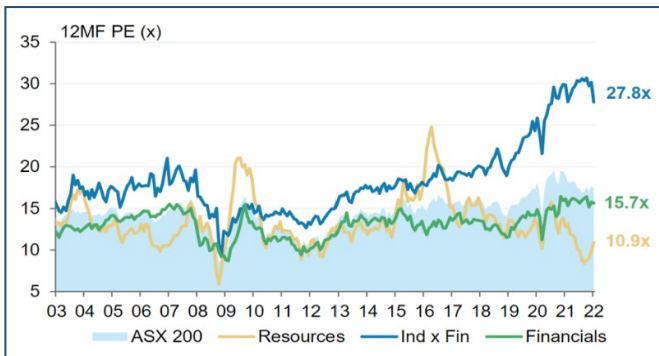


## A View on the Macro

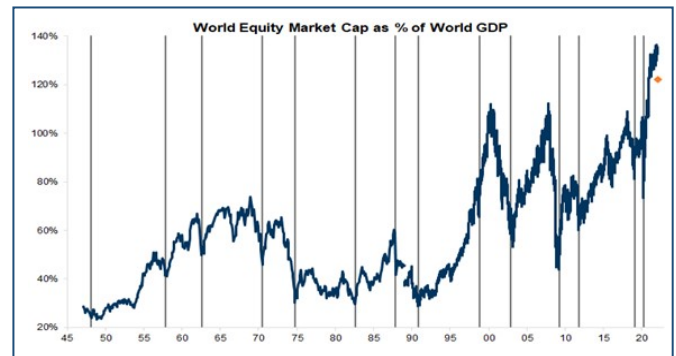
While Contact’s investment philosophy is executed through a bottom-up process focusing on quality business who produce strong cash flows, have strong balance sheets, are well managed and provide an attractive valuation, the Ex50 Fund’s absolute objective means we are conscious of broader economic conditions that can impact returns.

## Valuation

January’s equity market drawdown was focused on the high multiple stocks while the remainder of the market has held up quite well such that the net result has been the index’s multiple moving largely sideways. Overall, markets locally and globally do not scream cheap on conventional metrics, and in fact according to a certain investor’s pet measure, they are wildly expensive. The valuation metrics of Contact’s Ex50 Fund are in line with the market despite the absence of the large and low multiple Resources and Banks stocks.



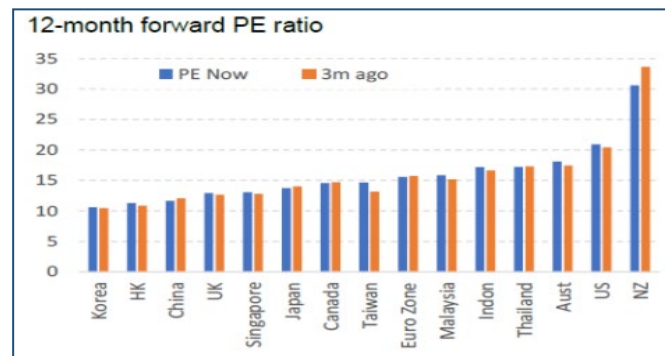
Source: Morgan Stanley



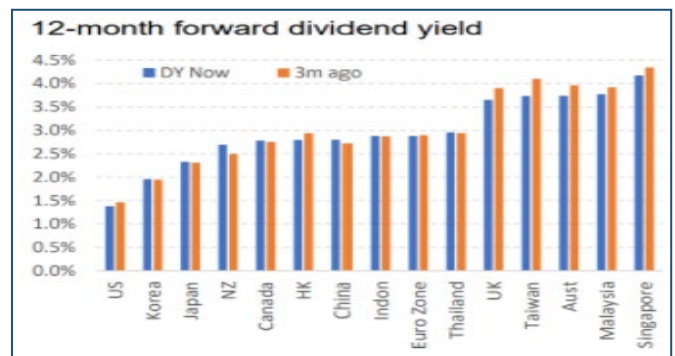
Source: Goldman Sachs

## Dividend Yields

Australian equities are attractive relative to Anglo-Saxon markets, and while having higher multiples than others, remains one of the best producers of dividend yield from mainly oligopolistic powerhouses. This is funded from healthy free cash flow from a diverse array of industries from the defensive telecommunications, consumer staples and utilities to admittedly risky cyclicals like the energy and materials sectors. Again, our mid-small cap portfolio has a dividend yield just under 4% which is comparable to the broader market, despite the absence of large high yielding banks and miners.



Source: MST Financial



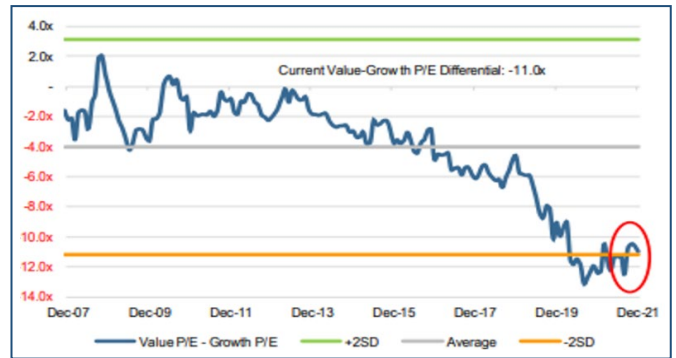
Source: MST Financial

## Style

The value style's relative outperformance in the month has been concentrated and driven by short duration stocks and resources that have not only outperformed in relative terms but actually rose and re-rated over the month. Growth stocks remain absolutely and relatively expensive and therefore vulnerable to the potential continuation of the last month's underlying dynamics. On top of a cash position of ~10%, Contact's Fund has an exposure to the value style of over 50%.



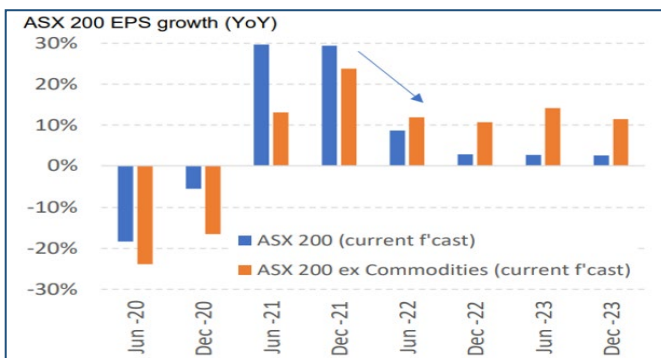
Source: Goldman Sachs



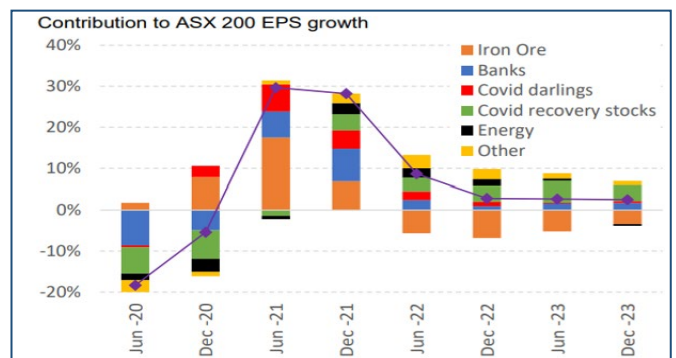
Source: JP Morgan

## Earnings

Earnings growth is a challenge particularly excluding the volatile commodity producers where upgrades are likely given the ongoing rally in energy prices and the recovery by iron ore. The space is supported by hedging against inflationary and geopolitical risk, supply challenges due to secular underinvestment and main customer China's contrasting stimulatory policies. Our investment universe excludes the huge miners but the Ex50 portfolio has had iron ore exposure through royalty play Deterra Resources (DRR) and the recently added copper company Oz Minerals Limited (OZL).



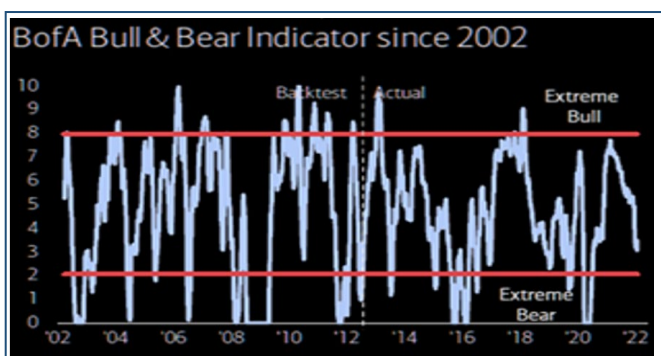
Source: MST Financial



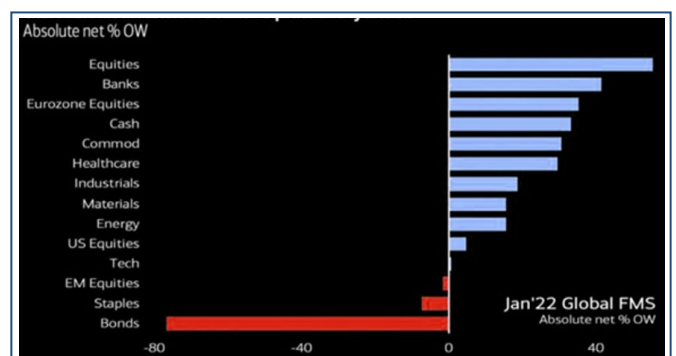
Source: MST Financial

## Sentiment

The historically extreme policy settings that have been in place for about a decade has caused conflicting signals in terms of sentiment and positioning. While consumers and investors are relatively cautious, the investment exposures are as extremely bullish probably due to TINA (There Is No Alternative). This could mean that a loss of confidence in the Fed Put and "whatever it takes" type support, could see investors flee. Contact's healthy cash position (~10%) sees us ready to take advantage of weakness while the Fund's quality is shown by a weighted average ROE of above 20% and superior to the market by over 700 bps.



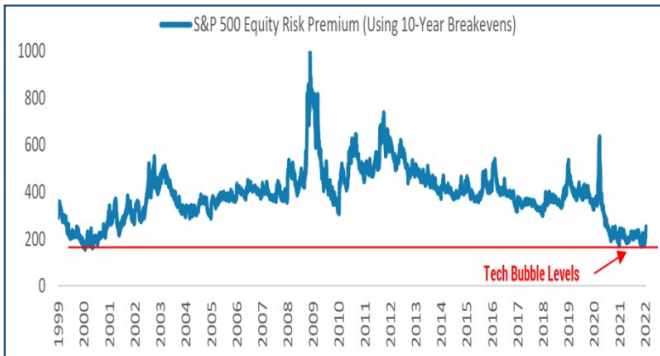
Source: Morgan Stanley



Source: Bank Of America

## Equity Risk Premium

Long term central bank suppression of interest rates has extended to volatility and its pricing. The US Equity Risk Premium (ERP) is at tech wreck levels. A more normal ERP level would imply further discount rate pressure (in addition to real yields and inflationary expectations) on valuations. We constantly review our Weighted Average Cost of Capital (WACC) assumptions to ensure conservative through the cycle valuations.



Source: Morgan Stanley



Source: Morgan Stanley

## Bond Yields

The recent move in bond yields has actually been driven by real yields (rather than inflationary expectations) which are still materially negative. The direct correlation with valuations suggests an ongoing process of resetting multiples and returns expectations with the historic experience being positive monthly returns when rates rise only ~50% of the time.



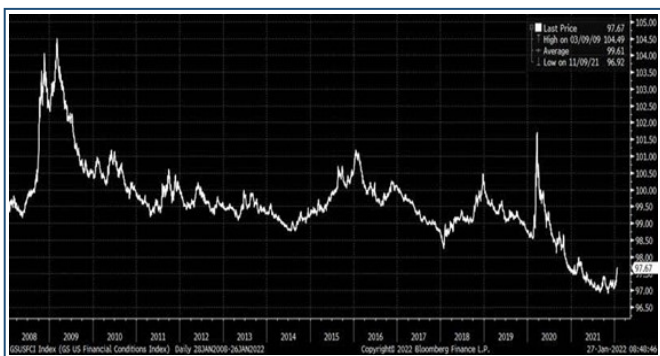
Source: Evans and Partners



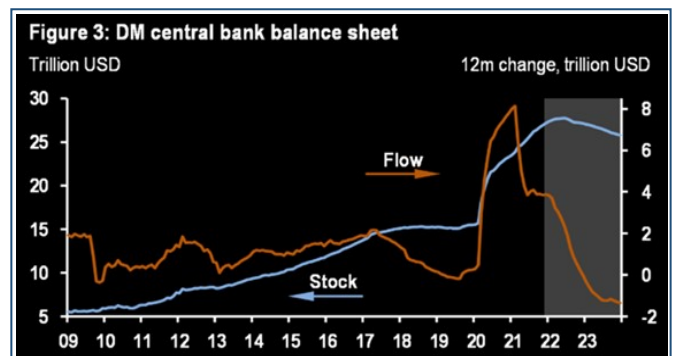
Source: Goldman Sachs

## Economic Outlook

The sustained one-dimensional policy approach has led to an environment where the most relevant central banks (the Fed and RBA) have capitulated on the “transitory” inflation narrative and telegraphed action, just as leading indicators of economic outlook threaten deterioration. The unwinding of unprecedented loose financial conditions (next left chart) will be sharp in flow terms. Global PMIs are rolling over as are economic surprises, which threatens the recent superior cyclical and commodities performance.

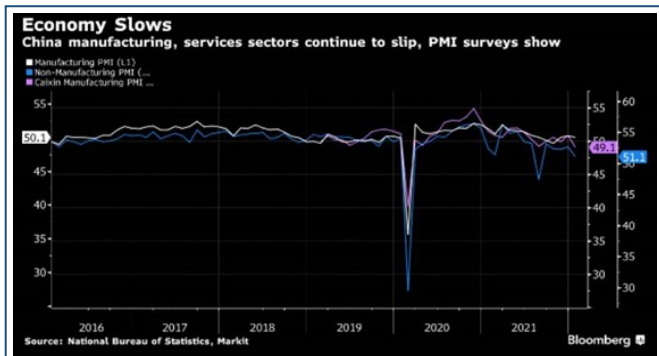


Source: Evans and Partners

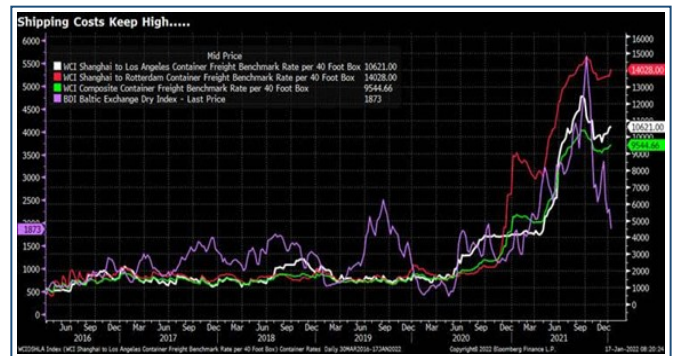


Source: Evans and Partners

Hope comes from China where activity is falling so acutely, the authorities have already taken action to stimulate credit and support the ailing property market. There are also some indications that supply chain constraints are easing.



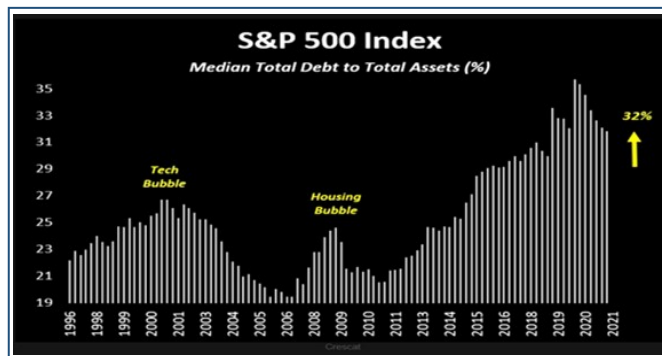
Source: Evans and Partners



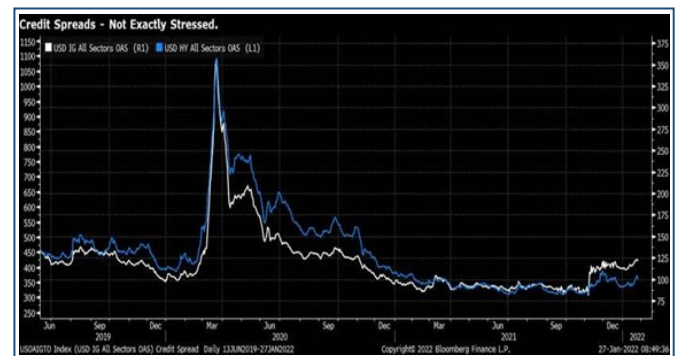
Source: Evans and Partners

### Debt

Although many of the largest local and global companies are financially strong and in some cases net cash, the intention of almost free credit has been successful in encouraging debt in niche and major markets. This means there is a meaningful cohort that will experience the above-mentioned pressures on underlying demand, costs and valuation, as well as their financial position. While the often studied credit spreads are yet to indicate stress, this is a critical metric for policy makers and investors. Our Portfolio Net Debt / EBITDA is ~30% stronger than the market.



Source: Evans and Partners



Source: Evans and Partners

Contact is very aware of the current macro debates. Our approach is to be conservative in terms of assumptions and forecasts based on the broader environment. The investment philosophy has a foundation of bottom-up focus on quality cash flow, management and valuation. The Ex50 Fund is strongly positioned from a valuation perspective, returns quality, financial strength and cash level ready for deployment.

With this substantial uncertainty, Contact’s Ex50 Fund is overwhelming invested based on bottom-up and often founder led stock specific theses.



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