

# Contact Australian Ex-50 Fund

ARSN: 639 574 708 | APIR Code: EVO4741AU

MONTHLY REPORT: FEBRUARY 2021



## 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	\$3.0 million
Number of stocks	24
NAV Unit Price	\$1.1892
Management Fee*	0.60% 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 to 28 February 2021	1 Month	3 Months	6 Months	1 Year	Since Inception <sup>#</sup>
Contact Australian Ex-50 Fund	-3.0%	-2.5%	3.1%	-	21.7%
S&P/ASX Midcap 50 Accumulation Index	-1.4%	0.8%	10.6%	-	52.6%
Relative Performance	-1.6%	-3.3%	-7.4%	-	-32.1%

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 figures may be subject to rounding.

## FUND COMMENTARY

The Reporting Season dominated news flow in February. The Contact Australian Ex-50 Fund decreased by 3.0% for the month. The benchmark also declined, dropping 1.4%.

This performance underplays an impressive reporting season that was characterised by higher profits and better dividends than anticipated. According to Macquarie Research, 51% of stocks beat earnings expectations. However, the bond market sell-off late in the month took the shine off what was, in the main, an encouraging set of results.

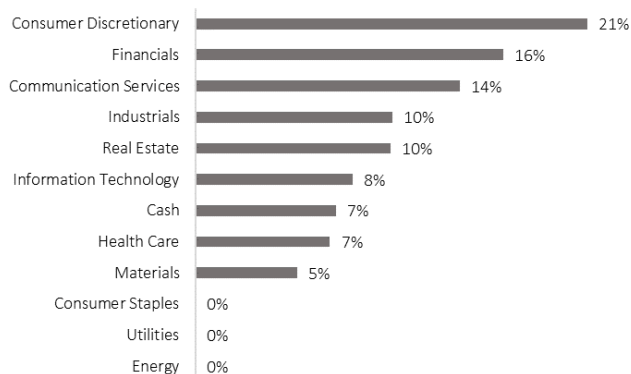
PWR Holdings (PWH) delivered a solid result that was ahead of expectations. PWH is an Australian-based company involved in the design and production of customised cooling system solutions for motorsports and the automotive industry. The company has an experienced management team and moat-like characteristics given its significant Intellectual Property. We anticipate a strong runway for growth as it expands beyond F1 motorsports into adjacent race markets but also into mainstream passenger vehicles, particularly as hybrid and electric vehicle penetration gathers momentum. PWH is net cash, it generates very attractive ROE and is trading on reasonable valuation multiples given its growth prospects.

Nine Entertainment Company (NEC) also delivered a strong result. NEC benefited from a significant recovery in ad market spending late in the half, which has continued into calendar 2021. We added NEC to the portfolio just before Christmas 2020 as we believed the market underappreciated the manner in which NEC has transitioned from a

Free to Air television network to a diversified, and increasingly digitized, content company. The 1H21 result highlighted several pleasing developments including the growth of the digital assets, the margin expansion from excellent cost control and the cash generative nature of the business. NEC has a solid Balance Sheet and offers an attractive grossed up yield of 4.4% in FY21 which should grow. The appointment of Mike Sneesby as CEO in early March removes a potential risk. Mr Sneesby has an excellent track record at Stan and is a well-regarded media executive.

We added Orora Limited (ORA) to the portfolio in February. ORA designs and manufactures packaging products such as glass bottles, beverage cans and corrugated boxes. Its earnings are split between Australasia (60%) and North America (40%). The 1H21 result highlighted that ORA's North American division is finally turning around, which is important as this is a key growth driver. The Australasian business generates steady earnings and ORA continues to hold a dominant position in a defensive duopoly market domestically where significant barriers to entry exist. ORA is forecasting higher earnings in FY21 and its guidance looks easily achievable, particularly as the company is cycling a weak comparative period in North America. ORA generates sustainable free cash flow and ROE close to 20%. It has a reasonable Balance Sheet and is currently undertaking a buyback, which is c.45% complete.

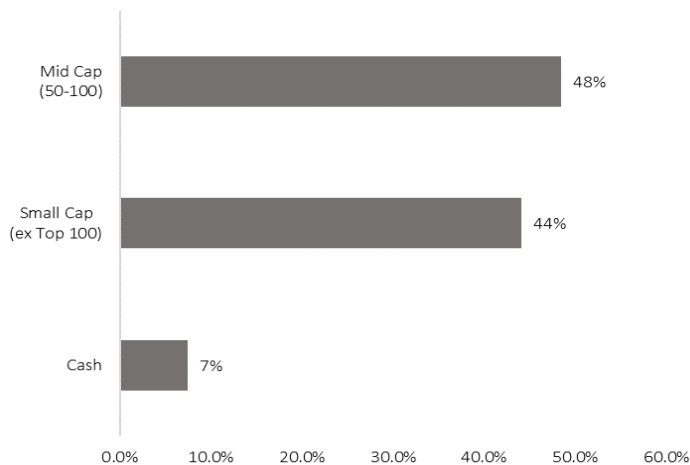
## PORTFOLIO CHARACTERISTICS



## TOP 10 POSITIONS

1	Harvey Norman Holdings
2	Resmed Inc
3	Magellan Financial Group
4	EQT Holdings Limited
5	IPH Limited
6	ARB Corporation
7	Nine Entertainment Holdings
8	Reece Limited
9	PWR Holdings Limited
10	Iress Limited

## CAPITALISATION EXPOSURE



## QUALITY & VALUATION RATIOS

	The Fund	Benchmark
Return on Capital Employed	17.2%	9.8%
Operating Margin	25.0%	8.6%
Gearing	23.4%	50.3%
P/E Ratio (FY1e)	23.7x	23.5x
Yield (FY1e)	3.0%	2.4%

Source: Factset, Contact Asset Management estimates

## MONTHLY CONTRIBUTION TO RELATIVE RETURN

Company Name	Contribution	Company Name	Detraction
PWR Holdings Limited	0.85%	OZ Minerals Limited	-0.48%
Nine Entertainment Company Limited	0.51%	Tabcorp Holdings Limited	-0.48%
Evolution Mining Limited	0.32%	Resmed Inc	-0.31%
SEEK Limited	0.32%	EQT Holdings Limited	-0.27%
Atlas Arteria Limited	0.27%	Charter Hall Group	-0.20%

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\* 0.60% 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)