

OCTOBER 2019 REPORT

Portfolio Performance

The fund continues to enjoy positive performance with the unit price gaining 4.5% over the past quarter and 10.1% for the past year. The fund has delivered a return of 8.5% per annum since inception.

Portfolio performance was enhanced by rises in the share prices of MFF Capital, Beacon Lighting, Domino's Pizza and AUB Group. While falls in Smartgroup, Nick Scali and ARB Corporation detracted from performance.

There were minimal changes to the portfolio during the month.

Company News

October included some Annual General Meetings for the portfolio including MFF Capital, Beacon Lighting, Domino's Pizza and PWR Holdings that were attended. Not much was given away at any of the meetings and while management teams appeared confident of the future, some were also indicating that conditions are challenging in areas.

PWR Holdings was perhaps the most important of these for the fund. It held its meeting at its factory in South East Queensland so it could showcase its new Micro Matrix technology as well as allow shareholders to meet some of the company's engineers and management.

As mentioned in last month's report the changes of rules for Formula 1 for 2021 were announced on October 31 and this had the potential to affect the business given their exposure to F1. However, as predicted by management, it appears the rule changes will have no impact, and this should be seen as a positive for shareholders as these rules will be in place for a number of years now.

Performance as at 31 October 2019:

	Fund (net of fees)	All Ords Accum. Index
1 month	0.6%	-0.4%
3 months	4.5%	-0.5%
1 year	10.1%	19.4%
3 years p.a.	12.8%	12.4%
5 years p.a.	10.0%	8.8%
10 years p.a.	10.4%	8.3%
Since Inception (p.a.)*	8.5%	7.3%
Value \$10,000 invested since inception	\$30,995	\$26,633

*Inception date of Fund is 14/10/2002

Unit Prices as at 31 October

Entry Price	\$1.6305
Unit Price	\$1.6264
Exit Price	\$1.6224

Top 10 Holdings:

Company	Code	Weight (%)
MFF Capital	MFF	12.4
PWR Holdings	PWH	11.8
ARB Corporation	ARB	8.0
Smartgroup	SIQ	7.8
Reece Australia	REH	7.6
AUB Group	AUB	7.1
Cochlear	COH	6.9
Nearmap	NEA	5.6
Steadfast	SDF	4.8
Beacon Lighting	BLX	4.6

Sector Exposure:

Sector	Weight (%)
Consumer Discretionary	36.9
Financials	26.6
Industrials	15.4
Information Technology	10.7
Health Care	7.5
Cash & Other	2.9

The other positive development for the company was the appointment of an employee in the USA who will provide the company with some additional expertise to tackle its efforts to enter the aerospace and military industries where its micro matrix technology would appear well suited. This may take a while to play out but provides the company with the potential for a much larger application of its technology. No guidance was given on what the profits might be for 2020 but MD, Kees Weel, indicated they should have a “cracking year”.

MFF Capital

Chris Mackay offered an interesting insight to his thoughts on markets and how he is positioning the portfolio during comments at the MFF AGM. MFF typically seeks high quality businesses with competitive advantages and he made the point that the opportunity cost of selling these businesses, even after strong price rises, is high when investors can be confident the business will be earning considerably more in 5 or 10 years’ time. He also believes “that it remains rational to be optimistic for the very long term”.

Beacon Lighting

The weather in Melbourne for the AGM went from overcoats in the morning to sunshine and shirtsleeves by lunchtime and somehow that feels somewhat symbolic of this business. Only one other shareholder turned up for the meeting compared to quite a turnout some years ago indicating that investors have lost interest in this lighting retailer that has struggled of late. Management indicated conditions have been as tough as they have seen since the 1991 recession – and they are able to say that because they were running the business in 1991.

The price reflects the industry conditions which relies heavily on property turnover as the base for the business, however, there are some small bright spots with limited expansion into the USA gaining strength, the Commercial division is growing, and the purchase of a distribution centre in Brisbane and the opening of more new stores during the year which should pay off over the next few years. The company has opened 31 new stores in the past 5 years and typically these don’t mature until about their fifth year of trading which should also help the business. The Robinson family remain the largest owners of the business and operate the business on a long-term basis making sensible capital allocation decisions which we are comfortable with.

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