

# Contact Australian Ex-50 Fund

ARSN: 639 574 708 | APIR Code: EVO4741AU

MONTHLY REPORT: SEPTEMBER 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	29
NAV Unit Price	\$1.37
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 30 September 2021	1 Month	3 Months	6 Months	1 Year	Since Inception (p.a.) <sup>#</sup>
Contact Australian Ex-50 Fund	-3.4%	-0.3%	12.2%	21.0%	24.0%
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

Global markets were volatile in September, with the majority of developed markets closing in the red. It was a topical month for the bond markets and news flow out of China surrounding their property market with embattled developer China Evergrande Group on the brink of default. As there were several reasons for more risk-off trading during the month, long term investors were able to take various opportunities to buy the dips.

After a solid reporting season, the Australian market was impacted by significant moves in commodity markets. The broader S&P/ASX 300 Accumulation Index declined 1.9%.

**ResMed Inc (RMD)** hosted a virtual investor day during the month built around its 2025 strategy. RMD highlighted its increasing focus on data and digital health as mechanisms to drive adoption, improve outcomes and generally leverage the structural trends towards out-of-hospital care. There is a long runway across key markets and we believe RMD is well-placed to continue to capitalise. ResMed's recent success and growth has seen the company move into the S&P/ASX50 Index. As a result of RMD graduating from a Mid Cap to a Large Cap, the Contact Australian Ex-50 Fund is no longer able to add to this position, and we have twelve months to divest the position. The Fund has done very well from our investment in RMD, returning 21% over a short period.

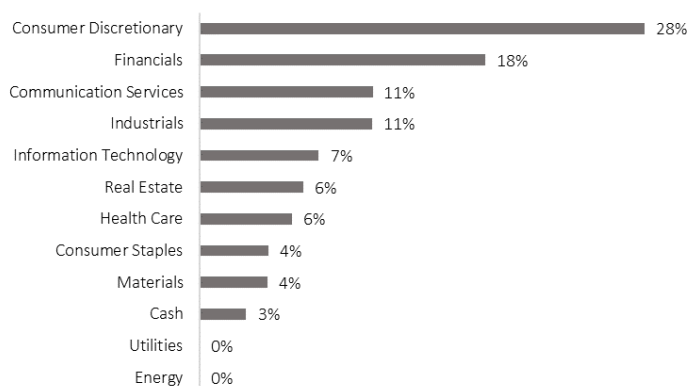
We added **Deterra Royalties (DRR)** to the Fund in September. DRR was created following the demerger from Iluka Resources in November 2020. Its primary asset is its royalty over BHP Mining Area C (MAC) operation. DRR receives 1.232% of the Free on Board revenue that BHP

collects from the MAC site. DRR also receive an additional payment of \$1m per 1mtpa of new capacity added. DRR's Balance Sheet is rock solid and in a net cash position, making it well placed for future growth options. The dividend yield is particularly compelling with an anticipated grossed-up yield in excess of 10%. The company has an A rating from MSCI ESG ratings. The volatility in iron ore markets has translated into a weak DRR share price with the stock declining from over \$5 in late 2020 to \$3.79 at month end when we bought. We believe there is significant upside potential.

The performance of the Fund was negatively impacted following the decision by Swedish Private Equity firm EQT to not proceed with its takeover bid of **Iress Limited (IRE)** post its due diligence. EQT stated that "they have not come across any red flags during their due diligence but were not able to sufficiently confirm their investment hypothesis." We remain comfortable on our own long-term investment thesis for IRE. The company has a solid brand, a highly recurring revenue stream in a large addressable market, is very cash generative and has ambitions to double NPAT by FY25.

**Tuas Limited (TUA)** released results for its inaugural financial year. The Fund inherited the position in TUA when it was spun out of TPG Telecom following the Vodafone merger. While still loss making at an EBITDA level, the results were credible with revenue growing month on month throughout the period to \$34 million. Subscriber numbers have tripled to almost 400k and TUA will complete its 4G rollout this calendar year. TUA shares increased by 70% in September.

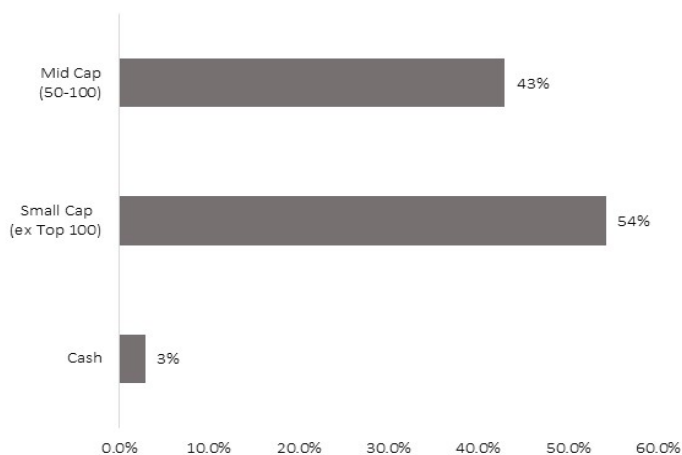
## PORTFOLIO CHARACTERISTICS



## TOP 10 POSITIONS

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

## CAPITALISATION EXPOSURE



## QUALITY & VALUATION RATIOS

	The Fund
Return on Capital Employed	20.3%
Operating Margin	21.7%
Gearing	33.0%
EPS Growth (FY1e)	9.9%
P/E Ratio (FY1e)	19.3x
Yield - Net (FY1e)	3.6%

Source: Factset, Contact Asset Management estimates

## MONTHLY CONTRIBUTION TO ABSOLUTE RETURN

Company Name	Contribution	Company Name	Detraction
TPG Telecom Limited	0.40%	Iress Limited	-0.92%
Tuas Limited	0.31%	Magellan Financial Group	-0.47%
PWR Holdings Limited	0.19%	Resmed Inc	-0.44%
Alliance Aviation	0.15%	Monadelphous Group	-0.42%
Adairs Limited	0.07%	Harvey Norman Holdings	-0.38%

The Contact Australian Ex-50 Fund Product Disclosure Statement (PDS), Reference Guide, Target Market Determination (TMD) and Investor Handbook is available at

<https://contactam.com.au/ex-50-fund-overview/>

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