

Investor Handbook



CONTACT AUSTRALIAN EX-50 FUND

Committed to investing for better outcomes

RESPONSIBLE ENTITY AND TRUSTEE

Evolution Trustees Limited

ABN 26 611 839 519

Australian Financial Services Licence (AFSL) No. 486217



WELCOME TO CONTACT ASSET MANAGEMENT

Contact Asset Management was established as an innovative investment manager, implementing a set of principles honed over many generations. We focus on developing strong relationships with our clients and invest alongside our investors, managing unique products to create long-term wealth.

FUNDS UNDER MANAGEMENT

Contact has three main strategies and manages over \$1.5 billion in Funds Under Management

BALANCE SHEET STRENGTH

Contact is a well capitalised business, supported by a trusted partner in Soul Pattinson

EXPERIENCED INVESTMENT TEAM

The Contact team has a good history of successfully working together over many years

WHO IS CONTACT ASSET MANAGEMENT?

Contact Asset Management ("Contact") was established in 2016 with a mantra to Invest for Better Outcomes.

We formed the company with the desire to create an innovative investment management business – one whereby we would invest alongside our shareholders / unitholders and drive favourable outcomes over the long-term. We have always believed that the best way to achieve these outcomes is through transparency, alignment and trust.

Contact is wholly owned by its founders Tom Millner, Will Culbert and Washington H Soul Pattinson & Company Limited (Soul Pattinson).

Soul Pattinson is a 20% shareholder in Contact and is Australia's second oldest publicly listed company. As at 31 January 2020, Soul Pattinson has compounded capital at 17.6% p.a. for 40 years and has never failed to pay a dividend since listing on the ASX in 1903. It is regarded as one of Australia's premier investment houses and has been successfully managed by the same family from the outset – and therein lies the key to its strength. Its leadership has been grounded in successive family members who value the history of the company yet are able to adapt to changing times and economic conditions.

At Contact, we believe that the fundamental measure of our success will be the value we create for our co-investors over the long term.

THE CONTACT STORY

In 1933, Max Claveranne, a Sydney accountant and Danny Lewis, a Randwick horse trainer, formed a racing partnership by purchasing the colt "Contact" for 150 guineas (approximately £160). Over the next three years, Contact would net the partnership almost £6,000, culminating in victory at the 1936 Sydney Cup after running 4th in the 1935 Melbourne Cup. Messrs Claveranne and Lewis co-owned several racehorses together and formed a very successful partnership.

Max Claveranne was Tom Millner's Great Grandfather and Danny Lewis was Will Culbert's Great Grandfather.

OUR SUITE OF PRODUCTS

We believe in better and are invested in making a difference. We make that difference through better products, performance, experience, relationships, returns and better ways of working.



OUR INVESTMENT PROCESS

Our approach to investing is straightforward – we aim to buy high quality, dividend-paying companies and hold onto them. We believe that the high-quality businesses continue to surprise you on the upside.

We employ a detailed checklist as part of our investment process that helps us to focus on our five fundamental tenets of our approach – **Principal Activity, Income, Balance Sheet Strength, Management** and **Valuation**.



Principal Activity

We seek to understand how the business makes money and what the company's competitive advantage is. Once we understand that, we test the durability of that competitive advantage. Industry structure is an important piece of the puzzle. We consider barriers to entry but also watch for companies that are losing market share due to self-destructive actions or rising competition. We meet with competitors of companies that we own, and we attend industry events to build conviction. From a quantitative perspective, we look closely at return of capital. We believe that if a company generates a high return on capital (that is sustainable) and reinvests at high returns, it will do well.

Income

We believe that companies that offer a sustainable, and growing, dividend stream are often the higher quality businesses. As a result, we ascribe more value to dividends than others in the market might and generally require from our investments both an adequate earning power and an adequate dividend. We pay attention to dividend payout ratios in assessing the sustainability of the dividend and know that those companies that borrow to fund the dividend eventually come unstuck. With a focus on Australian companies and co-investing with primarily Australian residents, we also place a high value on franking credits.

Balance Sheet Strength

We are wary of companies that are over-gearred. We analyse a company's financial strength by using a number of quantitative measures including debt-to-equity ratios, interest coverage and several other liquidity ratios. We have been around long enough to have witnessed more than one company that was forced to cut its dividend due to excessive debt levels. Beyond that, we have seen that a bad investment can occur when a company has a poorly leveraged balance sheet or something problematic in the capital structure.

Management

An assessment of management and Board skill and experience is a critical tenet of our process. We spend a lot of our time trying to assess the quality of management. In many ways, this can be as much an art as a science. Because of this, we place a lot of weight on alignment. As Charlie Munger says - "you show me the incentive; I will show you the behaviour". We believe that founder led companies or those where management have significant skin in the game are generally run for the shareholders. We normally view management turnover as negative and a change to senior management is always a call to action to review the investment case - particularly when an outsider is brought in. We seek to invest alongside management teams that provide honest stewardship and are acting in the best interests of shareholders. We engage with management and seek to understand their strategy and company aspirations. We are not activists and do not try to tell Managers or the Board how to run their businesses. We take our proxy voting responsibilities seriously and always vote on remuneration matters. However, if we do not agree with the company's strategy or have little faith in management, we will not own the shares.

Valuation

We have proprietary financial models on all our companies and employ a range of valuation techniques including Discounted Cash Flow, Price-Earnings multiples and EV/EBITDA multiples. These models are reviewed regularly and critiqued by the investment team to test the forecasts and assumptions made by the analyst. We subscribe to the maxim that no company is so good that you should invest irrespective of the price paid. However, for things that we own, we also believe that it is foolish to sell if every other part of the investment case is intact, just because the stock appears "expensive".

Our investment process is rigorous, disciplined and repeatable. The overarching goal is to identify profitable, well-managed companies that offer a compelling yield and growth opportunities. Once we invest, we keep a long-term horizon. Within the Contact business we do not believe in shorting, carrying debt, trading or trying to "time the market". That is not our game - we are investors not speculators.

CONTACT AUSTRALIAN EX-50 FUND

The Contact Australian Ex-50 Fund balances growth and income to provide access to a concentrated portfolio of quality Australian companies that sit outside the S&P/ASX 50 Index. This strategy seeks to find long term investments in tomorrow's leaders.

WHY INVEST IN THE CONTACT AUSTRALIAN EX-50 FUND?

The Ex-50 segment of the market provides greater opportunity for sector diversification. At the larger end of the market, the Index is heavily weighted towards financials which is largely made up of banks.

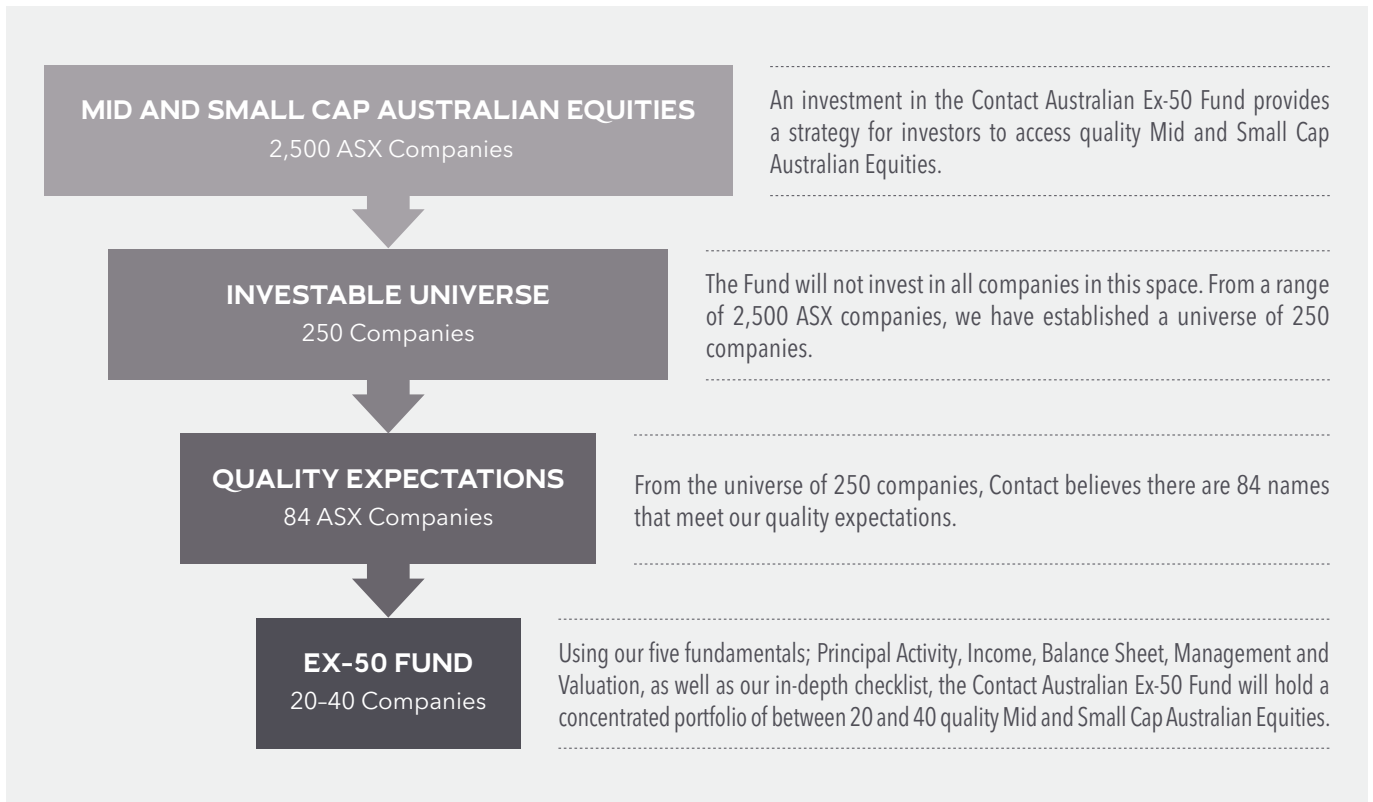
Mid and Small Cap Equities are often at the point in their business life cycle where revenue and earnings are rising at a fast rate. Over the past twenty years (to February 2020), mid-cap stocks have been particularly strong and generated returns above the rest of the market. Stock selection is of paramount importance in the small cap space – there is an opportunity to add value by investing in high quality companies managed by capable operators.

As part of our process, we overlay an initial screen to exclude the low-quality businesses. We steer away from companies with stretched

balance sheets, no earnings or a lack of dividend sustainability. We create a portfolio of 20-40 companies that we believe is high quality and will provide our co-investors with attractive earnings and distribution growth.

WHY INVEST WITH CONTACT ASSET MANAGEMENT?

- **Alignment** - We invest alongside you. Contact's products and Soul Pattinson will always be the main vehicle for our investments.
- **Low Fee** - Management fee of 0.75% is very competitive for this strategy.
- **Positive Performance** - We have a performance fee tied to the success of the Contact Australian Ex-50 Fund, but we only earn it when we outperform the Benchmark and the return is positive.
- **Partner** - We have a sustainable business with a trusted partner in Soul Pattinson.
- **Long Term** - We think like business owners and invest for the long-term.
- **Experience** - Contact has an experienced investment team and our Directors have a long history of successfully working together.



OUR TEAM

Contact has 9 investment professionals with an average of 15 years in finance.



**ROBERT
MILLNER**
Chairman
FAICD

Rob has over 35 years' experience in the investment industry.

Rob's current company directorships include Washington H Soul Pattinson & Company Limited since 1984 and Chairman since 1998 a period which has seen the market capitalisation grow from circa \$700 million to over \$5 billion today, TPG Telecom (since 2000), Brickworks Limited (since 1997, Chairman since 1999), New Hope Corporation (since 1995, Chairman since 1998), Australian Pharmaceutical Industries (since 2000), BKI Investment Company (since 2003, Chairman since 2003) and Milton Corporation (since 1998, Chairman since 2002).



**TOM
MILLNER**
Director and
Portfolio Manager
B.Des (Industrial),
GDipAppFin,
F Fin, GAICD

Tom has 17 years' experience in investment markets. Prior to the establishment of Contact Asset Management, Tom was Chief Executive Officer of BKI Investment Company from 2008 to 2016 – a period in which total assets grew from \$440 million to almost \$1 billion.

Tom holds a Bachelor of Industrial Design from the University of Newcastle, a Graduate Diploma in Applied Finance and Investment and is a Graduate of the Australian Institute of Company Directors.

Current directorships include Washington H Soul Pattinson and Company Limited (since 2011) and New Hope Corporation Limited (since 2015).



**WILL
CULBERT**
Director and
Portfolio Manager
B.Bus, MCom,
GDipAppFin,
F Fin, GAICD

Will has 20 years' experience in the funds management industry in Australia and the UK. Prior to the establishment of Contact Asset Management in 2016, Will was Portfolio Manager for BKI Investment Company for 3 years. Will spent 11 years with Invesco Asset Management (formerly Concord Capital Pty Ltd) as an Equity Analyst and Portfolio Manager. He has also worked for the Bank of New York and Challenger Group.

Will holds a Bachelor of Business, a Graduate Diploma of Applied Finance & Investment and a Masters of Commerce from the University of New South Wales. He is also a Graduate of the Australian Institute of Company Directors.



**RODNEY
FOREST**
Senior Investment
Analyst
BEc, MEc,
GradDipTax

Rodney joined Contact in 2019 as a Senior Investment Analyst. Prior to joining Contact, Rodney worked at Moelis Investment Bank on the Sales Trading desk. Rodney spent 6 years as Head of Finance at both Woolworths and Coles. Further experience has been the Principal Financial Analyst for NSW Treasury as well as roles at ALDI, Ernst & Young and the Australian Taxation Office.

Rodney holds a Bachelor of Economics from the University of Sydney, Masters of Economics from Macquarie University, Diploma in Taxation from the University of NSW.



**JARED
TILLEY**
Investment
Analyst
B.Com, CFA

Jared joined Contact in 2019 as an Investment Analyst. Prior to joining Contact, Jared spent nine years at Colonial First State. Whilst at Colonial Jared had various roles across client services and distribution including Account Manager and Business Development Associate. Most recently Jared was an Investment Specialist looking after the sales and marketing efforts for two managed funds.

Jared holds a Bachelor of Commerce majoring in Accounting and Finance from Notre Dame, Sydney and is a CFA Charter Holder.



**JOVANA
GAGIC**
Investment
Analyst
B.Bus

Jovana joined Contact in 2017 as an Investment Analyst. Prior to joining Contact, Jovana spent three years at Pitcher Partners. Whilst at Pitchers, Jovana was an Accountant and Senior Auditor in the audit and advisory team working across an array of clients and sectors including financial services, not-for-profit, automotive and public as well as the role of Analyst working in the mergers and acquisitions team.

Jovana holds a Bachelor of Business majoring in Finance and Accounting from University of Technology, Sydney.



**ROB
HORNE**

**Investment
Analyst**
GCertCom,
GDipCom

Rob joined Contact in 2019 as an Investment Analyst. Prior to joining Contact, Rob had a successful professional Rugby career spanning over ten years. He represented NSW and Australia and also played professionally in the UK. Rob held Senior Leadership Positions throughout his career.

Rob holds a Graduate Certificate in Commerce from the University of Sydney, a Graduate Diploma in Commerce from Charles Stuart University and is currently completing a Master of Commerce.



**CHARLIE
KINGSTON**

**Investment
Analyst/Dealer**
B.Com

Charlie joined Contact in 2019 as an Equities Dealer/Investment Analyst. Prior to Contact, Charlie spent 6 years at Perpetual where most recently was a dealer for their Australian and Global equity teams. Prior to Perpetual Charlie worked at Pulse Markets as a Client Advisor and also AJ Lucas Group as a Business Analyst.

Charlie holds a Bachelor of Commerce majoring in Finance and Commercial Law from the University of Sydney.



**JAIME
PINTO**

**Company
Secretary**
B. Com, CA

Jaime joined Contact in 2016 as Company Secretary. Jaime is a Chartered Accountant with over 20 years' experience in both professional practice and in senior commercial roles across a broad range of industries.

Jaime is also currently Company Secretary of BKI Investment Company (ASX:BKI), Quick Steps Holdings (ASX:QHL) and URB Investments (ASX:URB), and is Company Secretary and CFO of a number of unlisted investments and industrial companies.

CONTACT AUSTRALIAN EX-50 FUND OVERVIEW

Contact Australian Ex-50 Fund	
Benchmark	S&P/ASX Mid Cap Accumulation Index
ARSN Code / APIR Code	639 574 708 / EVO4741AU
Internal objective	3% above the benchmark over 7 years
Distribution frequency	Semi-annually
Inception date	March 2020
Management fee	0.75%
Performance fee	15% on positive returns above the benchmark after fees*
Responsible Entity / Administrator	Evolution Trustees / Mainstream
Years managing the asset class	17
Assets managed in the sector	\$1.7 billion
Portfolio Managers	Will Culbert (Lead Portfolio Manager), Tom Millner
Investment style	Quality / Income
Typical capitalisation bias	Small - Mid cap
Typical stock numbers	20-40
Stock limit	10% in any one stock (soft limit)
Sector limit	No hard limits
Expected turnover	Low
Cash range	10% (soft limit)
Stocks in universe	250
Research top down %	0-20%
Research bottom up %	80-100%
Other restrictions	No gearing or short selling

HOW DO YOU INVEST IN THE EX-50 FUND?

To invest in the Contact Australian Ex-50 Fund please follow the four steps below:

- 1 Read the **Product Disclosure Statement (PDS)**
- 2 Read the **Reference Guide**
- 3 Complete the **Application Form**
- 4 Send the **Application Form** to Mainstream Fund Services:
Mainstream Fund Services - Unit Registry
GPO Box 143
Sydney NSW 2001

DISCLAIMER

The material contained within this Investor Handbook (The Handbook) has been prepared by Contact Asset Management (AFSL 494045) (Contact). It is issued by the Responsible Entity of the Fund, Evolution Trustees Limited (AFSL 486217) (Evolution).

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Investors should consult their financial adviser in relation to any material within this document. Past performance is not a reliable indicator of future performance. Investors should consider the PDS and Reference Guide and any other material published by Contact or Evolution in deciding whether to acquire units in the Fund. This information is available at www.contactam.com.au.





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