

Contact Australian Ex-50 Fund

ARSN: 639 574 708 APiR Code: EVO4741AU

MONTHLY REPORT: JUNE 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	\$1.17
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 30 June 2023	1 Month	3 Months	1 Year	3 Years (p.a.)#	Since Inception (p.a.)#
Contact Australian Ex-50 Fund	3.0%	3.2%	9.4%	3.8%	7.3%
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 Australian market (as measured by the S&P/ASX 300 Accumulation Index) increased by 1.7% in June. As has been the case for some time, large caps outperformed small caps. The S&P/ASX 20 increased by 2.3%. The S&P/ASX Small Ordinaries Index was flat. By comparison, the Fund delivered a pleasing 3.0% return for the month.

Given the barrage of negative commentary over the past twelve months, some readers will be surprised by the returns generated by equities markets over fiscal 2023. Notwithstanding an environment of high inflation, a war in Ukraine, wage pressures, slowing earnings growth and unprecedented pace of interest rate rises, the market pushed higher. Quite a bit higher. The S&P/ASX 300 Accumulation Index generated a very robust 14.4% return for the year, yet the Small Ordinaries lagged, delivering 8.4%. The Fund return was 9.4%. The past six months was particularly solid, with a 5.5% return for the Fund against the S&P/ASX Small Ordinaries (+1.3%) and the S&P/ASX Midcap 50 Index (+4.6%). We put this down to a focus on Quality and Valuation.

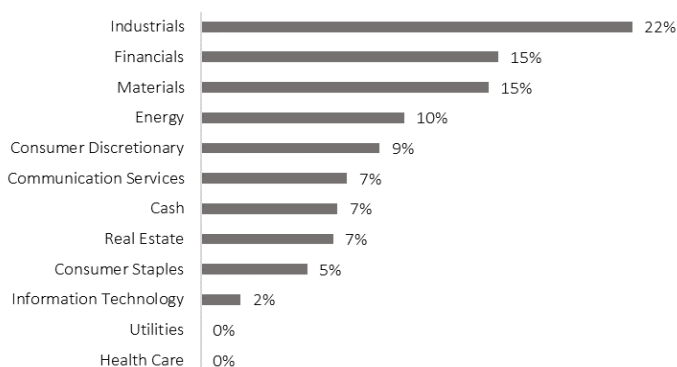
Metcash Limited (MTS) delivered a solid FY23 result that was ahead of expectations. All pillars (Food, Liquor and Hardware) continued to perform well, with a notably strong performance from the Total Tools business. Revenue increased almost 6% and EBIT up 8% to record levels. The Result Presentation and subsequent Management meeting highlighted the gains that have been made by MTS over the past three years. MTS is now a larger, more diversified and stronger business, which has grown EBIT by 50% (aided by Hardware M&A). Underlying EPS has increased by >40% and Group ROFE exceeds 30%. As we've

been saying for some time, we find it difficult to comprehend why MTS continues to trade at such a stark PE multiple discount to Coles, Woolworths and Wesfarmers. MTS remains one of our highest conviction positions in the portfolio.

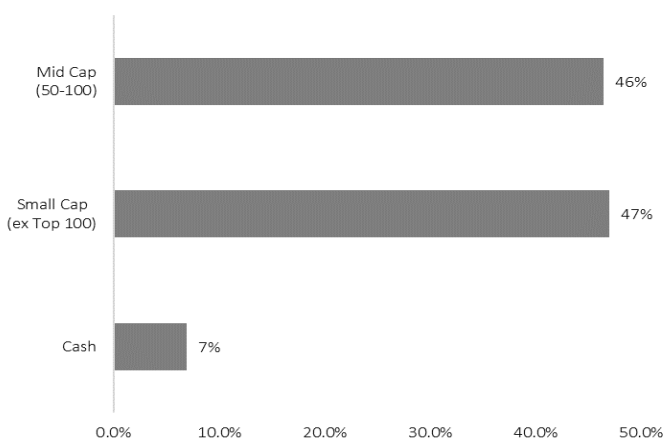
Harvey Norman (HVN) updated the market regarding its expected full-year results, signalling a big dent in profit when compared to FY22. This is not a surprise after the Covid super profits. The guidance suggests that FY23 will be lower than FY22 by 12% (best case) and 20% (worst case). This is not as bad as feared and the stock has traded higher since the announcement. While near-term earnings growth is likely to be challenging given pressure on the consumer, we believe the stock continues to represent excellent value. The property assets are significant at c.\$4 billion and underpins the HVN investment case.

We added **Flight Centre Travel (FLT)** to the portfolio earlier in the year and the stock has performed well as travel markets recover. FLT hosted a briefing in June to educate investors on its Leisure business. The update was broadly positive with management noting that the operating environment is recovering but not yet back to pre-Covid levels. FLT has rationalised its store footprint and is focused on an omni-channel offering. It sees a significant opportunity in the Luxury space. Of interest, the average FLT customer is 60 years old, many customers are mortgage free and have had a pay rise in a rising interest rate environment. The eagerness to travel is a tailwind. While some investors had hoped for a short-term guidance upgrade, the briefing highlighted that the FLT turnaround still has momentum.

PORTFOLIO CHARACTERISTICS



CAPITALISATION EXPOSURE



TOP 10 POSITIONS

1	Ampol Limited
2	Metcash Limited
3	IPH Limited
4	Deterra Royalties Limited
5	Whitehaven Coal Limited
6	IGO Limited
7	HUB24 Limited
8	GQG Partners
9	Alliance Aviation Limited
10	Nine Entertainment Company

QUALITY & VALUATION RATIOS OF THE PORTFOLIO

	The Fund
Return on Capital Employed	29.3%
Operating Margin	28.1%
Expected EPS Growth (3 yr CAGR)	2.9%
P/E Ratio (FY1e)	12.7x
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 30 June 2023 price of \$1.167

MONTHLY CONTRIBUTION TO ABSOLUTE RETURN

Company Name	Contribution	Company Name	Detraction
Service Stream Limited	0.82%	Alliance Aviation	-0.37%
Whitehaven Coal Limited	0.78%	Flight Centre Travel Group	-0.36%
Smartgroup Corporation	0.42%	Ampol Limited	-0.28%
Metcash Limited	0.31%	TPG Telecom Limited	-0.15%
GQG Partners	0.30%	Reliance Worldwide Corporation	-0.08%

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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