

# Contact Australian Ex-50 Fund

ARSN: 639 574 708 | APIR Code: EVO4741AU

MONTHLY REPORT: AUGUST 2021



## FUND DESCRIPTION

The Contact Australian Ex-50 Fund (the Fund) balances growth and income to provide access to a 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's investment objective is to seek a total return in excess of 10% per annum, after deduction of Management Fees and expenses, 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
Targeted return	10% per annum (net of fees)
Number of stocks	27
NAV Unit Price	\$1.41
Management Fee*	0.60% per annum (excluding GST)
Performance Fee	Nil

\* Management fee 0.60% per annum (excluding GST) of the net asset value of the Fund (after any current accrued Management Fees and expenses).

Performance to 31 August 2021	1 Month	3 Months	6 Months	1 Year	Since Inception (p.a.) <sup>#</sup>
Contact Australian Ex-50 Fund	2.8%	10.6%	19.7%	23.4%	28.5%
Targeted return of 10% per annum				10.0%	10.0%

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. Numbers greater than one year are annualised.

## FUND COMMENTARY

The Fund increased by 2.8% in August, roughly in line with the broader market. The month was dominated by Reporting Season, which was characterised by more beats than misses and strong dividend or capital management announcements. However, the return of the virus and several State-wide lockdowns meant that many corporates shied away from providing guidance.

**Invocare Limited (IVC)** reported a better-than-expected interim result. The good news is that the changes implemented by a new senior management team has resulted in strong operating leverage when the top line has momentum. Operating revenue increased by 13% and EBIT increased by 46% on the first half of 2020, although one needs to keep in mind that 1H20 was significantly COVID impacted. The return to lockdowns in the second half will cause some headwinds. However, IVC pointed to the positive longer-term trends of a growing and aging population, efficiency gains and new growth segments.

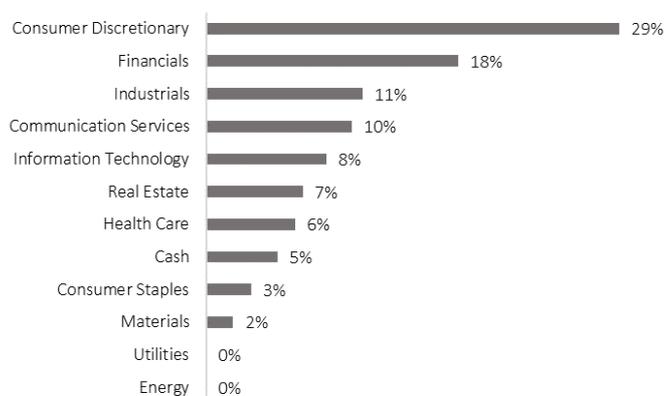
**PWR Holdings (PWH)** is a fast growing, founder-led business selling cutting edge engine cooling products for the motorsports and automotive sector. PWH announced a strong result with EPS up almost 30% and the dividend almost 50% higher than the prior year. The result was characterised by solid revenue growth across all segments. FY21 EBITDA margin expansion to 36.6% (+100bps) was also pleasing as increased manufacturing drove operating leverage. PWH is the market leader, and it continues to extend that position through investment in R&D. The company has no debt, strong returns and outstanding growth prospects.

**Charter Hall (CHC)** delivered a strong result that was ahead of expectations. The company has also provided very bullish guidance for FY22, with Operating Cash Flow per share to exceed 75 cents. This implies c.23% growth. The company has also guided to 6% DPS growth. Occupancy remains strong at 97%. MD David Harrison remains optimistic on the future of office, particularly the better-quality assets. On the call, he said "The sentiment towards work-from-home being a permanent change is fast evaporating with the latest lockdowns. I think that, once it is safe to do so, people and corporations will be eager to return to the office". Overall, this was a strong result with good earnings from funds management and development income. Revaluations helped as cap rates continue to compress. This is a well-managed business.

**Reece Limited (REH)** delivered a strong result and we have been surprised by the relative weakness in the stock post-announcement. We assume that some were too optimistic that the COVID tailwinds would continue into perpetuity. The result was characterised by strong revenue growth and margin expansion from its 642-store network in Australia and New Zealand. The impressive growth prospects continue in the US business. REH continues to invest in innovation, which has it well placed for future product development and growth.

The COVID induced lockdowns have created an environment of uncertainty. However, this is expected to pass. The Portfolio consists of companies with solid balance sheets and return profiles and we believe it is well placed for growth as economic activity normalises.

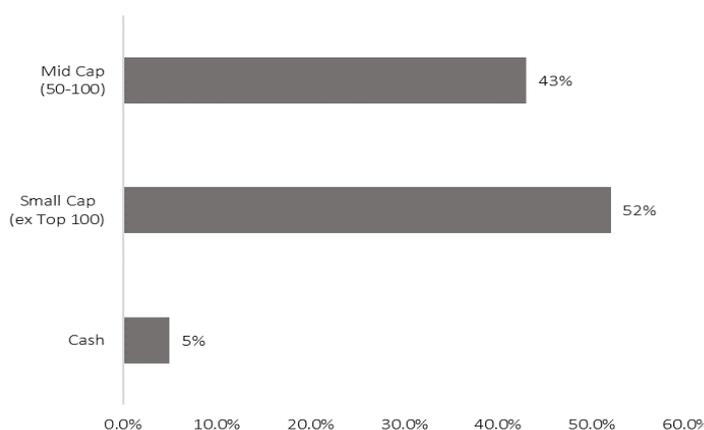
## PORTFOLIO CHARACTERISTICS



## TOP 10 POSITIONS

1	Harvey Norman Holdings
2	ResMed Inc.
3	ARB Corporation
4	Nine Entertainment Holdings
5	IPH Limited
6	EQT Holdings Limited
7	Invocare Limited
8	Charter Hall Group
9	Iress Limited
10	PWR Holdings Limited

## CAPITALISATION EXPOSURE



## QUALITY & VALUATION RATIOS

	The Fund
Return on Capital Employed	15.4%
Operating Margin	19.6%
Gearing	32.5%
EPS Growth (FY1e)	5.5%
P/E Ratio (FY1e)	21.5
Yield - Net (FY1e)	3.2%

Source: Factset, Contact Asset Management estimates

## MONTHLY CONTRIBUTION TO ABSOLUTE RETURN

Company Name	Contribution	Company Name	Detraction
IPH Limited	0.80%	Reece Limited	-0.42%
ResMed Inc.	0.64%	Link Administration Holdings	-0.37%
PWR Holdings Limited	0.61%	Harvey Norman Holdings	-0.32%
Invocare Limited	0.61%	Magellan Financial Group	-0.27%
ARB Group	0.56%	Alliance Aviation Limited	-0.19%

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/>

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