

Contact Australian Ex-50 Fund

ARSN: 639 574 708 APiR Code: EVO4741AU

MONTHLY REPORT: DECEMBER 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	26
NAV Unit Price	\$1.11 (ex-distribution)
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 2022	1 Month	3 Months	1 Year	2 Years (p.a.)#	Since Inception (p.a.)#
Contact Australian Ex-50 Fund	-4.6%	0.4%	-15.7%	-1.6%	6.6%
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 markets were directionless for much of December as investors attempt to determine where interest rates finally settle. The CPI print in the US didn't provide a lot of clarity either way. China relaxed several Covid measures, which led to a spike in Covid cases. Hence the euphoria of reopening was soon replaced by a large proportion of citizens too scared to venture outside.

The Australian market (as measured by the S&P/ASX 300 Accumulation Index) gave up some of the strong gains from November, pulling back 3.3% in December. As has been the story for much of 2022, large stocks outperformed small stocks. This is largely a function of the Large Resources carrying the market. The S&P/ASX Small Ords Index has given up the last 2 years of gains, closing down 18% in 2022 (when dividends are included). This is a large underperformance to the S&P/ASX Top 20, which increased by 3.6%.

Earnings expectations for FY23 have been pared back slightly by the market. Consensus expectations for FY23 EPS growth is now for slightly negative earnings growth. The P/E of the market seems reasonable at 15 times when compared to historical averages.

Metcash Limited (MTS), our largest holding, delivered a strong interim result, which was ahead of expectations. Sales increased by 8% and earnings per share by 21%. The interim dividend was more than 40% higher than this time last year. The IGA stores continue to build market share. As noted by management, the "increased preference for local neighbourhood shopping continues". The Hardware business performed well and continues to increase in importance.

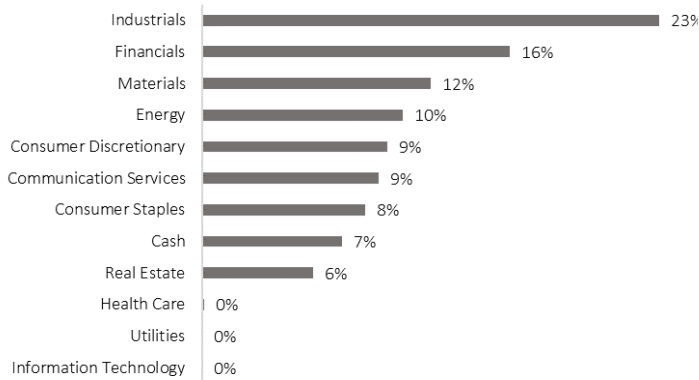
Cash flow was slightly weaker than expected, yet management explained that this was because of inflation and maintaining adequate inventory levels amid ongoing supply chain uncertainty. We remain optimistic on the MTS investment case and struggle to comprehend the enormous PE discount to Coles, Woolworths and Wesfarmers.

Nine Entertainment (NEC) underperformed during the month following the downgrade to earnings expectations from Domain Group (DHG). NEC owns 60.1% of DHG and in FY22, it accounted for c.15% of NEC earnings. DHG noted that the property market remained challenging in the final quarter of 2022, which should not be a surprise. While this news will create some headwinds for the broader NEC group, we think this is more than reflected in the current NEC share price. The P/E multiple, dividend yield and Free Cash flow yield all look very compelling in our view.

We exited the position in **Monadelphous Group (MND)** in December, having done well from the investment. Our research suggests that ongoing challenges with labour costs and weather could negatively impact MND earnings. This has been the case for many of MNDs peers. Given the headwinds, we struggled to justify a P/E multiple of 22 times earnings.

The Fund will pay a semi-annual cash distribution of 1.81 cents in January. We are satisfied with the distribution yield being provided to our co-investors. We are advocates of dividend growth investing and believe that a sustainable dividend is a characteristic of a quality business.

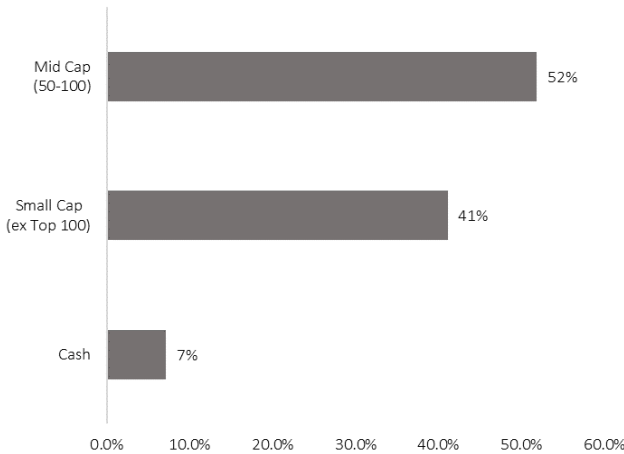
PORTFOLIO CHARACTERISTICS



TOP 10 POSITIONS

1	Metcash Limited
2	Harvey Norman Holdings
3	Ampol Limited
4	Deterra Royalties
5	Whitehaven Coal
6	Nine Entertainment Company
7	Charter Hall Group
8	Smartgroup Limited
9	Alliance Aviation Limited
10	Netwealth Group

CAPITALISATION EXPOSURE



QUALITY & VALUATION RATIOS OF THE PORTFOLIO

	The Fund
Return on Capital Employed	24.5%
Operating Margin	29.3%
Expected EPS Growth (2 yr CAGR)	-3.6%
P/E Ratio (FY1e)	12.2x
Historical Distribution Yield (FY22)	4.2%

Source: Factset, Contact Asset Management estimates. The Distribution Yield is based on FY22 distributions of 4.66 cpu and 30 December 2022 price of \$1.11

MONTHLY CONTRIBUTION TO ABSOLUTE RETURN

Company Name	Contribution	Company Name	Detraction
Smartgroup Corporation	0.22%	Nine Entertainment	-0.65%
Alliance Aviation	0.17%	Charter Hall Group	-0.58%
Kelsian Group	0.14%	Allkem Limited	-0.57%
Service Stream	-0.02%	Netwealth Limited	-0.55%
Hub24 Limited	-0.04%	IGO Limited	-0.53%

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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