

Contact Australian Ex-50 Fund

ARSN: 639 574 708 APiR Code: EVO4741AU

MONTHLY REPORT: JULY 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	30
NAV Unit Price	\$1.16
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 July 2022	1 Month	3 Months	1 Year	2 Years (p.a.)#	Since Inception (p.a.)#
Contact Australian Ex-50 Fund	6.6%	-9.3%	-12.5%	3.8%	9.0%
Targeted return of 10% per annum			10.0%	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 equities rallied hard in July following a very weak June quarter. The rise in equities was primarily a function of a decline in bond yields. Expectations for the peak in interest rate hikes has been pared back. Growth stocks outperformed as investors were willing to take on more risk. The Fund increased by 6.6%.

After extensive analysis of the Lithium sector, we added **IGO Limited (IGO)** and **Allkem Limited (AKE)** to the portfolio. Share price weakness in recent months piqued our interest, particularly given the industry's sustainable secular tailwinds. Demand from batteries in electric vehicles (EVs) due to lithium's uniquely valuable qualities, is expected to grow at a 20% CAGR through to 2030 reaching over 75% of total demand for the commodity. The environmental case provides security around long-term forecasts for consumption.

IGO owns 25% of the world's premier asset (Greenbushes in WA) and 49% of a downstream refinery. While earnings are to become more lithium dependent (~75%), the company is diversified across other commodities less leveraged to the EV dynamic being nickel and copper. A net cash position and strong cash flows (even if prices come off current levels) ensures growth capex and a dividend yield above 3% can be comfortably funded. AKE is more diversified within the lithium industry, producing multiple products using different extraction methods from locations domestically and in Argentina and Canada. The company also has a net cash balance sheet and is forecast to pay dividends starting in FY23.

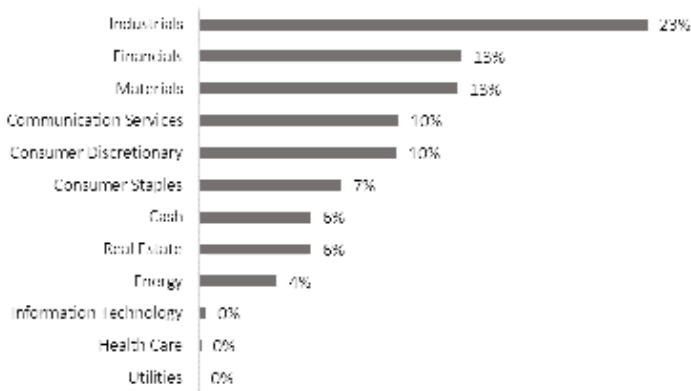
Reliance Worldwide (RWC), a plumbing products supplier, was also added to the portfolio. Its unique branded technology (mainly SharkBite) has allowed it to crack the massive Home Depot and Lowe's US distribution networks. It now boasts market share penetration of 80% in the push-to-connect plumbing niche. We are optimistic on further market growth, expansion into professional trades and leveraging new products.

Recent trading has been dominated by commodity input pressures (copper, resin and steel) which are being managed with recent price increases above 10%. Contact forecasts margins to fall marginally and remain below FY21 bumper levels. However, the company argues it is 70% exposed to less cyclical RMI (Repair, Maintenance, Improvement) markets, which should insulate it from volatility in new building activity. We consider the stock to be good value at a FY23 P/E multiple of 14 times.

In late July and early August, we exited holdings in Adairs Limited (ADH), Cedar Woods Properties (CWP), Orora Limited (ORA) and Readytech Holdings (RDY). At month end, the Fund held 30 small and mid-cap stocks. We believe this provides a favourable balance of concentration and liquidity.

Finally, we note that the unit price quoted above is now ex-distribution. The Fund paid a 3.8 cps distribution to unitholders in July.

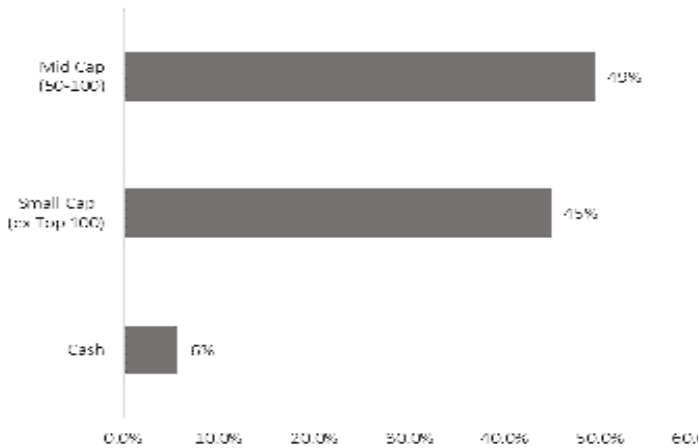
PORTFOLIO CHARACTERISTICS



TOP 10 POSITIONS

1	Metcash Limited
2	Harvey Norman Holdings
3	Nine Entertainment Company
4	IPH Limited
5	GQG Partners
6	Smartgroup Corporation
7	Deterra Royalties
8	Charter Hall Group
9	Ampol Limited
10	Netwealth Limited

CAPITALISATION EXPOSURE



QUALITY & VALUATION RATIOS OF THE PORTFOLIO

	The Fund
Return on Capital Employed	24.3%
Operating Margin	25.3%
EPS Growth (FY1e)	12.4%
P/E Ratio (FY1e)	13.0x
Historical Distribution Yield (FY22)	4.2%

Source: Factset, Contact Asset Management estimates. The Distribution Yield is based on FY22 distributions of 4.66 cpm and 30 June 2022 price of \$1.12

MONTHLY CONTRIBUTION TO ABSOLUTE RETURN

Company Name	Contribution	Company Name	Detraction
Harvey Norman Holdings	0.79%	Alliance Aviation Limited	-0.43%
Service Stream Limited	0.71%	Ampol Limited	-0.11%
Charter Hall Group	0.66%	Orora Limited	-0.09%
Nine Entertainment Company	0.66%	E&P Financial Group	-0.07%
Smartgroup Corporation	0.57%	GQG Partners Inc.	-0.06%

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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