

Contact Australian Ex-50 Fund

ARSN: 639 574 708 | APIR Code: EVO4741AU

MONTHLY REPORT: FEBRUARY 2023



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	\$1.16
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 28 February 2023	1 Month	3 Months	1 Year	2 Years (p.a.)#	Since Inception (p.a.)#
Contact Australian Ex-50 Fund	-0.7%	0.2%	-5.3%	2.0%	8.0%
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

The Fund performed well versus the Australian market as investors focused on fundamentals during the February Reporting Season. Quality prevailed. While the Ex-50 Fund declined by 0.7% in a very volatile month, it was pleasing to see significant outperformance of both the S&P/ASX Small Ordinaries Accumulation Index (down 3.7%) and the S&P/ASX Midcap 50 Accumulation Index (down 3.2%).

Reporting Season is always an interesting time for bottom-up stock pickers such as Contact Asset Management. Our investment approach involves a robust process whereby we analyse the individual qualitative and quantitative characteristics of companies. At a high level, we noted consistent themes from company results: tight labour supply, rising interest expense, a cautious consumer and ongoing inflation. Top line momentum was strong; however, this was primarily driven by pricing increases rather than volume growth. Companies with limited pricing power were treated harshly by the market. Despite the cautious tone that has set into market sentiment, there were several pleasing results that give us cause for optimism.

After enduring challenging operating conditions over the past two years, **Smartgroup Corporation's (SIQ)** operating momentum is improving. Novated leasing leads have been buoyant while supply chain pressures on vehicle availability are only just beginning to abate. As the environment normalises, we expect sales to improve (as orders are converted) and costs to drop (as redundant service expenses are removed) at a better-than-expected trajectory. Growth in EVs is an unappreciated additional boost to activity as are benefits from the

recent investment in digital platforms. **SIQ** has a strong Balance Sheet with near zero debt forecast. The better-than-expected dividend highlights management's confidence in the outlook. A forward-looking P/E of 11-12 times suggests excellent value in Contact's opinion.

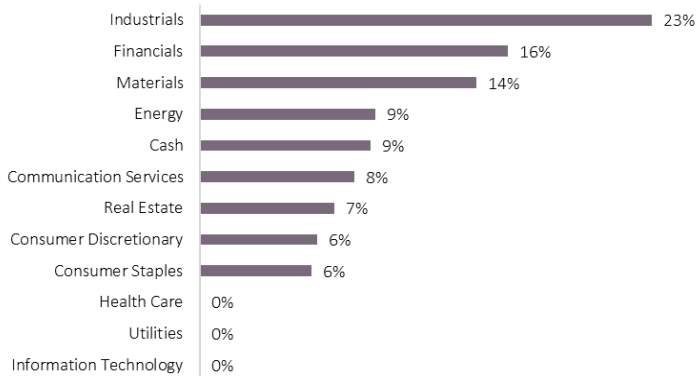
As noted last month, both **Hub24 (HUB)** and **Netwealth (NWL)** are beneficiaries of rising interest rates, which lifted margins on cash balances. Market share gains from the incumbents continues.

We added **Flight Centre (FLT)** to the portfolio recently. Strong momentum is emerging in the corporate business, which now accounts for over 50% of earnings. Leisure is also recovering, yet still has upside with Australian arrivals at c70% pre-Covid levels. The resumption of Chinese tourism will help drive growth. FLT's Balance Sheet is in a sound position following the recent raising. We expect this founder-led business to return to dividend payments next financial year.

Kelsian Group (KLS) was another investment that delivered a pleasing result. The earnings stream from the buses business is particularly resilient and has inflation protection mechanisms in place, which are valuable in the current climate. Similar to FLT, KLS noted strong forward bookings in Marine & Tourism, with scope for further price increases.

We continue to believe that the Portfolio is well positioned, with attractive Fund metrics offering an enviable combination of Quality, Value and Growth. We seek to deliver a long-term return of 10% p.a. through a disciplined investment process that avoids unprofitable and high-risk companies.

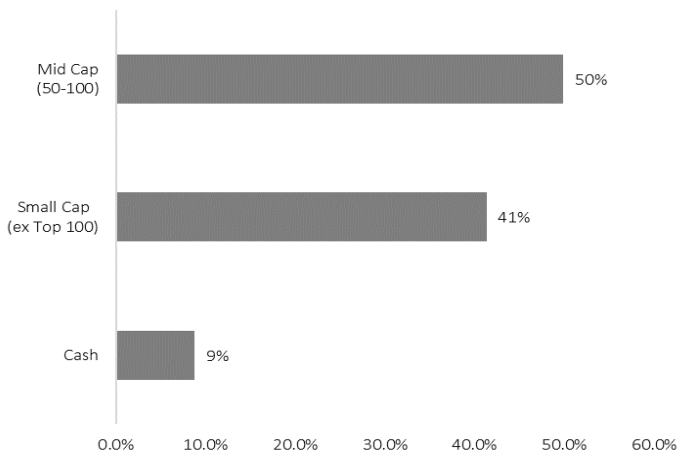
PORTFOLIO CHARACTERISTICS



TOP 10 POSITIONS

1	Metcash Limited
2	Ampol Limited
3	IGO Limited
4	HUB24 Limited
5	Deterra Royalties
6	Alliance Aviation Limited
7	Smartgroup Limited
8	IPH Limited
9	Whitehaven Coal Limited
10	Charter Hall Group

CAPITALISATION EXPOSURE



QUALITY & VALUATION RATIOS OF THE PORTFOLIO

	The Fund
Return on Capital Employed	27.4%
Operating Margin	28.1%
Expected EPS Growth (3 yr CAGR)	11.9%
P/E Ratio (FY1e)	12.0x
Historical Distribution Yield*	4.8%

Source: Factset, Contact Asset Management estimates. * The Distribution Yield is based on June 2022 and December 2022 distributions totalling 5.64 cpu 28 February 2023 price of \$1.162

MONTHLY CONTRIBUTION TO ABSOLUTE RETURN

Company Name	Contribution	Company Name	Detraction
Smartgroup Corporation	0.38%	Harvey Norman Holdings	-0.70%
Ampol Limited	0.35%	Whitehaven Coal	-0.42%
Kelsian Group	0.31%	Allkem Limited	-0.34%
Service Stream Limited	0.29%	IGO Limited	-0.34%
HUB24 Limited	0.27%	Deterra Royalties Limited	-0.26%

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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