10% increase in cash flow).

3. (GCS.ASX) Global Construction Services (6.9%) – GCS in June 2018 announced a 'merger of equals' with another business EGP has a long ownership history with in SRG Limited. SRG CEO David McGeorge has done a spectacular job with SRG since

taking control. We think probability is on our side that the combination of the two businesses will give him considerable scope to continue this good work. The market in the short term has been disapproving of the deal. There are always risks with mergers of scale, but the cross-selling opportunity between the businesses is compelling, allowing the combined entity to bid for a much wider range of works than the sum of the separate businesses. Because FY2019 will have merger costs and not contain a full year for the combined business, it will be FY2020 before it is clear what the combined business is capable of. We expect that provided there is evidence of the additional contract wins the business combination has generated that the market will start to ascribe a multiple closer to that SRG has been ascribed (circa 7.5-8x EV/EBITDA) than to that which is currently ascribed to GCS (circa 5x EV/EBITDA). 7x consensus FY2019 pro-forma EBITDA for the combined group implies an enterprise value of about $420-440m, assuming there is still at least $40m in net cash at that point; this implies an equity valuation of about $380-400m, which is about 25-30% above the current valuation before any receipt of dividends. By this time next year, investors will also be looking forward to FY2020 and beyond and the sense of what lies there will drive any further upside. There is also the prospect of 'cost synergies' though we are generally leery about including these in our expectations, but it is highly likely that any revenue growth that can be achieved as a consequence of the combination would come without a commensurate growth in operating costs. One further possibility in receiving an improved valuation for our GCS holding in FY2019 could come from inclusion in the ASX300. Such an inclusion widens the group of investors who are willing and able to buy the business. We will be alert for any overvaluation that might be created by such an event.

4. (MUA.ASX) Mitula Group (5.4%) – We exited our holding of MUA (save 20,000 shares) today. MUA is in the perverse position where holders of less than 20,000 shares will receive a cash consideration of 80 cps when the takeover closes, but at the current price of ¥676, those who receive equity will get the equivalent of 69.6 cps. We think the acquisition makes a lot of sense, but we liquidated our position at an average 72.2 cps today which is a premium to the theoretical 69.6 cps bid price. Buying our stock should be a good result for the majority of buyers who were 20,000 share parcels and below that should receive the 80 cps cash consideration in the next couple of months. This sale will temporarily lift our cash holding to nearly 23%, but we have had found a couple of interesting opportunities that mean we expect to find suitable alternative uses for the cash.

5. (APR.NSX) APN Regional Property Fund (5.2%) – APN is a rare shorter-term holding for EGP. Currently trading at $1.11 per share, the NTA is presently $1.322. Management have committed to a liquidity event by 31 December this year and between now and then are trying to lift yields on some expiring leases and extend the WALE. Assuming they are successful in getting a 5% lift on the 30% of the property presently being renegotiated (which shouldn't be difficult in a hot Newcastle office market). If that happens and the property can be sold at a 7.5% cap rate, a valuation of $1.44+ could be achieved, which is a roughly 30% uplift on the current trading price. In the meantime, we are paid a handsome yield in excess of 8% on our cost base.

So broadly speaking, we feel our top 5 holdings could easily be 30-40% higher without becoming overvalued. I should point out as I always do that our top 5 are not our largest holdings because of their upside prospects. Our larger positions become that way because of the risk/reward imbalance. In simple terms, our largest holdings have less upside than the rest of our portfolio, but they carry less downside risk too.

There are a number of stocks outside of our top 10 that, in the event of favourable business outcomes, could easily be worth more than twice their current valuation within relatively short time-frames.

One stock inside the top 10 holdings with 'multi-bagger' potential in our estimation is Locality Planning Energy (LPE.ASX – 3.7% of the portfolio). We have discussed LPE before on the blog. They are executing well ahead of their forecast to deliver a 450GwH of annualised billing, which now appears likely to happen in FY2021. There is enormous operating leverage in the model and revenues are currently growing over 3x the speed of operating costs. The table below shows the forecast performance for the business in the most recent investor presentation:

Shown in $ millions	FY 18/19 E	FY 19/20 E	FY 20/21 E
Gross Revenue	$44.2	$79.7	$115.2
Cost of Goods	$34.4	$63.6	$92.8
Gross Profit	$9.80	$16.0	$22.4
Margin %	22%	20%	19%
Operational Expenses	$9.10	$11.3	$13.0
Profit (NPAT)	$0.68	$4.65	$8.20

LPE currently has a market capitalisation of less than $43m. If they even come close to generating $8.2m of NPAT in FY2021 (only 3 years away), I find it hard to imagine this business doesn't have a valuation at least triple the current market capitalisation with a long runway for further growth into the future. The very long-term contracts (currently averaging over 7 years) their customers have will ensure incredible 'stickiness' in their revenue base.

In our estimation, the reason the market is ascribing such a low valuation is scepticism they will have the balance sheet required to execute this massive growth ambition. They recently announced a facility that allows them to finance the plant installations required adding new strata blocks, but there is still a cash flow tightrope due to their need to fund working capital (which the current facility does not allow). We expect that if they can secure a simple overdraft or line-of-credit for $5-10m to ensure their pathway for growth is funded without the need for further equity that the share price will rapidly reflect something closer to our view of the fair value of the business.

One other interesting business I thought I would touch on in this year's report is Site Group International (SIT.ASX). SIT sits just outside of our top 20 holdings and is sized that way because there are much bigger risks than our largest investments. With that said, the upside is also significantly bigger than most of our larger holdings.

SIT is an education provider; it presently has a market capitalisation of around $17m. They had a VET Fee HELP business that was severely impacted by the industry-wide debacle that industry suffered as the poorly constructed scheme imploded due to widespread exploitation by unscrupulous operators. In our view, SIT provided quality programs that met the intended function of the scheme, but their business was

destroyed anyway when the scheme was shuttered. As a consequence of this, the company had recorded in its FY17 accounts a payable due from the Department of Education and Training (DET) of almost $34m. An initial disbursement against that debt of $4.9m was approved in December 2017. This leaves an outstanding debt due from DET of about $29m, which we view as highly likely to be paid in the fullness of time.

The Australian Skills Quality Authority (ASQA) recently cancelled SIT's licence to operate in Australia. This looks (to an industry outsider) a leverage gambit to try to settle the claim with DET. There is no indication SIT have ever failed to deliver on their promises in respect of their licence. SIT have obtained a legal stay of the cancellation which allows then to continue operating until a hearing/mediation can be held. Their Australian business in the meantime is suffering as many major employers are reluctant to use a provider with such an issue over their licence.

SIT also has a substantial and growing international business, which is, in my view, where the future for the business lies. The international business is generating less than $20m per annum in revenues at present, but is fast growing and has good margins.

As part of their international strategy, SIT controls a 30 hectare piece of land in the Clark-Freeport area of the Philippines, near Clark International Airport. The training facility in Clark only utilises about half of the land footprint and in light of the difficulties the DET & ASQA have caused the Australian business, SIT have begun investigating ways to monetise the 15 hectares in excess of their needs.

Vacant land in nearby areas has recently been fetching between US$2m-5m per hectare depending on location. Interests associated with their Philippine based director Nic Alcantara have loaned SIT US$4m which can either be repaid or taken in equity at 4cps (60% above the 30 June 2018 closing price of 2.5cps). Mr Alcantara has been tasked with monetising the asset. He will receive 5% of the project value with an additional 5% if a valuation in excess of US$30m is obtained.

I have no particular expertise in Philippines industrial property, but I'd hazard Mr Alcantara would have agreed the incentive point of US$30m because he believes it is achievable.

In any case, if SIT can realise the majority of the $29m the DET owe them, and US$27m (US$30m less the 10% incentive payment) for the excess land in the Philippines, then potential cash payments of AU$65m could be due to SIT. This amount roughly quadruples the current market capitalisation of the business, or about 10cps of cash. Shareholders would also still own the Australian and International education businesses, which would be well placed to succeed if the business had that kind of cash firepower to realise their ambitions.

This is obviously a much riskier play than those outlined in the top 5 holdings, and it is for this reason the position sizing of the investment is outside our top 20. There is the realistic prospect of earning a multiple of our investment. There is also the non-zero prospect of a complete loss.

The seven businesses briefly described in the preceding four pages are set out in order to give some sense to our unitholders of the way we seek to invest your capital and target good returns while appropriately protecting our downside risks.

On Appropriate Time Frames:-

Results, I remind our investor group every year, should be considered over the longer term, preferably at least 3 – 5 years. This may sound like the self-serving words of a fund manager who has underperformed their benchmark this year, but look back through each of our seven annual letters and you will find the same exhortation.

The combined funds as set out in **Appendix 1** has delivered 14.23% annually after all fees and expenses. The benchmark over this period delivered 8.65% annually. We target 3-5% outperformance annually as measured over rolling 5 year periods. We are confident, notwithstanding the poor performance in FY2018, that we will be able to return to delivering a level of outperformance that is more in keeping with our targets.

My words from last year's annual letter have come back to haunt us this year. I wrote:

"*Despite besting our benchmark each of our first 6 full years, we would caution against extrapolation. There will **inevitably** be years where we fail to outperform. Your protection in such a year as an EGP investor is that you pay nothing for such a result and any shortfall must be recovered in future years.*"

The protection of not paying for the underperformance this year probably feels like a pyrrhic victory at present, but as I have pointed out, if you expect EGP will return to outperformance in the future, the lag against the benchmark presents an incredible opportunity. Investors who have added to their holdings on the June 30 2018 intake will get the first 10.6% of outperformance we deliver against the benchmark for free.

We had a similar experience at the beginning of the original fund, earning only 2.99% in the first 15 months before posting 32.6% and 24.7% net returns in the two financial years that followed. We are in no way suggesting that this is a reasonable expectation for the next couple of years with EGPCVF, rather placing an important reminder that returns from an equity investment program such as we pursue at EGP will be very lumpy.

Distributions:-

A distribution based on the trusts performance in FY2018 will shortly be paid to all unitholders. Anyone reinvesting their distribution will be issued new units at the ex-distribution price. Every holding associated with my family will be taking new units as we consider the portfolio excellent value at presently deflated levels.

Given the fund was only created in this financial year; all realised gains were short-term in nature. As the fund ages, given our long-term holding style, investors should expect a substantial component of future realised gains to be long-term gains, which are generally better from a taxation viewpoint.

The Zero-Fee Manifesto:-

Given our recently expanded investor group, we thought it an opportune time to give an explanation of why we do what we do, and the way that we do it, and the direction we intend to take the EGP Capital business in coming years and decades.

At EGP Capital, we consider driving fees down in the Fund Management industry to be a moral imperative. We have repeatedly highlighted the fact that over time around 80% of fund managers fail to outperform their benchmark after fees and costs. Some of the costs of this are obvious, others are less so. We would like to examine some of these further in this annual letter.

The first consequence of this underperformance is easily identified. The ultimate owner of the 80% of funds that will underperform will earn a poorer net return than they otherwise could as their ineffective manager, operating a sub-par fund, fails to hurdle their operating costs and fees (relative to their benchmark). This fact has provided considerable fuel to the growth that has occurred in indexing (passive investments where an index is 'proportionately owned' according to the size of the underlying assets that comprise the index, and only changed when the underlying index construction is changed) over the previous few decades.

Estimates have shown that almost 40% of US equity markets are now controlled by "passive funds", with this figure approaching 20% globally and comfortably in excess of 50% of all new flows into equities globally are reportedly being directed into passive investments worldwide. As I set out in the final paragraphs of this section, this is enormously dangerous as such blind capital allocation creates a massive risk of inefficiency to a capitalist system that has been grossly under-considered in my view.

Here is a thought experiment to establish the scale of the cost to our economy of the active management model as it currently operates. To be clear, the numbers that are set out are not thoroughly researched and are included to be prescriptive rather than descriptive. If we assume that only 50% of the roughly $2 trillion Australian equity market is 'actively managed' this amounts to about $1 trillion. Given research indicates 80% will fail to beat the target over 5 years, we can deduct that around $800 billion is 'sub-optimally' managed. If we assume the median underperformance of this subset is between 0.5% - 1% annually, we can deduce an annual cost to the Australian economy of something in the order of $4 billion - $8 billion. This is something in the order of 0.3% - 0.6% of Australia's GDP being vaporised annually by an industry that is, in 80% of cases, actually harming its clientele more than it helps them.

The more insidious and less obvious cost that is a consequence of the 80% of active fund managers that are unable to manage money effectively is one that should also be considered. These people are, on the median, people of above average intelligence, energy and ambition, with good (read: expensive and primarily state funded) educations. The 'hidden cost' is the enormous good these people could be doing if their efforts were instead focused into an industry unequivocally likely to add value to society, rather than cause it a net harm. Fund management needlessly directs the talents of many potential doctors, scientists, humanitarians, environmentalists, infrastructure/engineers and teachers from their highest and best purpose. The social and economic good of redirecting the $4 - $8 billion estimate of value detracted above would likely be a multiple of the immediate financial saving.

Finally, I should point out that I am an unabashed fan of capitalism and view the role of capital allocation as being critically important to the correct functioning of the capitalist marketplace. People who really understand capital allocation intelligently directing the largest amounts of capital at the best projects is what allows society to become wealthier across time at the fastest possible pace. Billions have been dragged out of abject poverty in just my own lifetime through capitalism's indisputable magic.

Another thought experiment to demonstrate the risk of passive investment. Assume that over 90% of the equity market ends up passively owned. When a company with >90% of its equity owned by such a value-blind owner raises capital, the normal economic signals as to the value (or otherwise) of the purpose for which capital is being raised will not be properly made when less than 10% are really considering the merit of the capital

allocation decision. With these dynamics at work, there exists the potential for massive capital misallocation.

The EGP vision:-

We hope to help launch a series of other funds operating with business models that are ethically and operationally similar to that of EGPCVF. We say similar as we will not dictate to others the structures or models they should use.

We will reopen the fund to new investors in July. Notwithstanding underperformance of our benchmark this year, we don't view the additional assets we're managing as a contributing factor; it is just that the particular businesses that are the focus of our investing style are presently poorly regarded. We are confident that will change soon enough. Our intention in taking this action comes from two things.

The first is to accelerate our progress towards our hard close goal. We have always intended to hard-close EGPCVF at $100m of assets under management (AUM). Once the fund has closed at $100m, it is our intention to have only a once annual opportunity for existing investors to add to their investment (unless some exceptional investment opportunity is apparent), but only by the amount redeemed by investors in the fund over the course of the year. Our hope is that we can hard close the fund towards the end of calendar 2019. Our further aspiration is that during the decade of the 2020's we will establish a functioning "zero-fee fund managers co-operative".

The second reason is to widen our investor base. Given we hope to introduce new funds with similar models once EGPCVF is closed, it makes sense to widen our investor group as much as possible to enhance our reach when the time comes that we want to invite investment in the new funds.

To those thinking there's unlikely to be any other fund managers crazy enough to take the plunge into a world with zero guaranteed income; we are currently in touch with more than ten investors who are running structures that could easily fall under the zero-fee fund managers co-operative we hope to create. We are aware of at least five or more other investors that would almost certainly consider starting a similar fund if the first few funds EGP introduces successfully use the platform we hope to create to achieve an economic scale for their funds.

Anyone reading this letter whose interest is piqued by this concept is welcome to make contact. The pipeline is looking pretty good, but inevitably some of these people will decide not to proceed, or will do so without an association with EGP.

The execution:-

Given the weak start EGPCVF has had since launch 10.5 months ago, it may seem ambitious to be looking decades ahead with our expectations for what we can help the zero-fee industry become. We would seek to remind those who joined us in the past year that our record stretches all the way back to 2011 (see **Appendix 1**) and the cumulative experience of the full period is what gives us confidence to plan ahead on the assumption we will once again return to delivering the levels of outperformance our clients have come to expect of us.

Assuming we successfully take EGPCVF to $100m of AUM and close the fund towards the end of 2019, our intention would be to launch our first member of the collective around 1 July 2020.

The concept we're developing would involve EGPCVF adding some capital into the new fund we intend to assist launch. $3-5 million of new capital, maybe more if it is needed. This will help add scale to a business that will most likely be managing between $5-15 million before we get involved.

We would then write a letter of introduction to everyone on the EGPCVF distribution list. We will explain to them why we have elected to assist this fund with their growth. We will explain how the manager allocates capital, what their track record to date looks like and any other information that may help our investors decide if they would like to add a new fund to their stable.

Any fund we help launch is highly likely to have no management fee. These funds will likely have a highly manager/investor aligned fee structure. As an example, more than one fund manager we're considering has mimicked the "Buffett Partnership" model, which involves a simple 6% cumulative hurdle with the manager keeping 25% of any outperformance of that hurdle.

Anyone thinking a 6% simple hurdle is a pushover may wish to investigate Mohnish Pabrai, who as Charlie Munger mentioned this year at the Daily Journal AGM, went 9 or 10 years without earning anything from his efforts. Pabrai had a sharply negative year during the GFC in 2008 and has spent the past 10 years getting back in front of his 6% annual hurdle, whilst also recovering the 2008 drawdown. A sharply negative year is something that every investor with equity exposure must be at peace with. A simple 6% hurdle is a valid hurdle that is easy for investors to understand.

Other funds will adopt benchmarks that make sense based on the way they intend to operate their respective investment programs. The most important feature is that investors should know in advance what is trying to be achieved and that the fund manager will not be remunerated unless the target is hurdled.

Another feature all funds we partner with in introducing to market will have is a very substantial portion of the fund managers' personal net worth invested. Not everyone will have more than 90% as I do in EGPCVF, but more than 50% of the managers' investable net worth is a perfectly reasonable expectation in our view.

Yet another feature that substantially all of the funds will operate with is likely to involve closing their fund with a relatively modest AUM relative to the strategy they employ. Generating outperformance is difficult and gets harder with each passing year as the market slowly drifts toward finally achieving the "Efficient Market Hypothesis". Each fund will have their own view of the level of AUM that would hinder outperformance, but the important benefit of performance only models is that the fund manager will be highly cognisant of any hindrances to outperformance and actively avoid them. This ensures 'asset gathering' should never happen in a fund we work with, each fund will be laser focused on the ideal operating size that maximises their prospects for high returns.

You might wonder what the benefit to your investment in EGPCVF is for our doing this. My expectation is that we will make a commercial arrangement with any fund we help launch. The deal would involve an agreement about achieving a minimum scale for the fund. In our view, it is very difficult for a fund to be commercial with less than $30m of AUM, for some strategies, this could be a much higher figure. Assuming we can assist the new fund to achieve the targeted scale within a targeted timeframe, we anticipate an arrangement whereby a share of the performance fee generated by the new fund is shared with EGPCVF.

Importantly, neither I, nor EGP Capital anticipates an economic or management interest in the fund management businesses we help launch. We have no interest in telling people how to run their businesses, we intend to find top class people and then help them any way we can to achieve the goals they set for themselves and their investors.

Such an arrangement makes sense. EGP would be taking reputational risk in backing the launch of any new fund. The only way EGPCVF will benefit is if we select managers that are likely to outperform their chosen benchmark. The selection of suitable fund managers to partner with would be absolutely critical to the success of the "zero-fee collective". If we select managers unable to outperform their benchmark, we will have taken commercial risk with no economic benefit, and harmed our long-term goals.

Our hope is that we will be able to launch a new partner fund roughly every 12 months. If we get the model right and select good managers who generate meaningful levels of outperformance, by the end of the decade of the 2020's we would hope to have launched at least 10 funds and for those associated with the collective to have between $2-5 billion of AUM.

Once we have launched four or five funds into the collective, we hope to launch a fund-of-funds product, which would then be used as the primary funding vehicle for launching new funds that followed on from that point. Ordinarily, fund-of-funds can be fee heavy (with the fund-of-fund charging fees and the underlying funds each charging fees), but in this case, it would be a zero-fee fund-of-funds holding stakes in zero-fee funds, so the key risk of the model is averted.

This product would provide an instantly diversified super-low volatility exposure to a group of exceptional fund managers. Given the fact that there will be an ever expanding universe of zero-fee products, the potential scale of the fund will much larger than each of the underlying funds.

The fund-of-funds product would be majority owned by an as yet to be founded charitable foundation. The foundation and its aims will be the subject of future explanation, nearer to launch. In short, its primary aim will be assisting gifted children from the bottom socio-economic quartile maximise their academic achievements.

The "zero-fee collective":-

One of the great difficulties of operating without some type of management fee is that the fund management industry is an enormously expensive place to enter and operate. If one isn't administratively skilled in handling the environment using their own capabilities, they could easily burn a substantial sum of money annually maintaining even the simplest fund structure. That refers to the operation of the fund manager's business, not the fund itself.

Such administrative costs include insurances, AFSL licencing and compliance with a bureaucratic maze of rules and regulations. To be fair, the finance industry needs to have strong regulation as the scope for significant financial harms to participants is considerable. The high cost of this burden is a quasi-insurance policy for the industry, with an overly high cost borne by all participants in the hope that very high costs for individuals from bad actors is reduced.

The costs referred to above are just the costs of operating the fund management business. Operating the actual fund is also more costly than it needs to be. Including trustee, administration, responsible entity, custodial, audit and the like - even funds with considerable scale will struggle to keep these costs below about 25 basis points (our

own costs for EGPCVF have annualised to 34 basis points in FY2018 despite my best efforts to run as lean as we can).

To give a sense of the difference 25 basis point can make, $100,000 compounded for 40 years at 7.00% becomes $1,497,445. 40 years at 7.25% becomes $1,643,963. The total lost to costs in this example is nearly 1.5 times the original investment. Obviously, we cannot magically reduce these costs to zero (as with the above example). We expect that within ten years if we can have 10 or more funds and $2-5 billion of AUM under our banner that we can get these costs below 10 basis points. A 10 BP cost (before trading costs, as this will be highly dependent on the individual fund manager) is an extremely ambitious goal, but there are passive products operating with expense ratios below 5 basis points, so we don't think this aim unreasonable.

We will also, as the collective matures, allow the fund managers to greatly reduce the operating costs for their businesses. This will likely come through the development of shared services for things like AFSL compliance and scale buying for insurances and running administrative functions. Eventually, we would hope to operate all trustee, responsible entity, custodial and administrative functions internally, with each fund bearing its share of the expense at cost.

Your margin is my opportunity:-

This is a famous quote from Jeff Bezos, the man who built the greatest retail juggernaut in the history of capitalism, amazon.com. It is also the basis of why I expect the zero-fee fund management industry will be successful.

If as I surmise in "The Zero Fee Manifesto" section, the median underperformance of the 80% of funds that underperform is about 0.75%, and their management fees are 1.35% (which is roughly where recent estimates have put the industry median), then if fees across this group are reduced to 0.6%, half of the 80% of underperforming funds would then fall out of the underperforming group. This would still see 40% of active managers under-performing, which isn't great, but it's a massive improvement.

Our expectation is that the industry will be slow to react to the changes coming. As with most improvements in life, an inexorable grind to lower fees is likely to define the fund management industry in coming years. Our job with the zero-fee collective will be to increase the speed of the change from its current glacial pace to something meaningfully faster.

To be sure, for someone with the appropriate skills and the support we hope to establish, operating a zero-fee fund can still be an excellent business. Provided we can keep running costs to a bare minimum, and ensure only the most skilled investors are handling the capital, we should be able to create an impressive virtuous circle. An investor group that is getting handsome outperformance across a diverse suite of fund products and a set of fund managers that are being rewarded based only on delivering on their promise to their investors.

The whole idea is fairly easy for the current industry to 'head off at the pass'. Our expectation is that the current high margins offered will prove irresistible and rather than be persuaded to change, the industry will be forced to change by products such as the zero-fee collective will hope to provide.

The reason this section is headlined as such is due to this fact. There were plenty of large, well-funded retailers who could collectively have prevented amazon.com from succeeding, but the status quo was too attractive, so they did nothing. There are many

large well capitalised wealth management organisations that would be much better positioned to do what we're intending to do, but the cosy situation that currently exists means I doubt they'll act. I'd love to be proven wrong.

Sharpen your knives on my mistakes:-

The opportunity here is enormous. The pool of retirement funds in Australia is large and swiftly growing. But it is definitely far from easy. As I pointed out, the 80% of fund managers who underperform don't do so because they are dull, or don't work hard.

We invite any talented investor who is willing to back themselves and risk having no income in the event they are unable to deliver on their performance against their chosen benchmark to come after us. We absolutely welcome the competition. As per the heading, potential competitors are encouraged to sharpen their knives on my mistakes. If you see a better way to do something similar, act on it. If your business model is superior, or your performance is better, and you're able to build your own zero-fee model that attracts more investment than ours, I will be the first person congratulating you. What we seek here is change and all-comers are welcome.

Frankly, I suspect the industry will be large enough to accommodate multiple zero-fee operators. Net contributions inflows to the Australian superannuation system in the year to March 2018 were $38.2 billion. If we assume that figure holds for the decade of the 2020's then there should be roughly $382 billion of inflows over that decade. Our hopes for the zero-fee collective of $2-5 billion by 2030 suddenly seem fairly modest at less than 1% of superannuation inflows.

When we consider the fact that superannuation comprises less than half of the current roughly $5 trillion of total Australian savings and that the total savings level is estimated to be around $9.3 trillion by 2032, we are looking at something in the order of $4 trillion of savings growth between now and 2030.

When we consider the zero-fee collective hope to direct only about 0.1% of that growth into the more ethical fee-structures we advocate, it seems a little unambitious. It is for this reason we are hoping there will be competitor entrants into the zero-fee space.

We are confident that the trickle of zero-fee managers that are appearing now will become a flood in much the same way that the passive industry has snowballed over the past few decades.

My estimate that is met with some scepticism is that of all the money that flows into active management in 30 years' time, at least 50% of it will flow into a super low management fee product (perhaps not zero fee, but near zero) whose fund manager earns the bulk of their income based on outperforming a predetermined benchmark.

A final word:-

Whilst much of the letter has been focused on where we hope to take the zero-fee fund management industry, we have tried to demonstrate with some specific examples just how deeply undervalued we view our portfolio as being.

We are very hopeful that the next few years will be meaningfully better than our performance in FY2018 has been. Certainly in relative terms, we expect a vast improvement as the experience of our fund this year has been unequivocally below our own and we are sure well below your expectations.

I always end my communications with an offer to make contact with me if you have any questions. Feel free to call (0418 278 298), email (tony@egpcapital.com.au) or drop by

the office 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

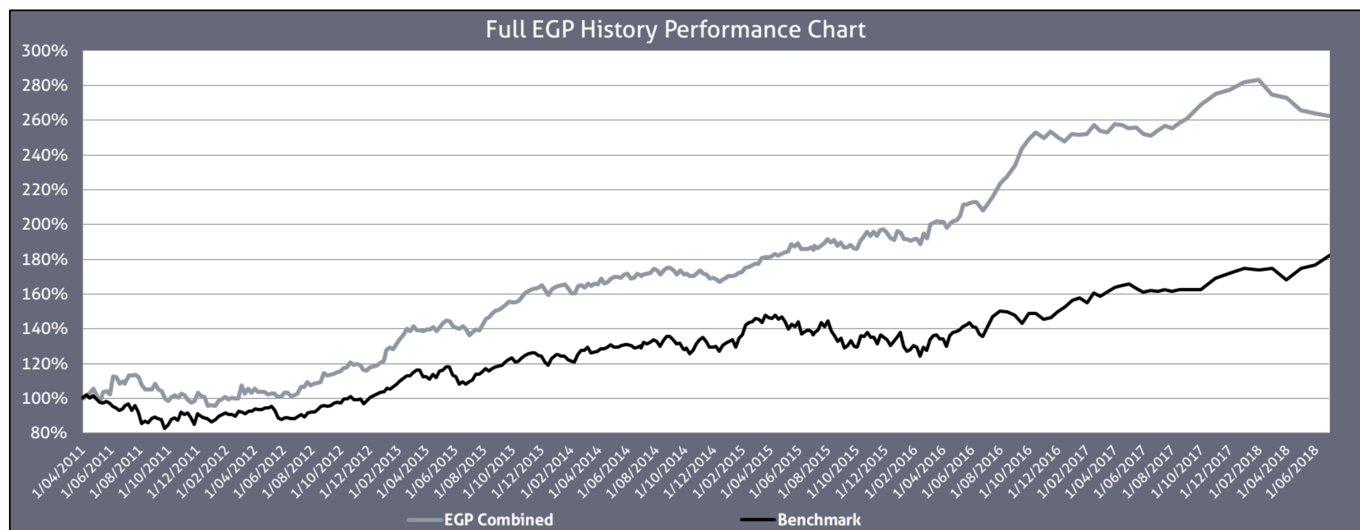
Appendix 1:

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

Financial Year	Combined Funds (after fees)	Benchmark	Outperformance/ (Underperformance)
2012*	2.99%	-10.46%	13.45%
2013	32.58%[1]	22.75%	9.83%
2014	24.71%[1]	17.43%	7.28%
2015	9.04%[1]	5.68%	3.36%
2016	13.19%[1]	2.13%	11.06%
2017	20.75%[1]	15.89%	4.86%
2018	3.39%[2]	13.01%[3]	(9.62%)
Annualised	14.23%[1]	8.65%	5.58%
Cumulative	162.39%[1]	82.45%	79.94%

* 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
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

Past performance is not a reliable indicator of future performance.



Past performance is not a reliable indicator of future performance.

Appendix 2:

EGP Concentrated Value Fund
Address: Suite 2, Level 11, 37 Bligh Street
Sydney, NSW, 2000
Mobile: 0418 278 298

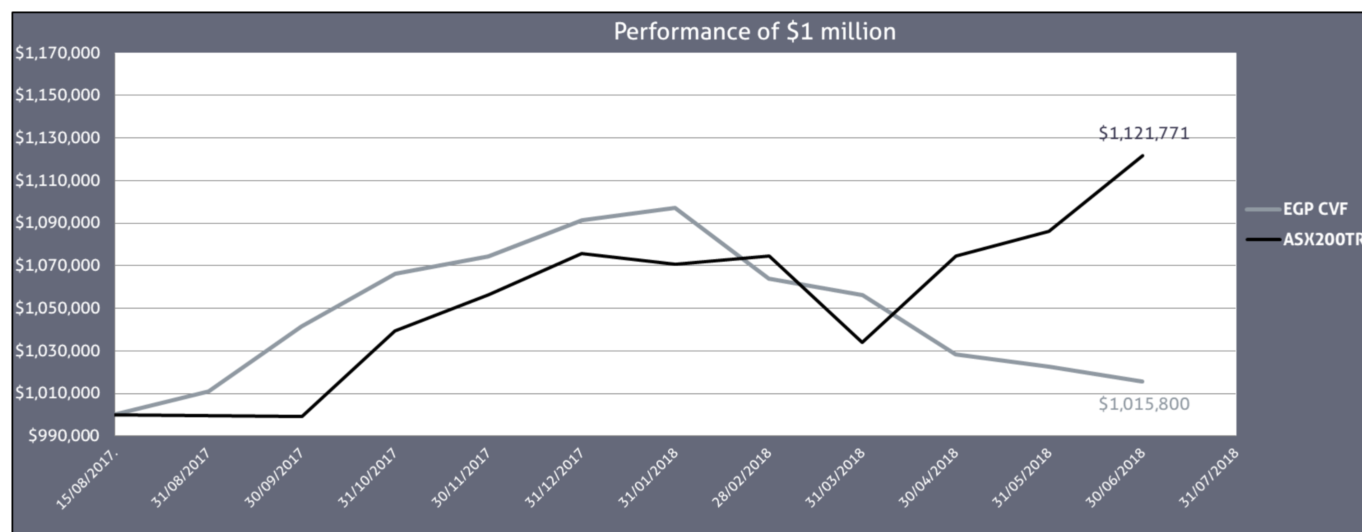
EGP Concentrated Value Fund – 30 June 2018

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.

EGPCVF	Jul	Aug*	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
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	Jul	Aug*	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
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%

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



*Past performance is not a reliable indicator of future performance.

The fund fell 0.7% in June. Our benchmark rose 3.3%.

Thus endeth a decidedly mediocre FY2018 for EGP Concentrated value fund. We are determined to ensure the experience for our investors is a better one in FY2019. In the long letter preceding this monthly update, we have tried to set out examples of the type of undervaluation currently embedded in the portfolio. Unfortunately, as obvious as the undervaluation seems to us, we have no control on when the market will agree with us.

The weak performance in June 2018 we attribute in large part to a phenomenon known as "tax-loss selling" whereby stocks that are a long way down on their highs are sold by investors to crystallise a tax loss that can offset gains. The corollary of this is that such stocks often rise substantially in July. In fact we have never had a negative July since inception.

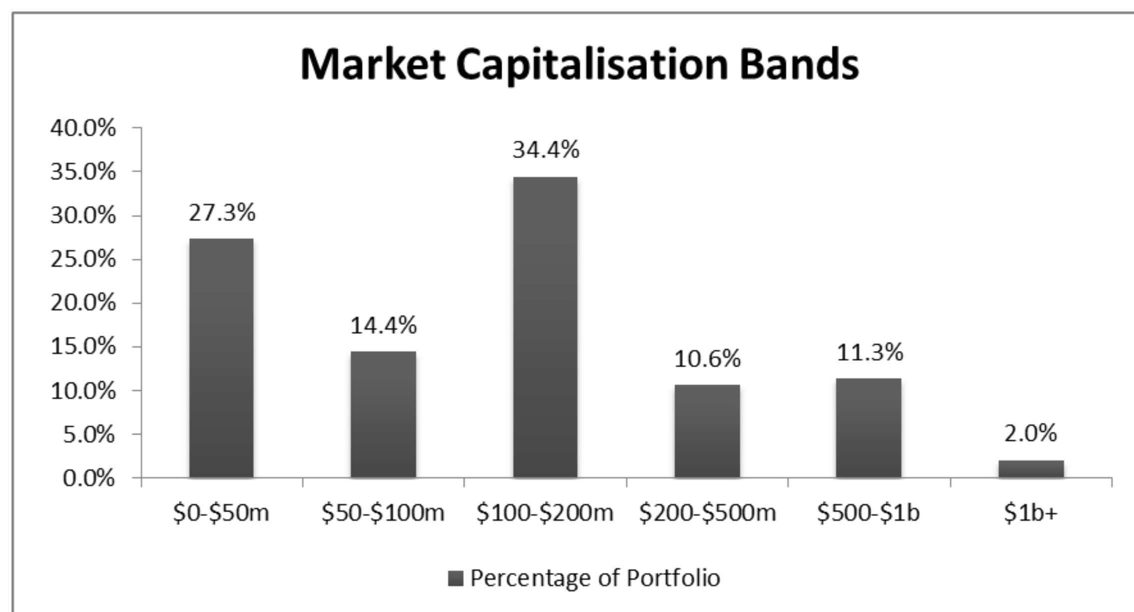
Hopefully that record remains unbroken this coming month. Stocks causing us harm in June due to tax loss selling included Silverchef (SIV), Locality Planning Energy (LPE) & Tempo (TPP).

Our top 10 holdings at 30 June 2018 were:

Rank	Holding	Percentage Equity Weighting	Percentage Portfolio Weighting
1	United Overseas Australia (UOS.ASX)	11.3%	9.4%
2	Kangaroo Plantation (KPT.ASX)	9.3%	7.7%
3	Global Construction Services (GCS.ASX)	6.9%	5.7%
4	Mitula Group Limited (MUA.ASX)	5.4%	4.5%
5	APN Regional Property (APR.NSX)	5.2%	4.3%
6	Blackwall Limited (BWF.ASX)	4.3%	3.6%
7	Locality Planning (LPE.ASX)	3.7%	3.0%
8	Undisclosed	3.5%	2.9%
9	Undisclosed	3.2%	2.7%
10	Shriro Limited (SHM.ASX)	3.0%	2.5%

Our largest 5 holdings now comprise 38.1% of invested capital, our top 10 holdings 55.7% and our top 15 represent 67.9%. Cash and cash equivalents are 17.2% of the portfolio.

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

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EGP Concentrated Value Fund FY2018 Performance Letter

Fund Features		Portfolio Analytics	
Min. initial investment	$50,000	Sharpe Ratio[1]	0.48
Additional investments	$5,000 (Minimum) $200,000 (Maximum)	Sortino Ratio[1]	0.15
Applications/redemptions	Monthly	Annualised Standard Dev. – EGP Annualised S/D - Benchmark	6.62% 7.83%
Distribution	Annual 30th June	Largest Monthly Loss – EGP Largest Monthly Loss - Benchmark	-3.0% -3.8%
Management fee	0%	Largest Drawdown – EGP Largest Drawdown - Benchmark	-7.4% -3.8%
Performance fee (<$50m) Performance fee (>$50m)	20.5% (inc GST) 15.375% (inc GST)	% Of Positive Months – EGP % Of Positive Months - Benchmark	52.4% 61.9%
Auditor	Ernst & Young	Cumulative return[2] – EGP Cumulative return[2] – Benchmark	1.6% 12.2%
Custodian/PB	NAB Asset Services	1 year return[2] – EGP 1 year return – Benchmark	N/A N/A
Responsible Entity	Fundhost Limited	3 year annualised return[2] – EGP 3 year annualised – Benchmark	N/A N/A
Fund Size	$56.1m	5 year annualised return[2] – EGP 5 year annualised – Benchmark	N/A N/A
Mid-Price for EGPCVF Units Accumulated Franking per Unit	$1.0158 $0.0056	Buy Price for EGPCVF Units Sell Price for EGPCVF Units	$1.0173 $1.0142

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.

The information in the below table is provided for shareholders in EGP Fund No. 1, and does not relate to the EGPCV Fund.

EGP Fund No. 1 Pty Ltd Equivalent Price	$2.0050
EGP Fund No. 1 Pty Ltd Franking Credits	$0.0000