EGP Concentrated Value Fund

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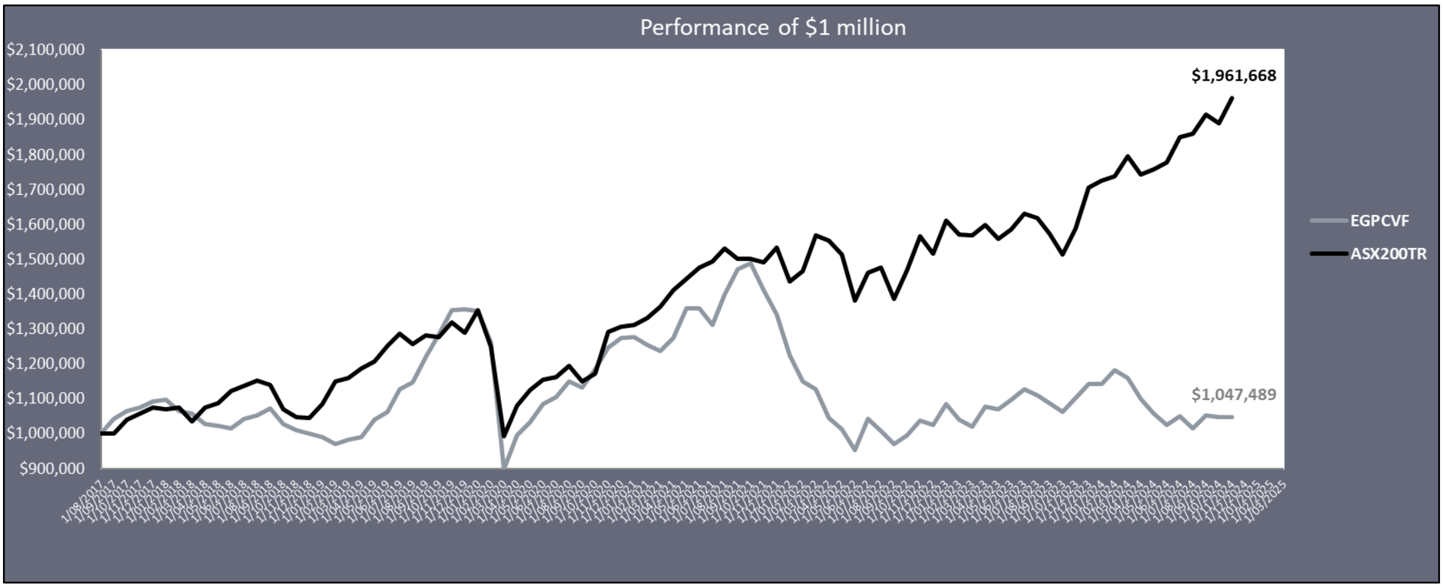
EGP Concentrated Value Fund – 30 November 2024

EGP Concentrated Value Fund is a managed investment scheme focused primarily on owning Australian listed businesses. It targets 3 – 5% annual outperformance of Australia's preeminent ASX200 index over the long term. Managed by a performance-oriented co-owner, we run a portfolio that is genuinely different. The sole objective is to deliver the strongest possible risk adjusted returns. The fund manager has their entire investable asset base in the fund, meaning focus on risk is unusually intense.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
EGPCVF FY18	N/A	1.1%*	3.0%	2.4%	0.8%	1.6%	0.5%	(3.0%)	(0.7%)	(2.7%)	(0.6%)	(0.7%)	1.58%
Benchmark FY18	N/A	(0.1%)*	(0.0%)	4.0%	1.6%	1.8%	(0.5%)	0.4%	(3.8%)	3.9%	1.1%	3.3%	12.18%
EGPCVF FY19	2.6%	1.0%	1.8%	(4.2%)	(1.7%)	(1.0%)	(0.9%)	(1.9%)	1.2%	0.9%	4.8%	2.3%	4.63%
Benchmark FY19	1.4%	1.4%	(1.3%)	(6.1%)	(2.2%)	(0.1%)	3.9%	6.0%	0.7%	2.4%	1.7%	3.7%	11.55%
EGPCVF FY20	6.1%	1.8%	6.4%	5.2%	5.5%	0.1%	(0.3%)	(6.7%)	(28.9%)	11.0%	3.6%	5.1%	1.99%
Benchmark FY20	2.9%	(2.4%)	1.8%	(0.4%)	3.3%	(2.2%)	5.0%	(7.7%)	(20.7%)	8.8%	4.4%	2.6%	(7.68%)
EGPCVF FY21	1.9%	4.1%	(1.5%)	4.6%	5.3%	2.2%	0.1%	(1.7%)	(1.3%)	2.9%	6.7%	0.1%	25.50%
Benchmark FY21	0.5%	2.8%	(3.7%)	1.9%	10.2%	1.2%	0.3%	1.5%	2.4%	3.5%	2.5%	2.3%	27.80%
EGPCVF FY22	(3.6%)	6.7%	5.1%	1.2%	(5.2%)	(4.8%)	(8.7%)	(6.2%)	(1.9%)	(7.3%)	(3.0%)	(6.0%)	(29.96%)
Benchmark FY22	1.1%	2.5%	(1.9%)	(0.1%)	(0.5%)	2.8%	(6.4%)	2.1%	6.9%	(0.9%)	(2.6%)	(8.8%)	(6.47%)
EGPCVF FY23	9.4%	(3.2%)	(3.8%)	2.6%	4.3%	(1.1%)	5.6%	(4.0%)	(2.0%)	5.7%	(0.9%)	2.7%	15.21%
Benchmark FY23	5.8%	1.2%	(6.2%)	6.0%	6.6%	(3.2%)	6.2%	(2.4%)	(0.2%)	1.9%	(2.5%)	1.7%	14.78%
EGPCVF FY24	2.6%	(1.5%)	(2.0%)	(2.4%)	3.9%	3.6%	0.0%	3.5%	(2.0%)	(5.2%)	(3.9%)	(3.0%)	(6.69%)
Benchmark FY24	2.9%	(0.7%)	(2.8%)	(3.8%)	5.0%	7.3%	1.2%	0.8%	3.3%	(2.9%)	0.9%	1.0%	12.10%
EGPCVF FY25	2.4%	(3.4%)	3.8%	(0.3%)	(0.1%)								2.37%
Benchmark FY25	4.2%	0.5%	3.0%	(1.3%)	3.8%								10.41%

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



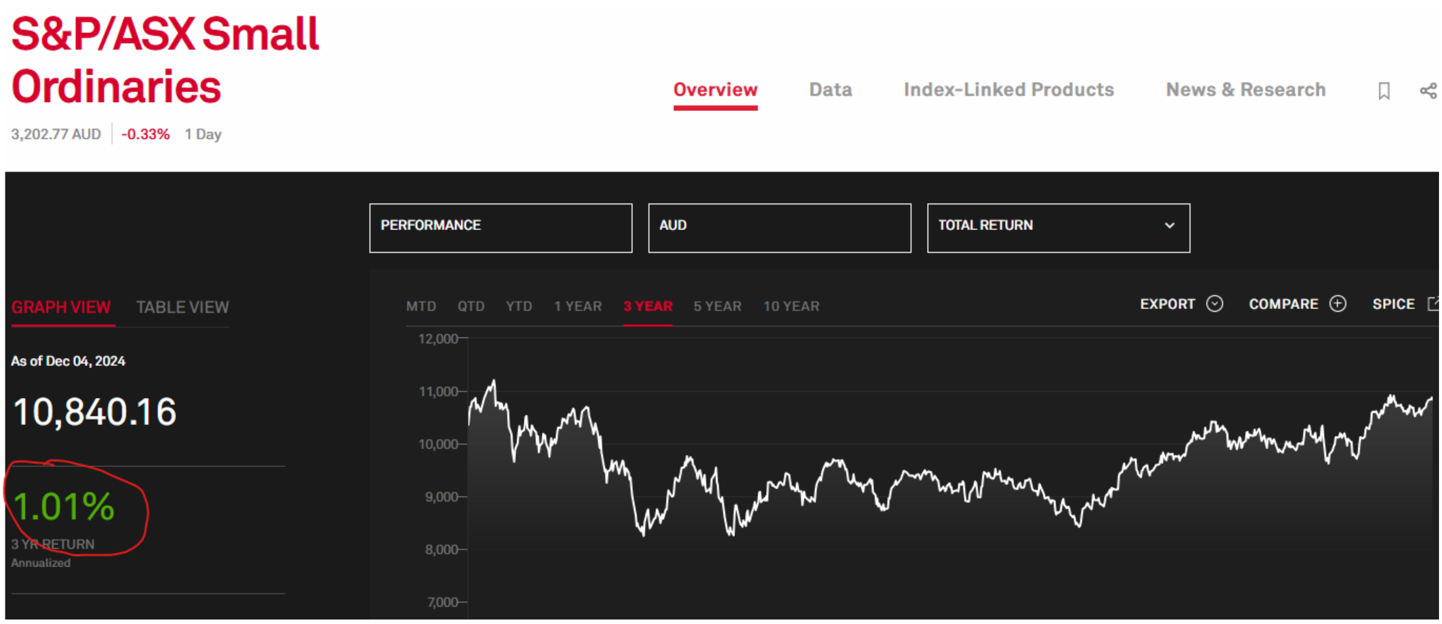
The Month That Was: -

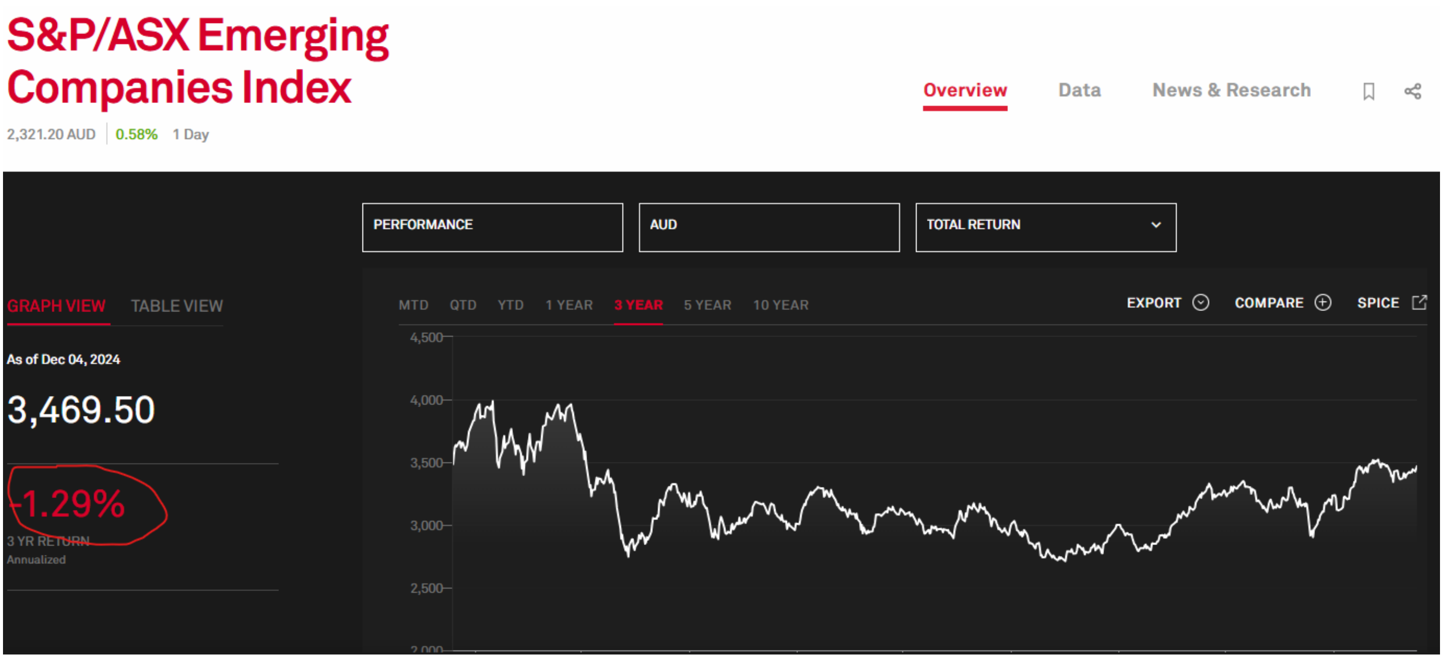
The fund fell 0.1% in November. Our benchmark rose 3.8%. The "new normal" of massive large-cap outperformance returned, after a couple of months where small-cap investors started to think they were "back". The resounding Trump victory buoyed US markets and Australian Large-Caps aped this outcome. The Emerging Companies index however (which most closely resembles) our portfolio construction fell 0.9% in November, underperforming the ASX200 by ~4.7%. Microcaps remain the wasteland they have been for the past 3 years.

<u>Important News About the Fund: -</u>

Investors should by now have received notification from Fundhost of my intention to wind up EGP Concentrated Value Fund over the course of 2025 (hopefully before the end of FY2025).

The small and microcap end of the market where we have chosen to operate has been horrible for >3 years:





We have been hopeful for a return of investor interest in the small end of the Australian equity market, but it has failed to materialise.

In the meantime, as mentioned in the bottom half of the next section, I have (co)developed a quantitative strategy with strong, stable back-tested returns that have exceeded our back-tested expectations since we have deployed operating capital into them, I feel compelled to pursue this strategy with my own capital.

I have been unable to find a way to thread the full quantitative strategy into the EGPCVF structure, so all that is left for me to optimise my personal investment return (given substantially my entire family capital base resides in EGPCVF) is to wind that fund up and migrate these assets elsewhere.

To be clear, it is my intention that my family SMSF assets be the last assets to leave EGPCVF. This will ensure there is a significant financial backstop to abrogate the risk of some of the less liquid assets held by the fund causing valuation dislocations as the asset base shrinks.

I will hold a teleconference for all EGPCVF Unitholders (and other interested recipients of this newsletter) to explain the process as I hope it will unfold. The details of the teleconference were in the email that delivered this newsletter, but for completeness, I include them again here:

Tony Hansen invited you to a Microsoft Teams Meeting:
Meeting to explain EGPCVF winding up
Wednesday, 18 December 2024
6:00 pm - 7:30 pm (AEST)

Meeting link: Meeting to explain EGPCVF winding up | Microsoft Teams | Meet-up-Join

Anyone wanting a meeting invite for this meeting is welcome to send me an email and I can send an invite for your calendar. I have scheduled the meeting for 6pm on Wednesday 18 December. It is scheduled for 1.5 hours, but I will talk to attendees as long as it takes to get through all questions asked.

To investors who either cannot or will not attend the teleconference but are interested to maintain exposure to funds with a small/microcap bias, I will tell you what I have done (not advice) and intend to do for my family accounts to get the desired exposures. We have been invested (in very small scale) in several funds we had hoped would be participants in the Zero Fee Collective. Despite that project falling over, we retained our investments, and they have all performed admirably:

1. In December 2019, my SMSF allocated some capital to Shaun Zhang in his first intake for Snowball Asset Management. By coincidence, he completed 5 years of managing our money in November. Each dollar we gave him in 2019 is now valued at $3.19 based on SAM's November unit price (26.1% CAGR net of fees).
2. In April 2020, my SMSF allocated some capital to Jack Austin in his first intake for JC Equity. The last report we saw from Jack was the October result and at that valuation, in the 4 years 7 months he's overseen our capital, he has turned each dollar into $2.69 (24.1% CAGR net of fees).
3. In January 2018, my SMSF allocated some capital to Darrell Cheah in his first intake for CV Capital. At the end of October 2024, each dollar we gave him has become $2.00 (10.7% CAGR net of fees).
4. Through the decision-making process around winding up, we also had discussions with DMX Asset Management around combining funds, given we were both Fundhost clients, it was the least potentially disruptive "merger" option. We opted not to proceed, but we like the DMX people and since their Australian Shares Fund was launched in March 2021, they have delivered a CAGR of 8.0%, which is strong when contemplating their small/microcap investing bent and the horrors of the returns the indices of this end of the market have delivered.

Outside retaining (likely increasing) my family exposures to the above managers, once EGPCVF winding up is finalised, I anticipate having an initial post wind-up allocation of ~20% of our assets to external managers. In keeping with my closely held belief that fund managers should feast almost exclusively on their own cooking, the other 80% of our assets will likely be split between the two quantitative funds EGP will manage.

Portfolio Update: -

November was very much a mixed bag with both excellent and very poor share price performances from our holdings. Numerous AGM's saw updates whose generally positive flavour was often in stark contrast to the market responses to the presentations. Often the moves were on modest volumes and some of the more disappointing decliners have reversed some or all their November falls in early December trading.

The segment of this fund selected from the pool of quantitatively generated ideas has grown to 9.0% of the portfolio at the end of November. The absolute performance of four quantitatively generated Australian exposures was +9.96%, the eight US exposures were +23.56% in USD terms. The quantitative exposure delivered 19.92%, contributing +1.75% to the reported fund performance in November. The algorithmic component we have included in EGPCVF is now +54.74% in the first 5 months of FY2024 and it has been a huge mistake under sizing it as I have. I will significantly increase the weighting in December. Algorithmically generated holdings are listed in a table toward the rear of this report.

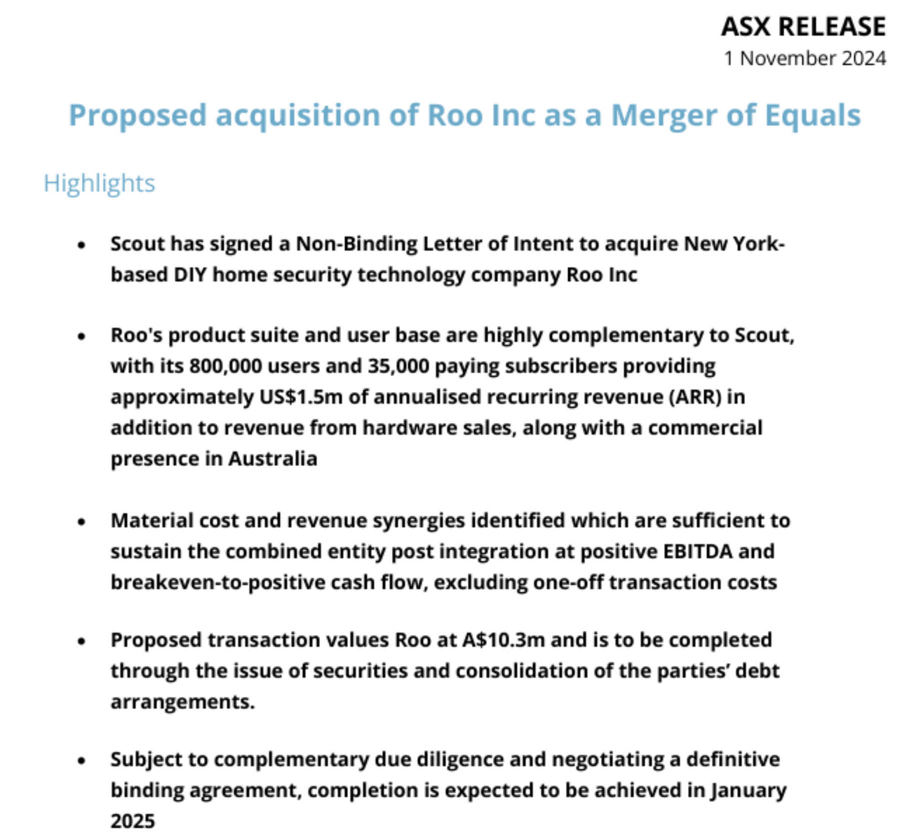
Notable Matters: -

Despite the disappointing portfolio performance in November, company AGM updates were excellent on average. SDI Limited and Stealth Group (SGI) both saw their share prices lift post-AGM, but several others that had strong AGM or operational updates fell materially.

Smartpay (SMP) for example outlined their expected worst case from the proposed introduction of surcharging (discussed last month) and given it was a step change better than any published research, or any the expectations of any investor I have spoken to, I expected a strong positive valuation response, it never came. It was only aggressive buying on the last day of the month that resulted in a more modest monthly fall.

Likewise, Matrix Composites and Engineering (MCE) released a positive AGM update with a mountain of tenders out, but the market remained laser-focused on a lack of recent contract wins. It was only a sizeable contract win in the last week of the month that meant MCE share price recovered “only” falling 20% for the month.

LIS Energy fell more than 30% despite excellent AGM statements setting out clear pathways and important additional steps towards commercialisation led by [UAV flights using battery packs manufactured at their new plant](). PPK fell about 25%, presumably mostly in sympathy with LIS, despite what was I think their best AGM presentation in years.


ASX RELEASE
1 November 2024

Proposed acquisition of Roo Inc as a Merger of Equals

Highlights

- **Scout has signed a Non-Binding Letter of Intent to acquire New York-based DIY home security technology company Roo Inc**
- **Roo's product suite and user base are highly complementary to Scout, with its 800,000 users and 35,000 paying subscribers providing approximately US$1.5m of annualised recurring revenue (ARR) in addition to revenue from hardware sales, along with a commercial presence in Australia**
- **Material cost and revenue synergies identified which are sufficient to sustain the combined entity post integration at positive EBITDA and breakeven-to-positive cash flow, excluding one-off transaction costs**
- **Proposed transaction values Roo at A$10.3m and is to be completed through the issue of securities and consolidation of the parties' debt arrangements.**
- **Subject to complementary due diligence and negotiating a definitive binding agreement, completion is expected to be achieved in January 2025**

I thought I would give some quick thoughts on two of the microcaps that have caused the fund extreme pain in recent years. The first is Scout Security, their shares were suspended in April so the company could conduct a re-capitalisation process.

They have been unable to get the ASX to allow them to trade again since. Every time I speak with someone at the company, some new and previously unknown requirement has arisen, they seem to be having trouble pinning down the exact needs of the ASX.

The company announced (snip to the left) a “merger of equals” deal with Roo Inc. The deal looks to make a lot of sense, creating a commercially self-sustaining entity from two undercapitalised, cash burning parts.

The proposed combination is at 70c per share, which is more than twice the 30cps we are carrying the holding at due to the extended suspension. Hopefully the ASX will finalise their requirements and enable SCT to complete an acquisition that should allow the business to flourish.

The second is Site Group (SIT). Regular readers will remember SIT owns a significant share of a 30-hectare plot of land in the Clark Special Economic Zone in The Philippines. Any deal around that landholding has taken way longer to come to fruition than I had anticipated, but it remains a very valuable asset provided SIT doesn’t need to continue either selling piecemeal portions off or issuing equity to stay afloat. Equivalent land sales should mean the asset is worth >US$120m in a normal sales process. This implies SIT’s share of the asset is worth many times the current equity value.

The fact that SIT is considered an “asset play” by investors now has obscured some important developments in their operating business. The Australian business has steadily been growing revenues and recent contract wins in the Kingdom of Saudi Arabia should return the business to profitability in the first half of calendar 2025. The company is forecasting monthly revenues to exceed $2m early in 2025 and they are hopeful they could exceed $3m per month soon after.

The KSA contracts are at good margin, and I anticipate EBITDA margins should exceed 20% once revenues exceed $3m per month. This implies SIT could exit FY2025 at ~$600k per month run rate. The ~$6.5m market capitalisation with the shares trading at 0.2c each does not remotely capture this. At a minimum, if they get anywhere near $600k monthly EBITDA (~$7m p.a.) the shares would trade at >4x EV/EBITDA (likely closer to 6-8x once investors come to believe the revenues are sustainable) which implies more than 4x equity upside ignoring the assets and probably >10x equity upside should the land value be realised at the same time as the operational turnaround completes.

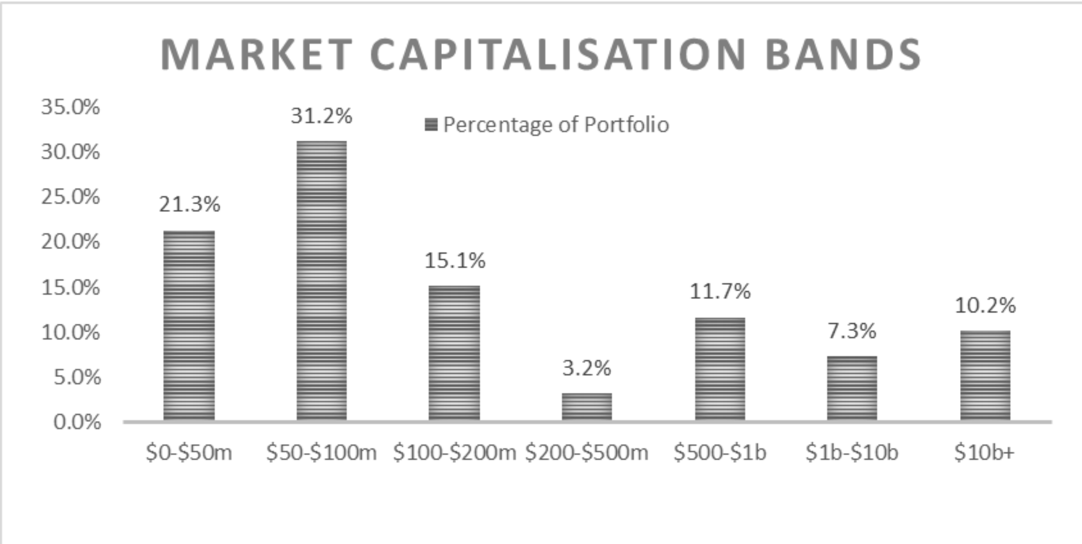
One issue the company faces is the fractional share price which means that for buyers must cross a spread that would require the share price to rise 50% (from 0.2c to 0.3c) to acquire stock. I seldom support share consolidations/splits, but it would make enormous sense for SIT to consolidate. If I were involved, I would recommend a 10000:1 consolidation that would see the shares trade at $20 each on a post-consolidation basis and drive the bid/offer spread from 50% to 0.05%, helping to create a far more sensible market.

Key Portfolio Information: -

Our top 10 holdings on 30 November 2024 were:

Rank	Holding	Percentage Equity Weighting	Percentage Portfolio Weighting
1	United Overseas Australia (UOS.ASX)	11.7%	10.1%
2	Quantitative Holdings*	10.2%	9.0%
3	Stealth Group (SGI.ASX)	8.9%	7.9%
4	Shriro Holdings (SHM.ASX)	7.8%	7.0%
5	Dicker Data (DDR.ASX)	7.3%	6.5%
6	SDI Limited (SDI.ASX)	6.2%	5.5%
7	Locality Planning (LPE.ASX)	5.4%	4.8%
8	Matrix Composites (MCE.ASX)	5.3%	4.7%
9	Smartpay (SMP.ASX)	4.7%	4.2%
10	PPK Holdings/WG/PPKME (PPK.ASX)	4.3%	3.8%

Our largest 5 holdings comprise 45.8% of our invested capital, our top 10 holdings are 71.7% and our top 15 represent 88.0%. Cash and cash equivalents are 11.5% of the portfolio. The median market capitalisation is $76m. Weighted average market capitalisation is $2.6b.



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

Quantitative Holdings:

Stock	Country	Result	Stock	Holding	Result	Stock	Holding	Result
360		15.2%	CEG		(2.4%)	APP		98.8%
NXL		(13.4%)	CAVA		5.5%	DASH		15.8%
SIG		47.1%	CVNA		5.3%	TTD		7.3%
SPR		(8.6%)	NVDA		4.1%	VST		27.9%

Fund Features		Portfolio Analytics	
Min. initial investment	$50,000	Sharpe Ratio[1]	-0.14
Additional investments	$500k Maximum	Sortino Ratio[1]	0.02
Applications/redemptions	Monthly	Annualised Standard Dev. – EGP Annualised S/D – Benchmark	17.2% 14.5%
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	53.4% 64.8%
Auditor	Ernst & Young	Cumulative return[2] – EGP Cumulative return[2] – Benchmark	4.8% 96.2%
Custodian/PB	NAB Asset Services	1-year return[2] – EGP 1-year return – Benchmark	(5.1%) 23.4%
Responsible Entity	Fundhost Limited	3-year annualised return[2] – EGP 3-year annualised – Benchmark	(9.4%) 9.6%
Fund Size	$25m	5-year annualised return[2] – EGP 5-year annualised – Benchmark	(5.0%) 8.3%
Mid-Price for EGPCVF Units Accumulated Franking per Unit	$0.7809 $0.0030	Buy Price for EGPCVF Units Sell Price for EGPCVF Units	$0.7821 $0.7798

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.

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This report contains some forward-looking statements which reflect the expectations of EGP about the prospects of companies held within the portfolios of the funds. While EGP considers its expectations to be based on reasonable grounds, there is no guarantee that those expectations will be met. Actual performance of the portfolio companies will be impacted by a variety of factors, including circumstances that cannot be foreseen, and could differ significantly from the expectations of EGP. These statements should therefore not be relied upon as an accurate representation or prediction as to any future matters. Where portfolio companies do not perform in line with EGP's expectations, the funds could be adversely impacted.

Appendix 1: -

Combined funds cumulative return since inception: