

Contact Australian Ex-50 Fund

ARSN: 639 574 708 | APIR Code: EVO4741AU

MONTHLY REPORT: JANUARY 2022



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	\$1.26
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 January 2022	1 Month	3 Months	6 Months	1 Year	Since Inception (p.a.)#
Contact Australian Ex-50 Fund	-8.5%	-5.1%	-7.6%	4.3%	14.8%
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

January proved challenging for global markets and even more difficult for Australian small and mid-cap stocks. The S&P/ASX Midcap 50 Index fell 8.7% and the S&P/ASX Small Ordinaries Index dropped 9.0%.

Concerns around the outlook for interest rates was a major focus point in January. Stocks came under pressure as Treasury yields continued an upward trajectory, with companies trading on high-multiple particularly vulnerable. This is understandable as many of these companies are long duration assets in that a higher relative share of their cash flows are derived in the future.

However, several good quality companies in the Portfolio were also caught up in the indiscriminate selling of higher multiple stocks, notwithstanding the fact that the outlook for many of these businesses remains robust. We seek businesses where the returns being generated are strong and that are led by capable and aligned managers. We took the opportunity to add to several positions in the portfolio during the volatility.

The domestic market rallied in the final days of January and, at the time of writing, has stabilised in early February. Nevertheless, there were several stock specific developments worthy of mention.

ARB Corporation (ARB) was weaker during January, with the stock dropping as much as 22% mid-month on the back of a cautious broker report. However, late in the month the company released a very solid trading update, which quelled investor concerns. ARB noted 1H22 sales revenue of \$359m, up 26% and Profit Before Tax in a range of \$90-\$92

million (also c.26% higher). The implied PBT margin is 25.3%, only 10bps lower than the record 25.4% margin reported in 1H21. ARB maintains a positive outlook based on its strong customer order book and improved inventory levels.

The Fund increased exposure to **Metcash (MTS)** in January. Last month, we discussed the company's strong first half result, with good momentum in the hardware and liquor businesses. We believe that MTS' hardware business is underappreciated – we anticipate solid growth in the Total Tools franchise buoyed by a strong Australian housing market. Importantly, a higher contribution from Hardware has the added benefit of lifting MTS overall margins. MTS' Food business remains well placed to benefit from future food inflation as well as a higher level of localisation as employees spend more time working from home. The evolution into a solid food, liquor and hardware conglomerate makes comparisons with Coles, Wesfarmers and Woolworths increasingly relevant, yet MTS continues to trade at a far lower P/E multiple.

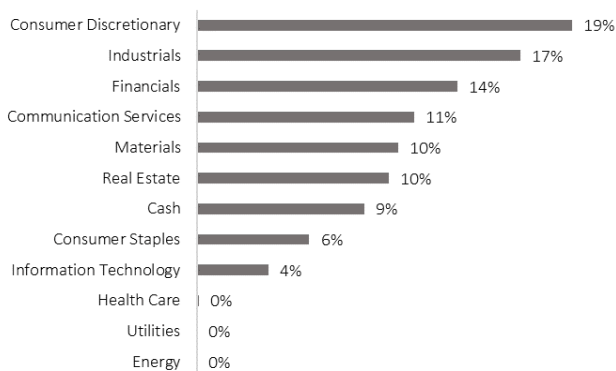
The February reporting season is now beginning in earnest with companies expected to note headwinds from challenging supply chains and cost pressures. As we discussed in a recent report, those companies that have pricing power will be rewarded. We remain convinced that the high-quality companies are best placed to continue to deliver earnings growth notwithstanding the current uncertainty. We also remain optimistic on the outlook for dividends.

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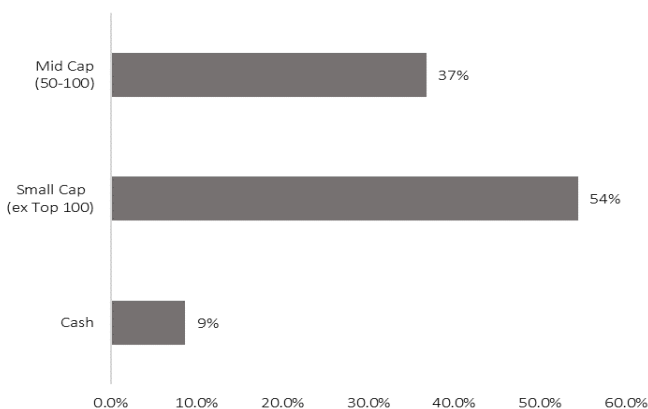
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PORTFOLIO CHARACTERISTICS



CAPITALISATION EXPOSURE



TOP 10 POSITIONS

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

QUALITY & VALUATION RATIOS OF THE PORTFOLIO

	The Fund
Return on Capital Employed	30.8%
Operating Margin	26.3%
EPS Growth (FY1e)	13.4%
P/E Ratio (FY1e)	18.6x
Yield - Net (FY1e)	3.5%

Source: Factset, Contact Asset Management estimates

MONTHLY CONTRIBUTION TO ABSOLUTE RETURN

Company Name	Contribution	Company Name	Detraction
Regis Healthcare	-0.01%	Reece Australia	-1.30%
TPG Telecom	-0.01%	Charter Hall Group	-1.00%
OZ Minerals Limited	-0.01%	GQG Partners Inc	-0.69%
Orora Limited	-0.02%	ARB Corporation	-0.59%
Deterra Royalties	-0.04%	Nine Entertainment	-0.54%

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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