



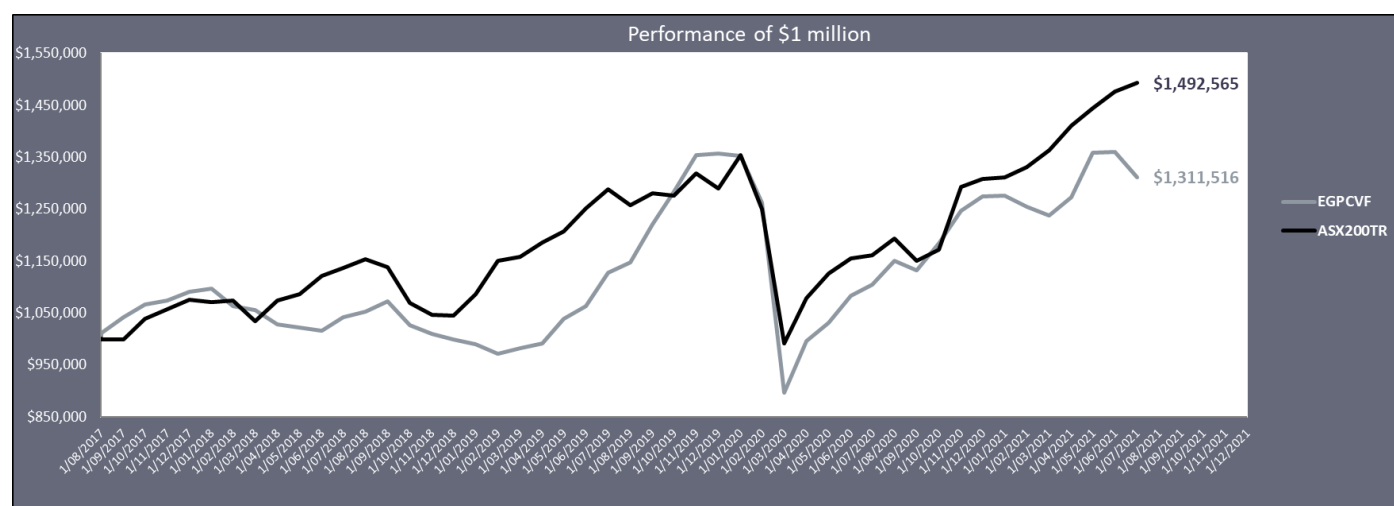
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## EGP Concentrated Value Fund – 31 July 2021

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
<b>EGPCVF FY18</b>	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%
<b>Benchmark FY18</b>	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%
<b>EGPCVF FY19</b>	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%
<b>Benchmark FY19</b>	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%
<b>EGPCVF FY20</b>	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%
<b>Benchmark FY20</b>	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%)
<b>EGPCVF FY21</b>	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%
<b>Benchmark FY21</b>	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%
<b>EGPCVF FY22</b>	(3.6%)												(3.59%)
<b>Benchmark FY21</b>	1.1%												1.10%

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



## The Month That Was: -

The fund fell 3.6% in July. Our benchmark rose 1.1%.

We had never had a negative July in the previous 11 since the fund launched, nor in my record as a private investor going back over 20 years. Falls, some quite sharp in our 6 largest holdings delivered this result.

Our largest position PPK Holdings (PPK) fell from \$15.95 to \$13.15 and cost the fund ~2%. The first of the technology spinoffs PPK have developed lists this month. We have described the deal in greater detail below. We are extremely confident once market participants understand the incredible commercial potential of Boron Nitride Nanotubes that PPK will be valued more appropriately. Given the opportunity presented by the sharp fall, we increased our holding in PPK/LIS this month.

Second Largest holding United Overseas Australia (UOS) fell modestly this month. Long-time director Alan Winduss died this month. Alan was a good and decent man whom I considered a friend. He was always gracious with his time and provided helpful access to a business which does no self-promotion. The key drivers for UOS remain founders CS & Jim Kong and the more than 3,000 employees that oversee the operations. We will miss Alan, but do not think his departure negatively impact the continued value creation of UOS.

Our third largest holding Cettire (CTT) also fell sharply in July on no news, wiping ~2% from the portfolio. Given the sharp rise since listing in December, occasional reversals are to be expected as the markets tries to pinpoint a fair valuation for a business growing at an insane clip. We had trimmed this position modestly, but every piece of data we see tells us any selling is likely to be a mistake.

For example, the data below (from [www.semrush.com](http://www.semrush.com)) shows a 9.2% month-on-month increase in organic traffic. This growth in organic visits has been metronomic, they currently attract ~46.5k organic visits per day, 6 months ago that was about 29k per day, a year ago that was about 14k per day and two years ago, about 2,600 per day. CEO and major shareholder Dean Mintz has shown a preternatural understanding of the online luxury market. He has been aggressive in testing paid search traffic this month and that channel is now delivering ~6x as many visits per day at the end of July as organic search after less than three weeks of using the channel:

v: [cettire.com](http://cettire.com)

[User manual](#) [Send feedback](#)

DE Desktop Jul 31, 2021 USD

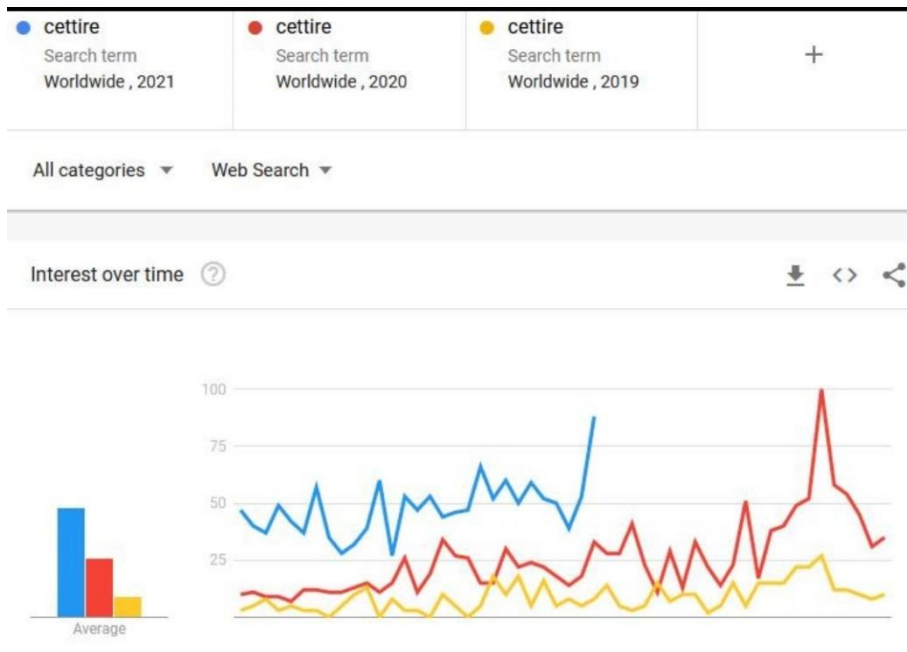
Export to PDF

Growth report Compare by countries

Organic Search Traffic	Paid Search Traffic	Backlinks	Display Advertising
<b>46.5K</b> <span>+9.2%</span>	<b>264.2K</b> <span>+241%</span>	<b>258.9K</b>	<b>1</b>
Keywords <b>78.24K</b> ↑	Keywords <b>1.73K</b> ↑	Referring Domains <b>980</b>	Publishers <b>2</b>

Pages/Visits **4.34** ↓ Avg. Visit Duration **10:00** ↓ Bounce Rate **43%** ↑ [Show all](#)





Given CTT has historically had a massive return on customer acquisition cost it is expected that paid search expenditure is likely to be highly profitable. There is likely some scepticism from market participants about how well CTT will be able to sustain revenue growth, following on from ~400% growth to ~\$85m in FY21. The trend in interest over time as shown in the graphic to the left would indicate that there is no issue with interest. We estimate that July is likely to have been the largest ever month for CTT in revenue terms and if the return on the paid traffic expenditure is even in the ballpark of the historic

return on investment, the revenue “high estimate” in [the first piece I wrote on CTT](#) (.PDF) for FY22 of \$145.8m will be comfortably exceeded, with the potential to get close to the targeted FY23 figure.

Fourth largest holding Smartpay fell in the month despite an excellent trading update showing their continued rollout of the Smartcharge product succeeding despite various Australian states again enacting lockdowns.

Fifth largest holding Shriro (SHM) also fell sharply in the month. The only announcement was about a “Cyber Security Incident”, which appears to be quite innocuous based on the fact SHM are not really an online business per se. We expect some clarity around that incident published with the June results this month will likely reassure the market and focus will return to the incredible value of the strong core business with the international growth option in the Everdure by Heston range.

The remainder of the portfolio was up considerably on average with several good updates, but the falls in the larger holdings outweighed this month.

#### On Closing the Fund: -

We have received a number of disappointed inquiries about our decision to close the fund on September 30<sup>th</sup> 2021. We had always intended to close the fund to new investors at some point but have always expressed our intention to leave the fund open to existing investors from that point onwards. There was a confluence of factors that led to our decision to close the fund instead completely for the next couple of years which are discussed below.

The primary reason for not maintaining the capacity for existing investors to add to their holding is the time, cost, and complexity of maintaining a current Product Disclosure Statement (PDS). We are a retail fund and as such, the burden of compliance was already high, but in the last couple of years, ASIC has continuously added layer after layer of additional process and documentation. The latest creation by ASIC is the “Design and Distribution Obligations” (DDO), which has ostensibly been created to **“assist consumers select appropriate financial products by requiring issuers and distributors to appropriately market and distribute financial products.”** For some reason, ASIC seems convinced that almost every consumer of financial products is an imbecile incapable of anything resembling coherent thought when they seek to select financial products. Many might well fit this description, but if we continuously legislate for the lowest common denominator, we might as well appoint Douglas Adams [Vogons](#) to rule over us. Ben Franklin once said, “an ounce of prevention is worth a pound of cure” and I’m sure it is this noble aim ASIC pursue when they design these compliance obligations. We suspect a noble distortion of Franklin’s axiom would be “an ounce of enforcement is worth a pound of compliance”. Start gaoling wrongdoers for lengthy periods using the laws that currently exist and half the current red tape could be repealed.

The burden of these costs falls to the fund, and we thought it unfair to burden the investors with layers of cost we are so philosophically opposed to. Furthermore, the time associated with complying with these rules eats into time your fund manager views as better spent reviewing investment opportunities.

The secondary reason is that we are hopeful of being considered for an allocation when Cipher Fund launches in October. Cognisant of the “AUM indigestion” that was caused when the fund step-changed its scale in late 2017, we thought it more prudent to wait until any inflows we might be successful in obtaining from Cipher Fund were deployed before we contemplated further inflows to the primary fund.

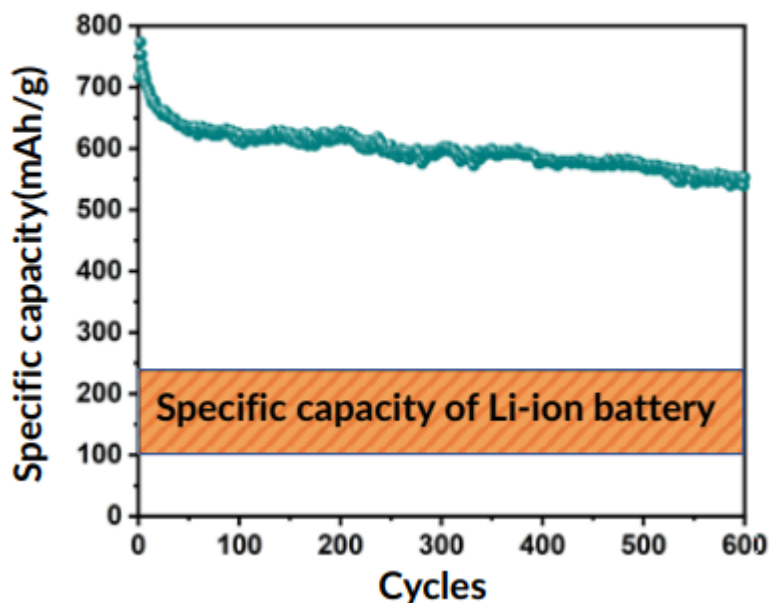
We expect that sometime in 2022 we will look at how the fund is performing and if it has returned to a performance level we consider acceptable, and we can find a “cost and bureaucracy lite” method, we may consider periodic re-opening of EGPCVF to the existing investor group.

There were other minor considerations in the decision to close, among them our expectation that the likelihood of our returning to a position of ascendancy over our benchmark will be accelerated by the smaller AUM base.

**The Month Ahead: -**

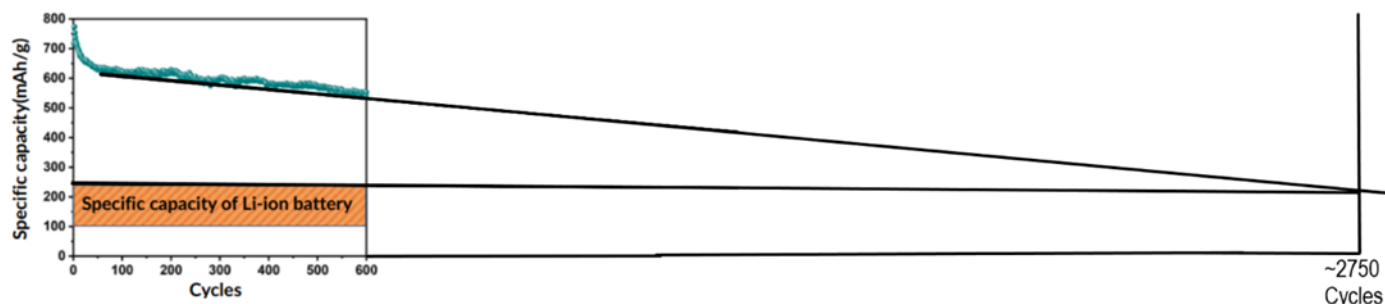
The most meaningful portfolio event this month will be the listing of Li-S Energy (ASX:LIS) on August 30th. The prospectus is available to read [here](#), and I could not commend you more strongly to read and consider the document, this could end up one of the most important Initial Public Offerings in Australia in recent years. We view the most important page in the prospectus as page 39 which contains this graphic representation of the first serious testing conducted on a BNNT enabled Lithium Sulphur battery. The next most important part of the prospectus is page 48 which is the executive summary of the independent consulting firm engaged to test the efficacy of the current Lithium Sulphur prototype, whereby they arrive at this conclusion “**deposition of the (BNNT) interlayer was beneficial to the performance of the cathode, leading to higher utilisation of the sulphur active material and no deleterious effects such as capacitive charge/self-discharge processes were evident**”

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We have set out below a simple extrapolation of the current testing of the first serious prototypes of the Lithium Sulphur battery. This is of course “unscientific”, but we need to try to conceptualise the positioning of the Li-S Energy battery product in the market compared to currently available options:



We estimate if the current rate of cyclic deterioration holds that the Li-S Energy prototype would take approximately 2750 cycles before the Li-S Energy fell to the same capacity as the “out of the box” performance of the best of the current range of commercially available Lithium-Ion batteries. The company have been very clear that they have no view on where the testing will end and will update investors update at appropriate intervals/stages of development.

If one further factors the concomitant cyclic deterioration of the Li-Ion battery in side-by-side testing, it is likely the two lines graphed above never meet because the Li-Ion battery would likely deteriorate to the point of uselessness before the Li-S Energy battery deteriorated to meet the Li-Ion battery. The equivalent Li-Ion battery would have likely

actually completed more ~7,000 cycles at the point the Li-S Energy battery got to 2,750 because the lower energy density means an equivalently sized battery would need to be charged much more regularly. Few commercially available Li-Ion batteries live past 3,000 cycles, so it is likely that the Li-Ion battery would be long dead before an equivalent Li-S Energy got anywhere near the same capacity.

What needs to be further borne in mind is that this early prototype of Li-S Energy’s battery capability is a step-change better than anything else currently commercially available in the market but is still nothing like fully optimised. The “theoretical capacity” of a Lithium Sulphur battery is [2,510 Wh/kg](#), whereas the “theoretical capacity” of Lithium-Ion batteries is [360 Wh/kg](#). The best Li-Ion batteries are achieving ~2/3 of the theoretical capacity after decades of commercial production. The first serious prototype Li-S Energy battery has only commenced with ~30% of theoretical capacity and provided such batteries could produced at similar cost to their Li-Ion counterpart, they would already be a category killer. Any further progress toward the Li-S theoretical capacity would only further enhance the commercial case for Li-S batteries displacing Li-Ion as the dominant rechargeable battery architecture globally.

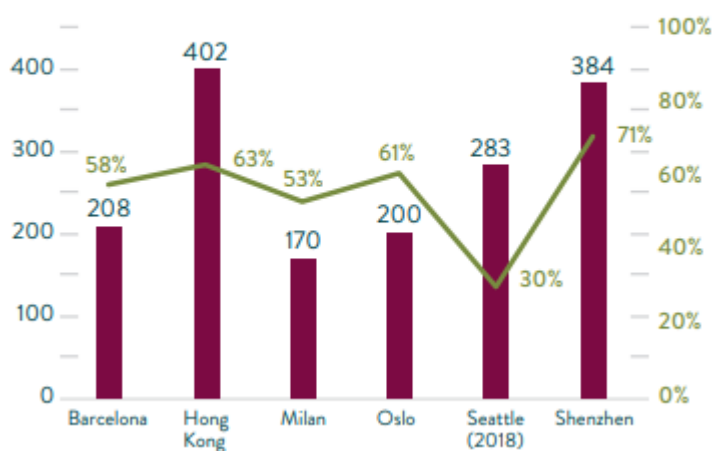
PPK chairman Robin Levison has already commented in various interviews that once mass-production begins for Lithium Sulphur batteries, they should not cost more than their Li-Ion counterparts. Like all major technologies, once mass production commences, costs will only decline on something like Moore’s Law.

There are a variety of other reasons Li-S batteries will be superior to Li-Ion. The most important one will be the removal of cobalt from the construction, along with a variety of other heavy metals in Li-Ion architecture that are largely impossible to recycle. The next most important consideration is the much improved safety of Li-S batteries, meaning [toxic fires such as this one](#) are much less likely to happen.

Think about the practical applications of a battery in a few fields. Most decent smart phones have 24-36 hours battery life at new under medium to heavy use. Most suggest that at 5-600 cycles the battery will still hold ~80% of original capacity. This would mean that it would take about 2 years (36 hours between charges initially to every 24 hours eventually). Given the equivalent Li-S Energy battery (under the first prototype capability) would get 3 to 4.5 days life under the same use case. This would mean that the Li-S smartphone would take roughly 1,850 days to get to 500 cycles (if its owner ran it nearly dead each time before recharging), and it would still last longer than the new version of its Li-Ion equivalent after 500 cycles. My smartphone is 1,657 days old at the time of writing, but my consumer behaviour is very different to average. The median smartphone replacement cycle is [approaching 3 years in Australia](#) and battery life is the main reason users replace their phone. If the smartphone lifecycle were extended to 5 years globally, a massive amount of electronic waste would be eliminated.

Assume an EV equipped with a 500km battery. The same sized Li-S battery in the vehicle would result in ~1,500km range for the vehicle. Apply an aggressive use-case, taxis:

**Average daily km driven per taxi and the percentage of km driven with passengers**



Using the highest kilometre per taxi city in the above example, an EV taxi with an Li-Ion battery would need to be charged roughly once per day, if the vehicle was going to be replaced after 1,000 battery cycles, each EV tax would need to be replaced after about 3 years. The Li-S equipped equivalent would be closer to 9 years old before it required replacement.

The median vehicle in NSW apparently travels only [13,272km annually](#). The median EV in NSW with a 1,500km range would only need to be charged about 9 times a year. Range anxiety eliminated. If the median driver of such a vehicle replaced their EV after 500 cycles, their car would be about 50 years old before it required replacing...

In practical terms, with the additional capacity, what I expect EV manufacturers would do is offer a range of battery options, perhaps a 400km, 800km and 1,200km option.

I met with CEO Dr Lee Finniear this month and I hope he proves to be the right man to execute on the incredible opportunity the Li-S Energy business straddles. Given the relatively advanced state of the technology, I would hope

partnerships with Original Equipment Manufacturers (OEM's) arrive quickly. Any OEM's who position their products as highest quality and cutting edge would behave themselves to be among the first to have products with Li-S Energy batteries in the market.

One would also expect Finniear will field enormous inbound inquiry from the world's major battery manufacturers. These are the moments in an industry where incumbents get destroyed if they don't act promptly and decisively. Ignoring this step-change in technology would be akin to Blockbuster ignoring up the opportunity to acquire Netflix before it went on to destroy the franchise.

Li-S Energy has the prospect of being an incredible producer of cash under the right business model. Given the massive scale of manufacturing capacity that exists globally, the obvious path will almost certainly be a royalty/licensing revenue stream whereby the intellectual property (IP) is licensed to major battery manufacturers. There could be some discrete categories where they directly manufacture batteries themselves, but a capital light royalty stream will likely be the ideal outcome for Li-S Energy.

The global battery market is forecast to be [US\\$310b \(AU\\$422b\) in 2027](#). One need only capture a sliver of that massive pool of revenues to build a very substantial business. We see no reason why Li-S Energy shouldn't capture much more than a sliver of that revenue stream, unless someone else develops a low-cost way to produce boron nitride nanotubes (BNNT) and synthesise them into competing Lithium Sulphur batteries, we see no reason why over the next decade that Li-S Energy batteries don't become the predominant rechargeable battery technology globally.

As a thought exercise, if by 2027, an Li-S Energy royalty represented 1% of the value of all Lithium-Sulphur batteries sold and Li-S batteries had grown to only 5% of the global battery market, that implies \$211m of capital light revenue. I cannot fathom why this meaningfully superior technology would only capture 5% of the market in the next 6 years, we therefore think there a high potential for upside to this outcome.

#### **The ZFC update: -**

Cipher Fund is currently targeting an October 2021 launch. Meetings with administrative service providers have continued apace this month. Brokers, documents, portfolio management platforms and other "back office" functions are steadily being finalised in preparation for launch. These include:

- IC Charter preparation and review
- Proposed First Wave Manager's Evaluation Forms
- Brad and I have held meetings with Administrators; Brokers and Online execution platform personnel to discuss implementation and execution.
- Administrator COO confirmation that an October date for completion of all matters for Cipher Fund launch is achievable operationally and subject to appropriate Funding being available.
- (Agreed) Term Sheet and Presentation for initial cornerstone investors has been prepared.

We have an exceptional group of talented money managers and a deep pool of follow-on talent as the fund grows. We remain committed to conversations with any prospective managers who would like to be part of the ZFC project, even if their expected involvement might be in the future. The earlier we can identify talent and follow it in real time, the easier it will be for us to propose a manager to the Investment Committee.

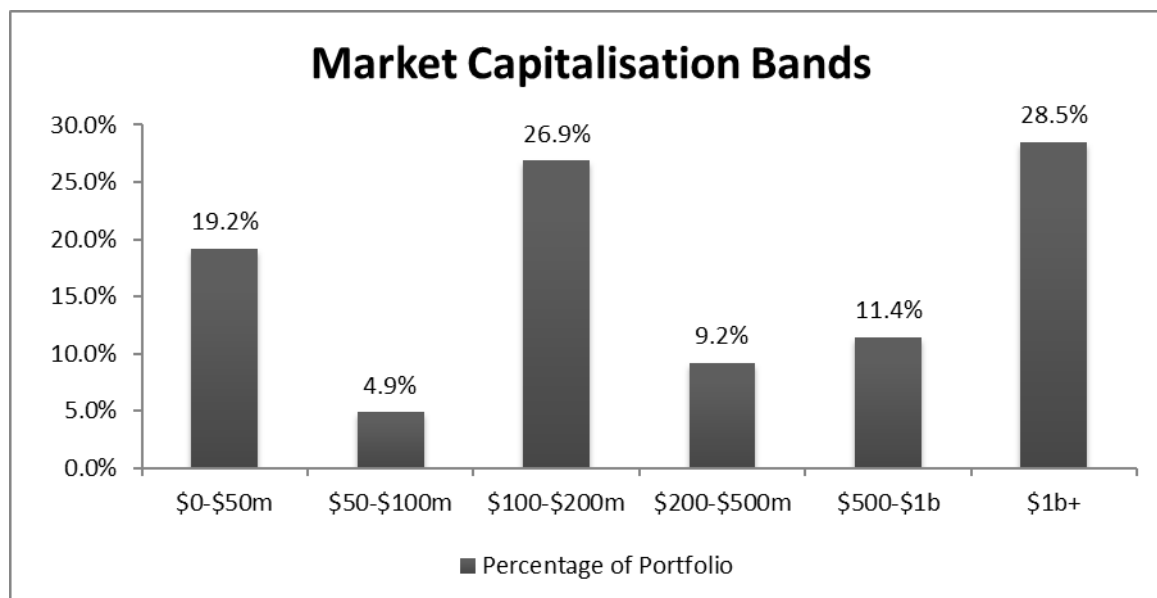
Prospective managers and investors are invited to contact CEO of ZFC, Brad Hughes ([brad.hughes@thezfc.com.au](mailto:brad.hughes@thezfc.com.au)) or myself or if anyone is aware of prospective investors or managers, please have them contact Brad.

## Key Portfolio Information: -

Our top 10 holdings on 31 July 2021 were:

Rank	Holding	Percentage Equity Weighting	Percentage Portfolio Weighting
1	PPK Group (PPK.ASX) inc. Li-S Energy & White Graphene pre-IPO holdings	13.8%	13.3%
2	United Overseas Australia (UOS.ASX)	10.0%	9.6%
3	Cettire (CTT.ASX)	6.6%	6.3%
4	Smartpay (SMP.ASX)	6.2%	6.0%
5	Shriro Holdings (SHM.ASX)	5.6%	5.4%
6	Redbubble (RBL.ASX)	4.8%	4.7%
7	Dicker Data (DDR.ASX)	4.7%	4.5%
8	National Tyre & Wheel (NTD.ASX)	4.6%	4.5%
9	Tellus (Unlisted)	3.9%	3.7%
10	Undisclosed	3.8%	3.6%

Our largest 5 holdings now comprise 42.2% of our invested capital, our top 10 holdings are 64.0% and our top 15 represent 78.4%. Cash and cash equivalents are 4% of the portfolio. The median market capitalisation is \$159.2m. Weighted average market capitalisation is \$524.2m.



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

Fund Features		Portfolio Analytics	
Min. initial investment	\$50,000	Sharpe Ratio <sup>1</sup>	-0.12
Additional investments	\$5,000 (Minimum) \$200,000 (Maximum)	Sortino Ratio <sup>1</sup>	0.60
Applications/redemptions	Monthly	Annualised Standard Dev. – EGP Annualised S/D - Benchmark	18.9% 15.6%
Distribution	Annual 30 <sup>th</sup> 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	64.6% 70.8%
Auditor	Ernst & Young	Cumulative return <sup>2</sup> – EGP Cumulative return <sup>2</sup> – Benchmark	31.2% 49.3%
Custodian/PB	NAB Asset Services	1-year return <sup>2</sup> – EGP 1-year return – Benchmark	18.7% 28.6%
Responsible Entity	Fundhost Limited	3-year annualised return <sup>2</sup> – EGP 3-year annualised – Benchmark	8.0% 9.5%
Fund Size	\$80m	5-year annualised return <sup>2</sup> – EGP 5-year annualised – Benchmark	N/A N/A
Mid-Price for EGPCVF Units Accumulated Franking per Unit	\$1.0733 \$0.0000	Buy Price for EGPCVF Units Sell Price for EGPCVF Units	\$1.0749 \$1.0716

<sup>1</sup> Sharpe and Sortino Ratios calculated using the Monthly Benchmark ASX200 Total Return Index

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

Past performance is not an indicator of future performance.

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**Appendix 1: -**

Combined funds cumulative return since inception:

