

# Contact Australian Ex-50 Fund

ARSN: 639 574 708 | APIR Code: EVO4741AU

MONTHLY UPDATE: JUNE 2020



## FUND DESCRIPTION

The Contact Australian Ex-50 Fund (the 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.

The Fund seeks to achieve strong relative returns in excess of the benchmark, through a concentrated portfolio of high quality small to medium sized ASX listed companies.

The Fund is managed by Contact Asset Management, which is a research driven, active equities manager, investing for the long term. We seek profitable, well-managed companies that offer a sustainable yield and are attractively priced.

## FUND OVERVIEW

Portfolio Managers	Will Culbert and Tom Millner
Benchmark	S&P/ASX Midcap 50 Accumulation Index
Fund size	\$1.0 million
Number of stocks	22
NAV Unit Price	\$1.1303
Management Fee*	0.75% per annum (excluding GST)
Performance Fee*	15% (excluding GST). No Performance Fee is payable for any period in which the total return of the Fund is less than the Benchmark return or the total return of the Fund is negative.

Performance across different periods	March 2020 <sup>#</sup>	April 2020	May 2020	June 2020	Inception to 30 June <sup>#</sup>
Contact Australian Ex-50 Fund	-1.0%	4.2%	7.2%	2.0%	12.8%
S&P/ASX Midcap 50 Accumulation Index	-2.3%	16.1%	7.7%	4.2%	27.3%
<b>Relative Performance</b>	<b>+1.3%</b>	<b>-11.9%</b>	<b>-0.5%</b>	<b>-2.2%</b>	<b>-14.5%</b>

Performance is reported net of all fees and assumes reinvestment of distributions. Past performance is not a reliable indicator of future returns. # Inception date is 17 March 2020.

## PERFORMANCE COMMENTARY

The Australian share market finished the financial year strongly. We believe this is partly attributable to the \$260 billion Federal stimulus being implemented in the wake of the COVID-19 crisis. The Fund returned 2.0% for the month, which trailed the S&P Midcap 50 Index (the Benchmark) which increased by 4.2%.

We are finding it difficult to justify the (so far) V-shaped recovery in Global Equities Markets. The often-cited theories for the rally include:

- “Don’t fight the Fed!” – that is, the US Federal reserve has undertaken to do “whatever it takes” to stem the impact of COVID-19 on the US economy. This involves maintaining near-zero interest rates for several years and significant liquidity injections through money printing;
- The stimulus cheques are being punted in the market by short-term traders; and
- The “fiscal cliff” will be avoided through more stimulus.

We continue to worry about the medium-term outlook for much of the Australian economy. There is a tug-of-war between liquidity and fundamentals. Liquidity is winning. The Benchmark is trading at almost exactly the same level as it was in June 2019, however the earnings outlook for most businesses in the index has deteriorated. We believe that sooner or later the market will focus on company valuations and realise that valuations do not align with the likely earnings profile. We maintain a high cash position and wait for reality to set in.

As alluded to last month, we welcomed the final court approval which sees TPG Telecom merge with VHA (Vodafone Hutchinson Australia). The merger will create Australia’s third largest telecommunications company, bringing together two highly complementary businesses and creating economies of scale to compete with Telstra and Optus. The transaction also sees the Fund receive a \$0.49 Special Dividend and an in-specie distribution in Tuas Limited (TUA). TUA is the fourth and newest mobile network operator in Singapore. While still in start-up phase, the business will have no debt and S\$130m of cash which they anticipate will be sufficient to get to EBITDA breakeven.

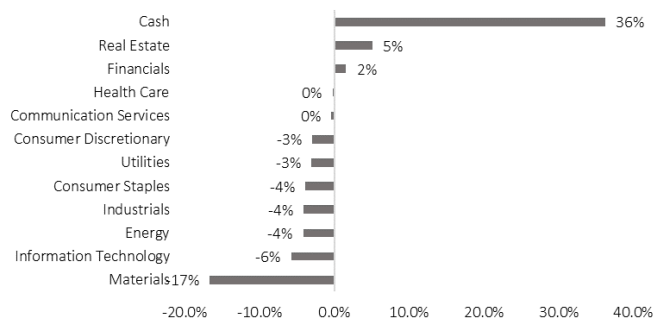
As is consistent with our investment process, we have spent as much time as possible visiting companies and speaking to business owners in recent months. Having witnessed first-hand the Government stimulus being spent on Consumer Discretionary goods, we increased exposure to Harvey Norman (HVN) and Nick Scali (NCK) – both companies increased earnings guidance in June.

A change to the constituents of the S&P/ASX indices means that A2 Milk Limited is now classed as a Top 50 ASX company. Typically, we have twelve months to exit a position once it enters the Top 50. However, with the stock trading more than our assessment of intrinsic value, combined with concerns around Chinese trade disruptions, we exited the position in A2 Milk.

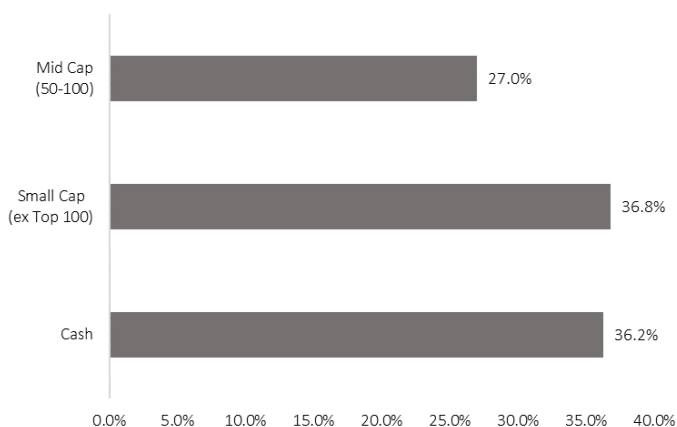
## PORTFOLIO CHARACTERISTICS

### Sector exposure

Active Sector Exposure vs S&P/ASX Midcap 50



### Capitalisation exposure



MAJOR HOLDINGS		% OF PORTFOLIO
1	TPG Telecom	7.4%
2	Resmed Inc	5.3%
3	Iress Limited	5.1%
4	Magellan Financial Group	4.1%
5	Invocare Limited	4.0%
6	IPH Limited	4.0%
7	Harvey Norman Holdings	3.8%
8	Reece Australia	3.8%
9	EQT Holdings	3.7%
10	Northern Star Resources	3.6%
11	ARB Corporation Limited	3.2%
12	Charter Hall Group	2.9%
13	Link Administration Holdings	2.2%
14	AV Jennings Limited	2.0%
15	BWP Trust	1.8%
16	Platinum Asset Management	1.8%
17	REA Group	1.5%
18	Evans Dixon Limited	1.2%
19	Cedar Woods Properties	0.9%
20	Regis Healthcare Limited	0.9%
Cash and Cash Equivalents		36.2%
<b>Total of Top 20 and Cash</b>		<b>99.5%</b>

## CONTRIBUTION TO RELATIVE RETURN – JUNE 2020

Company Name	Contribution	Company Name	Detraction
TPG Telecom Limited	81 bps	Afterpay Touch Group	-130 bps
Harvey Norman Holdings	35 bps	Boral Limited	-38 bps
Evolution Mining	33 bps	Invocare Limited	-36 bps
Altium Limited	25 bps	Saracen Minerals	-34 bps
AV Jennings Limited	21 bps	JB Hi-Fi Limited	-30 bps

The Contact Australian Ex-50 Fund Product Disclosure Statement (PDS), Reference Guide and Investor Handbook is available at <https://contactam.com.au/ex-50-fund-overview/>

\* Management fee\* 0.75% per annum (excluding GST) of the net asset value of the Fund (after any current accrued Management Fees and expenses, but before any Performance Fee accrual for the relevant period). Performance fee 15% (excluding GST) of the total return of the Fund (after deduction of Management Fees and expenses) that is in excess of the return of the Benchmark during a relevant performance period (or part period where), and provided any underperformance from previous periods has been recovered. No Performance Fee is payable for any period in which the total return of the Fund is less than the Benchmark return or the total return of the Fund is negative. The material contained within this Report (The Report) has been prepared by Contact Asset Management Pty Limited (ABN 54 614 316 595, AFSL 494045)(Contact). It is issued by the Responsible Entity of the Fund, Evolution Trustees Limited (ABN 29 611 839 519, AFSL 486217)(Evolution). Figures referred to in The Report are unaudited. The NAV Unit Price has been used for performance reporting, however if an investor is to come out of the fund that would be done at the exit price. The Report is not intended to provide advice to investors or take into account an individual's financial circumstances or investment objectives. This is general investment advice only and does not constitute advice to any person. Neither Evolution nor Contact guarantee repayment of capital or any particular rate of return from the Fund. Neither Evolution nor Contact gives any representation or warranty as to the reliability, completeness or accuracy of the information contained in this Report. 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](http://www.contactam.com.au)