

Contact Australian Ex-50 Fund

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MONTHLY REPORT: DECEMBER 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 invest in Founder-led businesses and tomorrow's leaders within the mid and small cap Australian Equities universe.

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	\$1.39
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 December 2021	1 Month	3 Months	6 Months	1 Year	Since Inception (p.a.) [#]
Contact Australian Ex-50 Fund	2.1%	1.7%	1.4%	14.9%	21.4%
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

Markets finished the year on a bullish note notwithstanding the news of the Omicron virus which added to uncertainty about the path forward. The bulls remain convinced that still easy financial conditions, expanding central bank balance sheets and strong earnings growth will continue in 2022. The vaccination rollout globally has generally been a success, particularly in developed nations. It is hoped that high vaccination rates will create a buffer against lingering normalisation headwinds from Covid variants. The bears remain cautious around central bank policy shift and the heightened potential for a monetary policy mistake given structural headwinds and debt levels.

Charter Hall (CHC) announced upgraded earnings guidance for FY22. CHC now expects post tax operating earnings per security of "no less than \$1.05 per security". This is now the second upgrade since the August result. The \$1.05 level implies a minimum 72% growth rate over FY21. Funds Under Management is now \$61.3 billion (up from \$52 billion in June). Later in the month, CHC announced it would acquire 50% of the shares in Paradise Investment Management for \$207 million. The price implies 2.3% of FUM or 10x NPAT, and CHC expects the deal to be EPS accretive in FY22. This is an interesting development, albeit not a complete surprise, with CHC having previously considered moving into broad funds management

Metcash (MTS) reported a strong first half result, with good momentum in the hardware and liquor businesses. In fact, all divisions were better than expectations as was the dividend. EPS increased 15% and the dividend of 10.5 cents per share was 31% higher than the pcp.

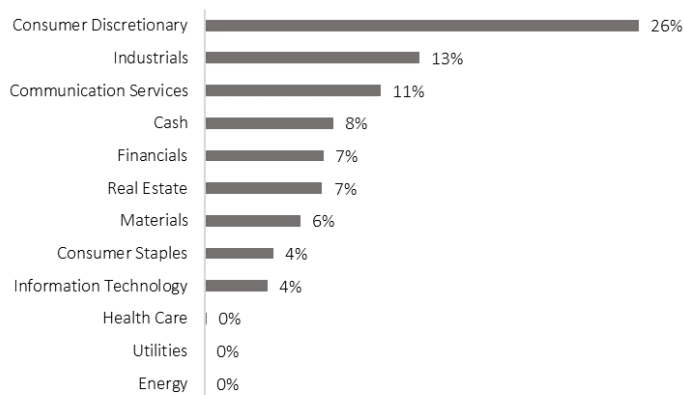
The hardware business is benefiting from a very strong housing cycle, with a trade/DIY mix of ~75/25% (including Total Tools). The trading update for the business was solid.

Bank of Queensland (BOQ) held its AGM in early December. Growth momentum has continued, with strong application volumes across housing and business lending portfolios, but net interest margins are being impacted by tough trading conditions and competition. BOQ reconfirmed its FY22 guidance of at least 2% positive jaws.

In late December, we were pleased to learn of the planned takeover offer for **Link Administration Holdings Limited (LNK)**. The bid (via scheme of arrangement) at \$5.68/share, was a significant premium to the \$4.79 share price. The bid comes from Canadian firm Dye & Durham and is superior to the highly conditional bid that LNK had received from Carlyle Group in early November at \$5.38/share. The price implies a transaction multiple of 25 times earnings. LNK's Board unanimously supports the proposal.

We have held LNK in the portfolio since inception. We were attracted to LNK for its resilient revenue stream across a diversified range of businesses. However, we also felt that the business was undervalued, particularly when one considered a sum of the parts methodology. There have been a few suitors over the past eighteen months. This bid is less conditional and seemingly fairer and more reasonable than prior offers. The Scheme Meeting is likely to be held in May. In the meantime, with a few other Private Equity firms having indicated interest in the past, a bidding war is possible.

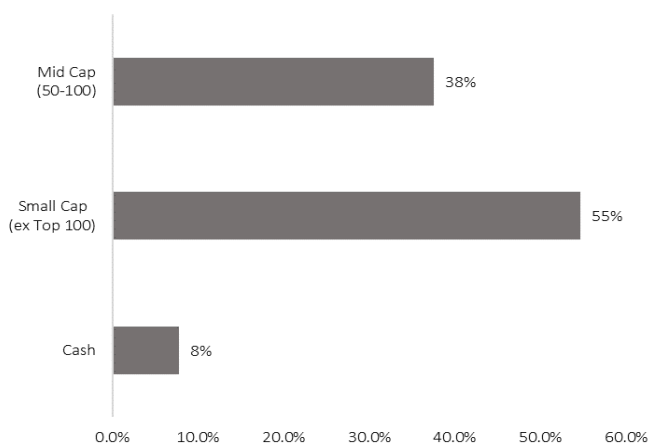
PORTFOLIO CHARACTERISTICS



TOP 10 POSITIONS

1	Reece Limited
2	Harvey Norman Holdings
3	Nine Entertainment Holdings
4	Charter Hall Group
5	ARB Corporation
6	Deterra Resources
7	Metcash Limited
8	Link Administration Holdings
9	Invocare Limited
10	Bank of Queensland

CAPITALISATION EXPOSURE



QUALITY & VALUATION RATIOS OF THE PORTFOLIO

	The Fund
Return on Capital Employed	28.4%
Operating Margin	24.0%
EPS Growth (FY1e)	11.8%
P/E Ratio (FY1e)	21.0x
Yield - Net (FY1e)	3.2%

Source: Factset, Contact Asset Management estimates

MONTHLY CONTRIBUTION TO ABSOLUTE RETURN

Company Name	Contribution	Company Name	Detraction
Reece Limited	0.91%	Magellan Financial Group	-1.02%
Metcash Limited	0.52%	TPG Telecom	-0.31%
Link Administration Holdings	0.44%	GQG Partners Inc	-0.16%
Kelsian Group	0.43%	Harvey Norman Holdings	-0.16%
Charter Hall Group	0.39%	ARB Corporation	-0.11%

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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