EGP Concentrated Value Fund

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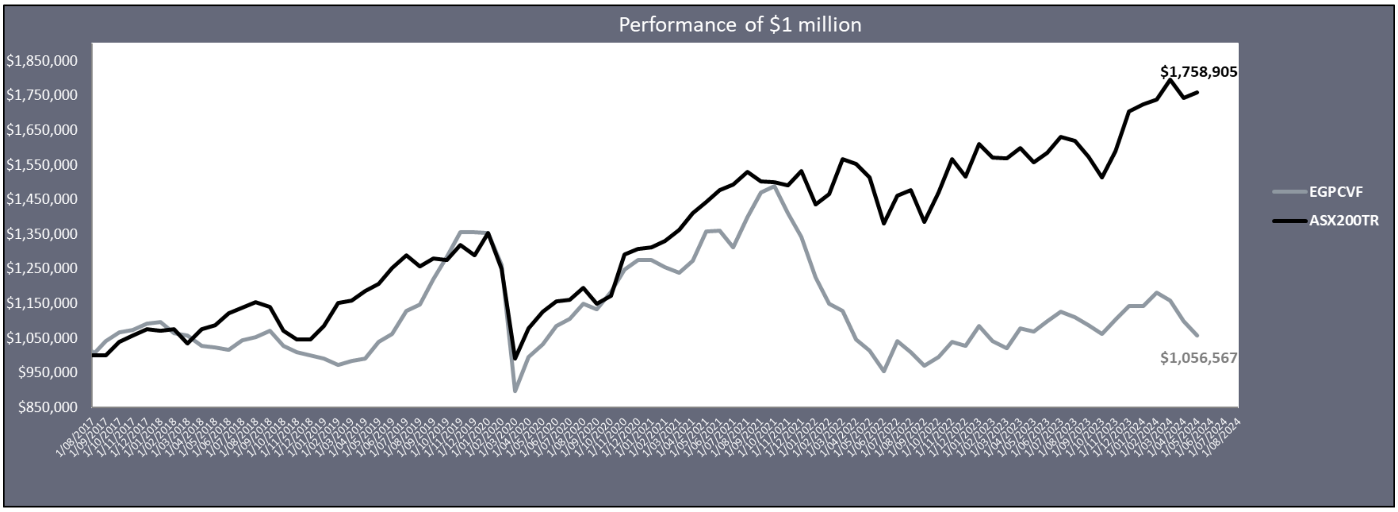
EGP Concentrated Value Fund – 31 May 2024

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%)		(3.76%)
Benchmark FY24	2.9%	(0.7%)	(2.8%)	(3.8%)	5.0%	7.3%	1.2%	0.8%	3.3%	(2.9%)	0.9%		10.98%

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



The Month That Was: -

The fund fell (3.9%) in May. Our benchmark rose 0.9%. The outperformance of large-caps over small-caps continued. The fund suffered in May despite few meaningful company specific updates. Only Smartpay (SMP), PPK Holdings (PPK) and Dicker Data (DDR) made material announcements in May (discussed below), but a lack of actionable information did not prevent owners of many of our positions selling their stock in May.

Portfolio Update: -

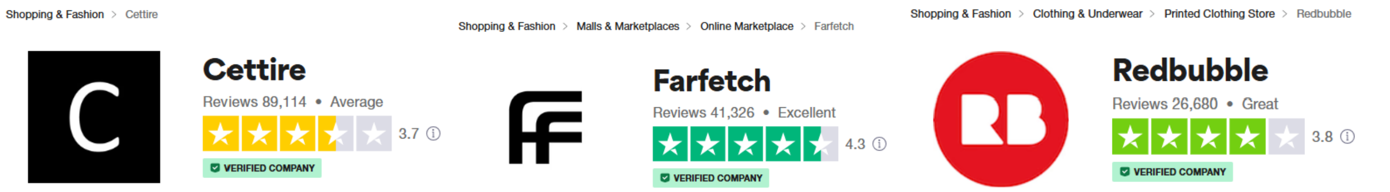
I briefly discussed the takeover bid for Locality Planning (LPE) in last month's newsletter. The shares were already trading marginally above the takeover price last month. This month they jumped significantly when the Board released their target statement. Inside the target statement was a modest upgrade to guidance for a ~$2m NPAT. Further on in the target statement, the board mentioned expected savings from renegotiating their energy supply contract of $1-1.5m per annum along with numerous further opportunities for savings. These indicate that with the management team that had caused so much value destruction removed from the helm, the underlying business is beginning to flourish and should at some stage in FY25 be run-rating a ~$3.5m annual profit. Ignoring any growth prospects, a stable LPE earning $3.5m profit annually is unlikely to be valued at less than 20c per share on market, anyone wanting to own the business outright would likely need to pay a premium to that price.

Furthermore, the Bundaberg Biohub loan is worth another ~4cps to the valuation if repaid (which is slated for 28 June but will likely occur early in FY25). 20-25cps of valuation is easily achievable for LPE ignoring "change of ownership scenarios". This from a share price that plumbed lows of 3.2c only a few months ago. I point this out because LPE is representative of several of our holdings that but for a modest turnaround in sentiment could trade at multiples of their current trading prices.

Late in the month, the bidder (River Capital) made a takeover panel (TOP) application. It makes a "long-bow" attempt to imply an association between the board members and a hedge fund which had been aggressively buying the shares at prices around 50% above the River offer. It appears on any reading of the TOP application that the only reason River made the application was to try to get the share-price to revert to nearer to the original offer price so the next bid looks like it has a viable premium. For any takeover to have any hope of succeeding, it needs to "start with a 2", the directors know what a good business they have and any offer below 20c will be laughed out of the room I expect.

I placed an order in May from Cettire (CTT) for a Michael Kors backpack as a gift for my best friends Wife's 50th birthday. The RRP was $639. Best price I could find online from any of Cettire's competitors was $439 (Farfetch). I purchased from Cettire for $336.21 (47.4% below list price and 23.5% below the nearest competitor) on the afternoon of May 7th. The product was shipped from Rome, Italy the next day and was in my possession via a DHL delivery on Sunday May 12th in the morning about 10am. Whatever arguments people may have about the reasonableness of the current valuation of the Cettire business, the service is exquisite. I am a tourist in luxury goods, I prefer my goods inexpensive, durable and without a visible logo… However, if you are buying luxury items without price-checking the Cettire website or App, then as my Grandmother used to say "A fool and their money are soon parted" …

There were more media articles this month that again harmed the CTT share price. Once again, the primary basis of them is laughable, and easily disproved. Management responded with a strong statement pointing out the weakness of the claims, but I suspect only time and continued explosive growth will salve skittish CTT buyers. The idea that a business with more than 1 million sales per annum would not have a few disgruntled customers/bad reviews is ludicrous. For context, here are a few screenshots from www.truspilot.com, the premier review site:



CTT has more than twice as many reviews as Farfetch and the difference between the 3.7 and 4.3 scores would be acceptable to most prospective customers given the meaningfully cheaper CTT prices. For context, Redbubble has a score that falls between those two. There will always be a minority of customers prone to "have a whinge", the CTT returns policy is more aggressive than their peers, placing more onus on purchasing the correct item the first time. It is also an important part of the reason CTT is profitable and Farfetch loss-making…

Dicker Data released a quarterly update that was not well received in market in May. The quantum of the selloff leaves one to wonder how well people that own the stock understand the business. The business had repeatedly flagged a sales backlog that built up through a combination of chip shortages and the logistics issues/costs that the idiotic global response to Covid caused. From memory the backlog peaked at ~$600m (but I could not find the peak number in announcements), the company said that figure is at $200m now, which they say is their normal operating backlog. They gave (albeit inconsistent) updates about the scale of the backlog in various market presentations, AGM discussion and the like. The fact that that backlog has now finally completely unwound and had a negative impact on a single quarters result should not have been the surprise it apparently was to investors.

The trailing 12-month (TTM) revenue is $3,200.6m, TTM EBITDA is $150.7m and TTM PBT is $116m These compared to the March 2023 period as follows $3,203.1m/$132.4m/$109.1m. Despite flat revenues, EBITDA was up 13.8% year on year and PBT +6.3% (logistics and operational improvements). The flat revenue probably suffered $100m-$200m of backorder unwind, meaning true like for like revenue growth was probably in the 3-7% range, which would see EBITDA and PBT move upwards by a similar quantum. The business is now trading at or below the market multiple, and in my view retains growth prospects much better than the wider market. The refresh cycle will soon come into play as the last major PC refresh centred around the Covid lockdown periods which are more than 4 years ago now. The imminent removal of support for Windows 10 will also add tailwinds. We resumed buying DDR late in the month.

PPK Holdings (PPK) released an announcement on 3 May that their subsidiary Craig Ballistics had received $30m of orders, which should underwrite the self-funding nature of PPK for the next few years. The share price initially responded well, up more than 30%, before ultimately closing the month down 20%. There is clearly an issue I do not understand causing this dislocation in valuation. To be sure, as I have commented variously in previous newsletters, there is an incredibly wide splay of prospective outcomes for PPK, but even if every application for BNNT and BNNS are a failure, there is a case the existing profitable businesses are worth more than the current market capitalisation.

Blackwall Limited (BWF) has caused significant damage to the unit price in the past 3 months. BWF traded at ~55c with the February results release. That price is inexpensive given the excellent collection of hard assets (46cps NTA) attached to a consistently profitable fund management business. Furthermore, the business pays a 2.5c twice a year dividend that is sustainable on the current earnings run rate, meaning the business at 38c trades on a prospective gross (i.e. including franking) yield of 17.54%. Efficient market? I think not…

SMP released their annual results, and despite the significant slowdown in the economy, revenues in the Australian business still grew by more than 30%, and Australian terminal base grew by ~17%. Earnings did not match as the company scales up costs to tackle the New Zealand opportunity, but the business confirmed the NZ acquiring begins in FY2025 and using the company's own mid-point, it will take 28 months for the NZ acquiring business to have the same number of terminals as the Australian business currently does. If the market does not price SMP more sensibly over the remainder of 2024, an acquirer will surely look at the price/opportunity mismatch and bid.

We exited our SRG Holdings position in May. The valuation is approaching my estimate of fair value and there are better opportunities for the capital elsewhere (see below). The business earned 2.9cps in the first half and if it performs meaningfully better in the second half (as expected) will earn perhaps 6.5 to 6.8cps for FY24. At 90c, which the share price touched in May, this puts the business on a 13-14x price to earnings ratio, which feels reasonable. The recent positive trajectory of the business will probably continue, but as the cycle peters out, the multiple investors are willing to awards businesses like SRG could start to contract. The cycle likely has a few more years to run, but the risk/reward profile in SRG at these prices is far less attractive than some alternatives available to us at present.

A Modest Change in Portfolio Construction: -

I met Gavin Skinstad many years back now when he was establishing a fund (Gane Capital) and wanted to ask my opinion on some structural matters, given I had built and operated a small fund at low cost, which was his aim. I have subsequently helped him with various matters, mostly to do with AFSL compliance.

His fund is a largely quantitative offering that has been built targeting a low double-digit return with low volatility and has generally delivered on its aim. He had, in his research stumbled across an approach that was showing spectacular returns (>20% annually) over back tests running for the whole of this century, but with drawdowns he was uncomfortable with (~48% in the tech-wreck, ~30% during the GFC & ~30% in late 2018 when the quantitative strategy did not work well for a period).

I was given to think of Charlie Mungers exhortation via Jacobi to “Invert, always invert” and told him he should layer the strategy with some short-side protection with the stocks that scored worst using his criteria. The original strategy was a combination of three strategies running 1/3|1/3|1/3. On the first test, running the same strategy 30%|30%|30%|10% short| the maximum drawdown was reduced by about a third, and the strategy remained roughly as profitable, despite being only 80% net long (90 long/10 short) versus 100% long in the original strategy.

At this point, I became curious. With my own fund not performing to the levels I expect in recent years, a relatively simple quantitative strategy testing at >20% annually this century piqued my interest. I decide to take the plunge and made the significant capital investment in datasets and software that would enable me to test some more complex strategies.

I began testing a quantitative strategy with a small portion of the portfolio this month. On May 1st, we deployed ~1.5% of the portfolio into a long-only ASX elements of the strategy I have been co-developing for the past few months. The initial results were very pleasing, that section of the portfolio was up more than 7% early in the month. Unfortunately, it faded late in the month, to generate only 4.4% (which was still comfortably above benchmark performances). I was pleased not so much for the absolute outcome, but more so the fact the implemented strategy outcome exactly matched performance the back-testing implied in the May outcome from outputs run in early June.

Our exposure this month was to only the long and Australian elements of the strategies discussed further below. As I become more confident that the implemented results match the back-tested for full disclosure, this is the Australian long-only returns that I began folding into the fund this month:

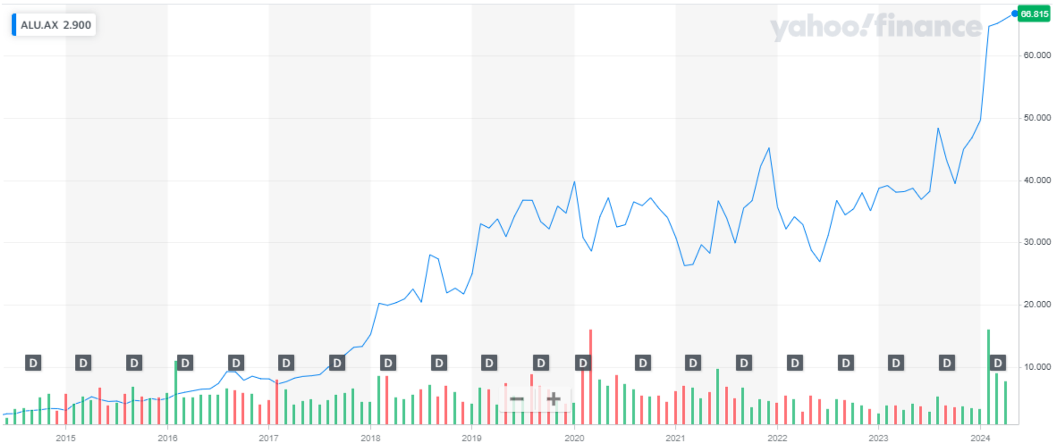
Combined Monthly Percent Gains

YEAR	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL	MaxDD
2000	-14.8%	24.3%	-0.3%	-22.9%	2.7%	12.8%	-5.3%	4.9%	-0.5%	-2.8%	4.0%	6.6%	**0.3%**	-23.2%
2001	-8.0%	2.4%	0.8%	3.6%	3.4%	9.3%	4.5%	1.8%	-2.9%	5.7%	0.7%	3.6%	**26.7%**	-8.0%
2002	9.6%	5.9%	5.0%	-0.6%	11.2%	-4.9%	-13.3%	4.7%	-1.7%	-0.6%	-2.0%	1.3%	**12.8%**	-17.5%
2003	-2.0%	-3.3%	0.3%	1.2%	0.4%	-0.0%	5.3%	4.9%	9.4%	4.9%	-4.7%	2.5%	**19.5%**	-4.7%
2004	-7.9%	0.2%	8.8%	4.4%	4.0%	10.1%	7.9%	10.5%	11.3%	4.1%	-2.1%	9.0%	**76.8%**	-7.9%
2005	17.3%	-0.2%	1.0%	-3.9%	2.9%	14.9%	11.4%	1.9%	4.0%	-5.2%	8.9%	8.1%	**77.0%**	-5.2%
2006	14.3%	-2.9%	36.7%	8.7%	0.5%	1.0%	-5.1%	-3.5%	-3.3%	26.9%	7.9%	7.4%	**117.6%**	-11.5%
2007	-7.4%	0.2%	11.9%	20.9%	14.9%	-2.2%	-7.6%	-11.5%	16.9%	8.6%	-1.8%	-3.0%	**39.4%**	-20.0%
2008	-8.2%	12.8%	-6.5%	3.8%	22.5%	-4.6%	-6.3%	-1.7%	-8.8%	-0.1%	2.7%	0.4%	**1.6%**	-20.0%
2009	-0.5%	-0.3%	-2.3%	2.7%	-0.3%	2.4%	13.9%	-4.5%	-4.7%	-1.7%	4.3%	1.4%	**9.4%**	-10.6%
2010	-14.1%	3.1%	18.7%	-3.6%	-18.2%	0.9%	7.8%	-0.4%	1.7%	2.0%	1.9%	9.5%	**4.1%**	-21.1%
2011	5.8%	15.8%	5.7%	-11.4%	9.3%	-6.8%	3.0%	-8.8%	-1.8%	0.7%	1.0%	-4.9%	**4.3%**	-19.5%
2012	6.8%	2.9%	-1.5%	-4.2%	-12.1%	-2.4%	8.7%	7.6%	1.3%	-0.5%	1.8%	-0.8%	**6.0%**	-19.0%
2013	0.5%	9.7%	1.4%	3.5%	-0.7%	-6.8%	16.8%	1.9%	5.2%	10.1%	1.4%	3.2%	**54.5%**	-7.5%
2014	-4.3%	9.7%	10.9%	-7.2%	0.7%	-4.1%	13.0%	0.5%	-12.4%	-1.7%	-1.8%	5.4%	**5.7%**	-15.4%
2015	0.4%	6.4%	-12.7%	-1.6%	4.1%	-10.4%	4.9%	-9.8%	3.0%	7.3%	8.7%	12.0%	**8.9%**	-24.2%
2016	-1.3%	-7.6%	-3.4%	0.2%	-3.7%	10.0%	8.1%	-10.5%	-4.3%	0.6%	7.0%	-4.5%	**-11.0%**	-15.0%
2017	8.3%	0.9%	-0.6%	-5.7%	-0.1%	7.7%	1.2%	9.1%	6.5%	20.0%	1.8%	6.2%	**68.0%**	-6.4%
2018	8.0%	19.2%	-0.9%	-3.8%	-5.5%	4.9%	7.0%	12.5%	4.1%	-19.7%	-3.3%	-0.1%	**18.2%**	-22.4%
2019	3.5%	4.0%	2.2%	15.8%	0.2%	8.3%	0.1%	1.4%	4.7%	-13.1%	-0.5%	0.8%	**28.1%**	-13.6%
2020	12.6%	-21.0%	-6.7%	1.6%	16.1%	8.7%	5.9%	6.1%	-7.9%	6.4%	-8.8%	11.8%	**19.5%**	-26.3%
2021	13.6%	-11.0%	1.0%	8.5%	7.2%	-4.5%	23.7%	14.1%	-1.3%	2.2%	8.3%	1.1%	**76.6%**	-11.0%
2022	-8.8%	2.9%	12.1%	4.6%	1.3%	-14.7%	7.2%	14.0%	17.7%	1.2%	3.0%	-4.2%	**36.7%**	-14.7%
2023	-4.2%	-11.9%	-0.4%	7.7%	-2.1%	-1.3%	0.9%	0.7%	-12.0%	-12.4%	-1.0%	16.7%	**-21.0%**	-32.3%
2024	1.2%	-9.0%	-4.0%	-5.8%	4.4%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**-13.1%**	-17.8%
AVG	**0.8%**	**2.1%**	**3.1%**	**0.7%**	**2.5%**	**1.2%**	**4.7%**	**1.9%**	**1.0%**	**1.8%**	**1.5%**	**3.7%**	**26.7%**	**-15.8%**

n.b. The apparent annual result of 26.7% is a simple average of the annual results. The actual IRR for the test is ~23.4%.

You can see that the Australian long-only strategy has performed poorly since December 2022 and despite being up 4.4% in May was down 21% and 13.1% in 2023 and YTD 2024. You will also notice there are an average of 4 or 5 months in each year where the strategy is up or down by double-digit movements. It is very volatile!!!

The most extreme example is the +36.7% month in March 2006, a combination of very strong performances for strategy holdings including Zinifex (ZFX), Ozminerals (OZL) and Paladin (PDN). Similarly, the -19.7% performance in October 2018 was driven by large reversals in portfolio positions such as Altium (ALU), Beach Petroleum (BPT), Mayne Pharmaceuticals (MYX) and Xero (XRO). It is an extremely volatile strategy that could not itself represent a large component of the fund. The algorithm is imperfect, for example, it tried to own ALU 4 times in the past decade, but lost money overall despite Altium being up ~30-fold in the past 10 years despite the chart that looks like this, proving even a quantitative strategy is not a silver bullet.



Adding exposure to the Nasdaq and Russell indices gives the algorithm similar results to the ASX long-only results shown above, but significantly smooths out the volatility (average annual drawdown falls ~35%):

Combined Monthly Percent Gains

YEAR	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL	MaxDD
2000	-9.7%	16.7%	-0.6%	-17.5%	0.3%	5.2%	-2.6%	5.9%	-5.3%	-8.0%	-0.1%	2.4%	**-16.2%**	-22.4%
2001	-3.5%	-0.0%	-1.1%	2.3%	1.7%	2.5%	1.0%	-2.0%	-2.9%	2.3%	0.3%	1.6%	**1.9%**	-4.9%
2002	5.1%	-0.5%	2.2%	-1.4%	1.7%	-4.2%	-7.7%	1.8%	-0.7%	0.2%	-0.7%	-2.2%	**-7.0%**	-13.2%
2003	-0.4%	-1.4%	3.4%	6.6%	10.0%	0.3%	-0.6%	8.2%	2.4%	16.3%	1.9%	-1.6%	**53.3%**	-1.6%
2004	4.7%	0.1%	-1.1%	-4.0%	2.0%	4.6%	-5.4%	3.5%	9.6%	8.6%	8.5%	3.0%	**38.4%**	-5.4%
2005	2.9%	5.3%	-0.0%	-5.9%	5.6%	5.3%	11.0%	-1.8%	9.9%	-0.3%	5.4%	5.3%	**50.3%**	-5.9%
2006	9.5%	-7.6%	19.1%	3.7%	-8.9%	2.5%	-5.2%	-5.7%	1.8%	10.0%	9.6%	4.8%	**34.1%**	-16.6%
2007	0.5%	0.1%	3.5%	8.7%	8.9%	1.9%	1.6%	-0.6%	13.9%	9.0%	-6.8%	-1.3%	**45.0%**	-8.1%
2008	-13.9%	8.0%	-2.2%	1.2%	10.8%	-4.3%	-5.4%	-2.0%	-6.5%	-0.2%	1.3%	-0.0%	**-14.6%**	-17.3%
2009	0.4%	-1.1%	0.1%	2.0%	-2.2%	1.8%	10.5%	-0.5%	7.1%	-8.0%	8.1%	3.5%	**22.4%**	-8.0%
2010	-7.9%	9.9%	14.3%	8.8%	-12.8%	-1.3%	5.8%	-6.4%	8.5%	7.8%	1.7%	3.6%	**32.2%**	-14.7%
2011	5.9%	6.7%	7.3%	-1.5%	6.2%	-0.5%	2.9%	-2.1%	-1.0%	1.2%	0.0%	-2.4%	**24.3%**	-4.2%
2012	4.4%	11.8%	4.8%	1.2%	-6.6%	-1.1%	8.5%	5.3%	2.8%	-3.6%	2.6%	-0.8%	**31.7%**	-7.6%
2013	4.9%	3.7%	5.7%	2.6%	7.7%	-0.2%	7.1%	11.4%	8.3%	0.8%	7.6%	4.0%	**84.9%**	-0.2%
2014	1.8%	14.9%	-5.8%	-1.6%	4.6%	4.5%	0.5%	6.7%	-6.9%	-1.7%	3.5%	2.8%	**23.9%**	-8.4%
2015	2.4%	8.7%	-0.8%	-4.1%	9.5%	-8.6%	10.0%	-10.8%	-2.4%	1.0%	8.3%	4.9%	**16.4%**	-13.0%
2016	-8.5%	-3.7%	0.4%	-0.4%	-0.2%	5.7%	9.9%	-5.5%	2.9%	-1.8%	11.3%	4.9%	**13.8%**	-12.1%
2017	6.3%	-4.3%	3.4%	-2.1%	17.7%	0.8%	6.2%	4.3%	4.6%	18.4%	0.6%	-2.8%	**63.7%**	-2.8%
2018	11.4%	4.5%	1.3%	-0.1%	4.0%	2.0%	-4.8%	13.3%	5.3%	-21.2%	-2.1%	-4.7%	**4.5%**	-26.4%
2019	2.9%	2.5%	1.7%	6.6%	-6.0%	6.9%	0.6%	4.9%	-9.0%	-5.2%	2.1%	2.1%	**8.9%**	-13.7%
2020	6.7%	-7.4%	-3.0%	-0.6%	10.5%	12.0%	16.4%	2.7%	2.3%	-1.8%	9.5%	10.2%	**70.8%**	-10.7%
2021	10.7%	-5.7%	0.6%	6.5%	5.2%	0.3%	7.6%	7.2%	-2.8%	6.4%	2.1%	-3.9%	**38.4%**	-5.7%
2022	-10.7%	5.4%	7.0%	-0.3%	3.1%	-10.2%	3.1%	5.7%	5.6%	1.4%	1.5%	-5.3%	**4.2%**	-10.7%
2023	-0.9%	-6.6%	9.4%	-2.5%	5.7%	6.8%	5.3%	-1.9%	-9.8%	-6.7%	10.1%	7.2%	**14.4%**	-17.4%
2024	5.8%	13.1%	7.1%	-3.1%	16.6%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**44.7%**	-3.1%
AVG	**1.2%**	**2.9%**	**3.1%**	**0.2%**	**3.8%**	**1.4%**	**3.2%**	**1.7%**	**1.6%**	**1.0%**	**3.6%**	**1.5%**	**27.4%**	**-10.2%**

You can see that in the first 3 years, adding US exposure hurt returns by more than 20% annually as US markets suffered through the tech-wreck, whereas in calendar 2024, adding the US exposure improved the return by 57.8% (mostly because of the algorithm selecting “AppLovin Corporation (APP)” and “NVIDIA Corporation (NVDA)” which have each more than doubled this year. It is for the additional stability of the broader strategy that I have added the US component of the strategy to EGPCVF for June onwards. Once the exposure to the quantitative strategy is large enough to make the top-10 holdings, I will individually list the stocks the strategy holds and has bought/sold in a separate table in this report each month.

In the annual report next month, I will outline in more detail the three strategies we have settled on (although we will continue to try to improve them iteratively). We have now developed ~18 strategy elements that when blended based on different levels of risk tolerance, we have used to create 3 core strategies we hope to operate:

1. A conservative long-only fund that has a ~14-16% pa (pre-fees) back-tested annual return profile (depending on the scale of the operation, the smaller the fund, the higher the returns) with an average annual drawdown of <7% and a worst back-tested drawdown of ~15%. This strategy is scalable to >$500M at the lower end of the returns profile.
2. What will become the EGP Long/Short Global Fund (targeting launch July 1st, 2024) which has back-tested a post-fees annual return profile of ~20% pa with an average annual drawdown of <10% and a worst back-tested drawdown of ~20%. This fund targets net 80% exposure (100% long/20% short), but because of frequent closures of short positions for risk management reasons has an average net exposure closer to 90%. This strategy is scalable to ~$100m.
3. An aggressive long/short offering that has back-tested ~30% pa post fees with an average annual drawdown of ~15% and a worst back-tested drawdown of ~30% (though with drawdowns running to 20%+ about once every 3 years or so). This fund targets net 90% exposure (135% long/45% short), but because of frequent closures of short positions for risk management reasons has an average net exposure closer to 115%. This strategy is scalable to ~$30m but could be taken out to ~$100m material harm to the annualised returns and risk ratios.

I will outline strategy 2 above in greater detail in the annual letter, and likely send a presentation to all EGPCVF investors and newsletter recipients sometime after the fund is operating. It is the intention that the monthly report for that fund is a single page, listing the entire portfolio at the close of the month, all completed trades and the performance without significant commentary. Gavin will be co-CIO of that fund as we are effectively co-founders of the concept. His initial idea was the seed from which these 3 strategies were born.

Strategies 1 and 3 above will not be operated as funds, but rather offered in an IMA/SMA structure to larger investors. What we aim for with those strategies is to have our client set up their own trading account with access to all the markets we require. We will be granted execution access only, meaning we can trade, but all inflows/outflows are controlled by the client. If you, or anyone you know might be interested in trialling either of these strategies, let me know and Gavin and I can provide a presentation detailing the strategies in detail.

A good deal more detail will be provided in the Annual Report next month. I will also talk about the mechanics of operating 2 (or more) funds as it is morally important to me that I have meaningful personal exposure to any fund I am offering to external investors. I would have preferred to introduce the full strategy (rather than just the long-only elements) to EGPCVF. Unfortunately, our current operational structure with Fundhost does not allow shorting, so any vehicle I would like to oversee that uses short selling to achieve its aims must be operated elsewhere.

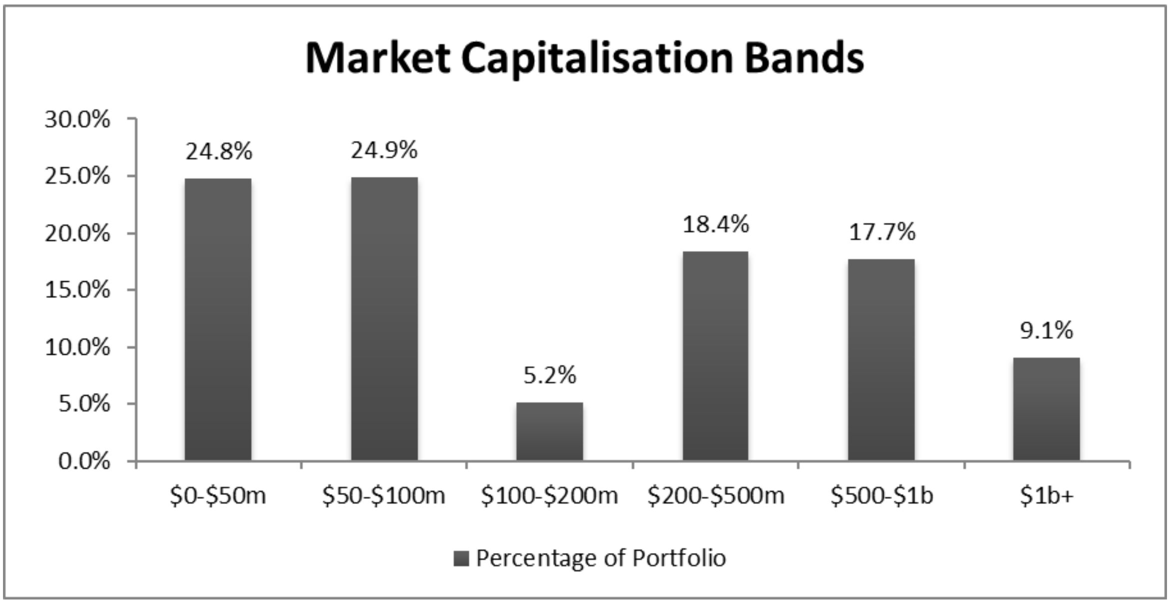
I will initially retain most of our family wealth exposed to EGPCVF, but as EGP Long/Short Global fund scales, I expect to balance my exposure to eventually be 50% exposed to each strategy. If the long exposure to the quantitative strategy eventually grew to 50% of EGPCVF, there would effectively be a ~50% strategy crossover anyway, with the key differences being the microcap and deep fundamental exposure of EGPCVF and the short-selling exposure of the Long/Short Global fund.

Key Portfolio Information: -

Our top 10 holdings on 31 May 2024 were:

Rank	Holding	Percentage Equity Weighting	Percentage Portfolio Weighting
1	United Overseas Australia (UOS.ASX)	11.9%	11.3%
2	Smartpay (SMP.ASX)	9.8%	9.3%
3	Tellus (unlisted)	8.4%	8.0%
4	Shriro Holdings (SHM.ASX)	7.1%	6.7%
5	Stealth Group (SGI.ASX)	5.9%	5.6%
6	Dicker Data (DDR.ASX)	5.9%	5.6%
7	SDI Limited (SDI.ASX)	5.2%	4.9%
8	Cettire (CTT.ASX)	5.1%	4.8%
9	Matrix Composites (MCE.ASX)	5.0%	4.8%
10	PPK Group (PPK.ASX) inc. White Graphene pre-IPO holding & PPKME	4.5%	4.3%

Our largest 5 holdings comprise 43.2% of our invested capital, our top 10 holdings are 68.8% and our top 15 represent 84.6%. Cash and cash equivalents are 5% of the portfolio. The median market capitalisation is $108.6m. Weighted average market capitalisation is $503.2m.



As always, investors with any questions, suggestions, comments, or investment ideas should feel free to call (0418 278 298), or send me an email – Tony@egpcapital.com.au

Fund Features		Portfolio Analytics	
Min. initial investment	$50,000	Sharpe Ratio[1]	-0.16
Additional investments	$500k Maximum	Sortino Ratio[1]	0.05
Applications/redemptions	Monthly	Annualised Standard Dev. – EGP Annualised S/D - Benchmark	17.7% 14.9%
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	54.9% 63.4%
Auditor	Ernst & Young	Cumulative return[2] – EGP Cumulative return[2] – Benchmark	5.7% 75.9%
Custodian/PB	NAB Asset Services	1-year return[2] – EGP 1-year return – Benchmark	(2.0%) 10.1%
Responsible Entity	Fundhost Limited	3-year annualised return[2] – EGP 3-year annualised – Benchmark	(8.0%) 6.8%
Fund Size	$33m	5-year annualised return[2] – EGP 5-year annualised – Benchmark	0.3% 7.8%
Mid-Price for EGPCVF Units Accumulated Franking per Unit	$0.8133 $0.0065	Buy Price for EGPCVF Units Sell Price for EGPCVF Units	$0.8145 $0.8120

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.

Appendix 1: -

Combined funds cumulative return since inception: