

# Contact Australian Ex-50 Fund

ARSN: 639 574 708 | APIR Code: EVO4741AU

MONTHLY REPORT: OCTOBER 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   | 27                              |
| 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 October 2022   | 1 Month | 3 Months | 1 Year | 2 Years (p.a.)# | Since Inception (p.a.)# |
|----------------------------------|---------|----------|--------|-----------------|-------------------------|
| Contact Australian Ex-50 Fund    | 3.4%    | 0.2%     | -10.0% | 2.1%            | 8.2%                    |
| 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

Markets rallied in October as the intense focus on interest rates and real yields continued to dominate investor sentiment. A decline in bond yields was enough to provide valuation support for equities. Domestically, the RBA decision to slow the pace of interest rate increases was welcomed by investors.

The Australian market (as measured by the S&P/ASX 300 Accumulation Index) increased by 6.0% in September. The S&P/ASX Mid-cap 50 was strong, rising 7.1% and Small Ordinaries also rallied 6.5%. The Fund delivered a positive return yet lagged the market as Growth stocks outperformed Quality.

The Australian AGM season has commenced, as has the results from the major banks. While results have been solid, the tone of the outlook comments is one of caution.

We attended the two-day investor tour hosted by **Metcash Limited (MTS)** in Adelaide. We remain very positive on the outlook for MTS and the tour increased our conviction. Management communicated a clear and consistent strategy, which is focused on targeted and customised investment to build on recent market share gains. Approximately 90% of the IGA network is being upgraded, which is expected to deliver a 15% sales uplift by 2026. The goal is to replace Aldi as the #3 player by market share.

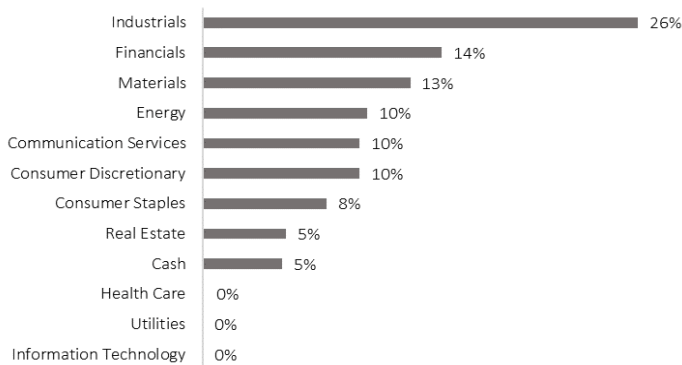
MTS hardware division is impressive. Mitre 10 has delivered double digit earnings growth over the past two years. The more recently acquired Total Tools business is filled with a huge range of leading

branded power tools. Management is confident that its rollout plans are sustainable notwithstanding the potential of a cyclical slowdown. All considered, we continue to believe that the large PE discount that MTS trades at relative to its major peers is unjustified. MTS is on a P/E of 13x and offers a grossed-up dividend yield comfortably above 7%.

**Bank of Queensland (BOQ)** delivered a solid FY22 result that was well received by the market resulting in earnings upgrades. The result was characterised by positive JAWs and improving Net Interest Margin. The Bank is also starting to deliver on the synergy benefits from the ME Bank acquisition. Management noted that while uncertainty remains given elevated inflation and rising interest rates, Australia remains well placed for continued economic recovery given the low unemployment, high household savings and strong business order books.

We added to our position in **Ampol Limited (ALD)** during October as we believe the price fall following the third quarter trading update offered a compelling buying opportunity. A trading loss in the Fuels and Infrastructure division shouldn't be extrapolated into the future. The key refining and convenience store divisions continue to perform well, and ALD has protection on refining margin volatility from the Government's Fuel Security Payment programme. ALD's valuation metrics are compelling with the stock trading on a single-digit P/E multiple, a Free Cash Flow yield of close to 10% and a dividend yield of 7% (before the benefit of franking credits). The company is expected to generate a Return on Invested Capital of approximately 20% in the coming year. We are optimistic on ALD's prospects.

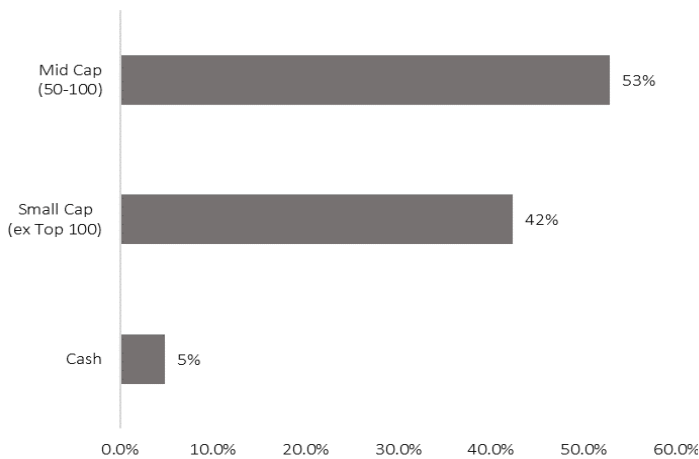
## PORTFOLIO CHARACTERISTICS



## TOP 10 POSITIONS

|    |                            |
|----|----------------------------|
| 1  | Metcash Limited            |
| 2  | Harvey Norman Holdings     |
| 3  | Nine Entertainment Company |
| 4  | Ampol Limited              |
| 5  | Whitehaven Coal            |
| 6  | Monadelphous Group         |
| 7  | Alliance Aviation          |
| 8  | IGO Limited                |
| 9  | IPH Limited                |
| 10 | Deterra Royalties          |

## CAPITALISATION EXPOSURE



## QUALITY & VALUATION RATIOS OF THE PORTFOLIO

|                                      | The Fund |
|--------------------------------------|----------|
| Return on Capital Employed           | 29.1%    |
| Operating Margin                     | 28.3%    |
| Expected EPS Growth (2 yr CAGR)      | 17.9%    |
| P/E Ratio (FY1e)                     | 11.1x    |
| Historical Distribution Yield (FY22) | 4.0%     |

Source: Factset, Contact Asset Management estimates. The Distribution Yield is based on FY22 distributions of 4.66 cpu and 31 October 2022 price of \$1.16

## MONTHLY CONTRIBUTION TO ABSOLUTE RETURN

| Company Name                | Contribution | Company Name                   | Detraction |
|-----------------------------|--------------|--------------------------------|------------|
| Nine Entertainment Holdings | 0.49%        | Ampol Limited                  | -0.22%     |
| IGO Limited                 | 0.47%        | E&P Financial Group            | -0.22%     |
| Charter Hall Group          | 0.46%        | OZ Minerals Limited            | -0.13%     |
| Bank of Queensland          | 0.44%        | Reliance Worldwide Corporation | -0.11%     |
| Harvey Norman Holdings      | 0.43%        | GQG Partners                   | -0.09%     |

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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