

# Contact Australian Ex-50 Fund

ARSN: 639 574 708 APiR Code: EVO4741AU

MONTHLY REPORT: JULY 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	28
NAV Unit Price	\$1.20
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 2023	1 Month	3 Months	1 Year	3 Years (p.a.)#	Since Inception (p.a.)#
Contact Australian Ex-50 Fund	4.9%	5.9%	7.7%	5.1%	8.7%
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 Contact Australian Ex-50 Fund gained 4.9% in July. This was a pleasing performance against both the S&P/ASX Small Ordinaries Index (+3.6%) and the S&P/ASX Mid-cap 50 Accumulation Index (+4.4%). The Fund has performed particularly well over the past six months as many quality businesses have reiterated or increased their earnings guidance. We believe that we are in a stock pickers market and that a focus on quality companies remains the most sensible strategy.

Global markets moved higher across the board in July. The consensus view now seems to expect that we are very close to the peak in interest rates. Indeed, we may already be there given the moderation in the rate of growth in inflation. The Reserve Bank of Australia seems eager to take a "wait and see" approach in the near term and monitor consumer behaviour and the unemployment rate.

We added **Redox Limited (RDX)** to the portfolio in early July as the company listed on the ASX. Redox is a traditional Industrial company – it is a leading supplier of chemicals, ingredients and raw materials to a myriad of industries. It was established in 1965 and is still managed by the founding Coneliano family, which owns 46% of the listed company. RDX generates a high proportion of recurring revenue, strong returns on capital and has significant growth opportunities via market share gains. Over time, we expect RDX to generate steady EPS growth and offer a compelling dividend yield. The IPO was priced just under 14x P/E multiple, which we considered attractive.

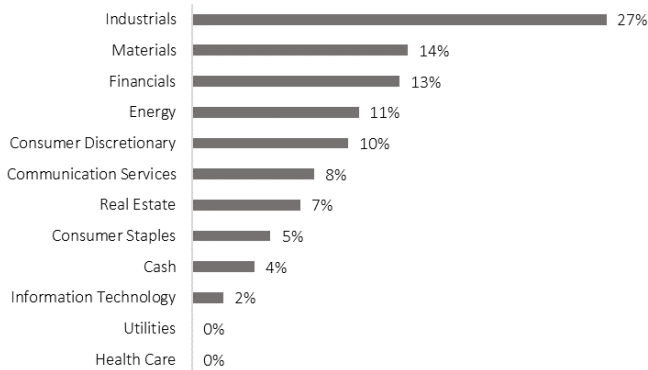
We wrote about **Flight Centre (FLT)** last month and the stock was a standout performer in July, increasing by 23%. The company increased

its profit guidance for FY23 by approximately 10% at the EBITDA level. Founder and managing Director, Graham Turner said: "Overall, we are pleased with our continued recover as demand has generally rebounded solidly across both our leisure and corporate travel businesses."

**Alliance Aviation Limited (AQZ)** also generated strong returns in July following an increase in its profit outlook, which surpassed market expectations. The AQZ announcement suggests that earnings will be almost 15% better than expected. It also disclosed the acquisition of four additional E190 aircraft to satisfy increasing demand. The second-half profit upgrade indicates increased wet lease flight hours from additional capacity and higher utilisation. AQZ has invested heavily in expanding its fleet in recent years. As demand increases, we believe that the company is well positioned to drive solid earnings growth. There is also corporate activity bubbling away in the background, with a potential takeover by Qantas. The ACCC has expressed concern on competition grounds, however if the deal does progress, there is likely to be a material AQZ share price increase based on the current bid of \$4.75.

**GQG Partners (MTS)** also delivered a strong update regarding both its Funds Under Management growth and investment performance. Unlike many peers, GQG continues to generate solid net inflows, yet it is being priced by the market as a business in decline. We remain positive on the outlook for GQG and are backing the founder-led management team.

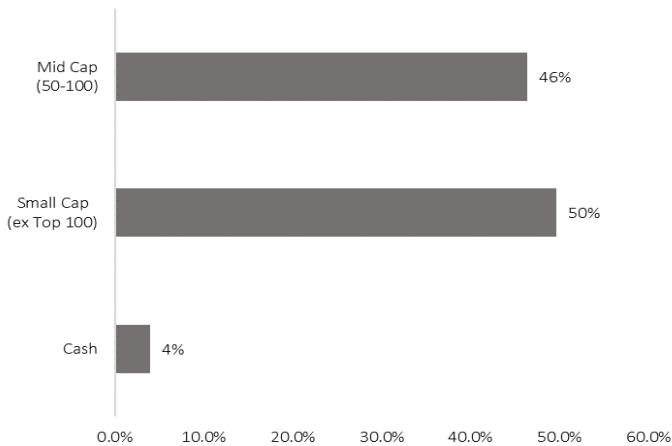
## PORTFOLIO CHARACTERISTICS



## TOP 10 POSITIONS

1	Ampol Limited
2	Deterra Royalties Limited
3	IPH Limited
4	Metcash Limited
5	Whitehaven Coal Limited
6	GQG Partners
7	HUB24 Limited
8	Alliance Aviation Limited
9	IGO Limited
10	Flight Centre Travel Group

## CAPITALISATION EXPOSURE



## QUALITY & VALUATION RATIOS OF THE PORTFOLIO

	The Fund
Return on Capital Employed	28.8%
Operating Margin	26.6%
Expected EPS Growth (3 yr CAGR)	4.2%
P/E Ratio (FY1e)	12.4x
Historical Net Distribution Yield*	2.8%

Source: Factset, Contact Asset Management estimates. \* The Distribution Yield is based on December 2022 and June 2023 distributions totalling 3.42 cpu and 31 July 2023 price of \$1.2049

## MONTHLY CONTRIBUTION TO ABSOLUTE RETURN

Company Name	Contribution	Company Name	Detraction
Flight Centre Travel Group	0.76%	Redox Limited	-0.43%
GQG Partners	0.74%	IGO Limited	-0.41%
Alliance Aviation Limited	0.55%	PSG Insuranc Group	-0.26%
Ampol Limited	0.54%	Allkem Limited	-0.19%
Smartgroup Corporation	0.49%	Kelsian Group	-0.14%

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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