ELEY GRIFFITHS GROUP

TO OUR UNIT HOLDERS

Our Fund's Performance (after fees) to 31 December 2019

Returns post fees	1 Month	1 Year	2 Years p.a	3 Years p.a.	5 years p.a.	10 years p.a.	Inception* p.a.
EGG Small Companies Fund	+0.69%	+21.36%	+7.43%	+10.43%	+11.98%	+8.62%	+11.20%
S&P/ASX Small Ord Accumulation Index (XSOAI)	-0.29%	+21.36%	+5.28%	+9.98%	+10.65%	+4.13%	+6.50%
Outperformance	**+0.97%**	**0.00%**	**+2.15%**	**+0.45%**	**+1.33%**	**+4.49%**	**+4.70%**

Returns post fees	1 Month	3 Months	6 months	1 Year	2 years p.a.	Inception* p.a.
EGG Emerging Companies Fund	+3.98%	+4.74%	+14.12%	+34.70%	+17.07%	+23.67%
S&P/ASX Small Ord Accumulation Index (XSOAI)	-0.28%	+0.76%	+3.89%	+21.36%	+5.28%	+11.05%
Outperformance	**+4.26%**	**+3.98%**	**+10.22%**	**+13.34%**	**+11.79%**	**+12.61%**

Market Review & Strategy

The Small Ordinaries Accumulation Index delivered a saw-tooth performance through the fourth quarter managing to perform in line with ASX100 names by period end. For the year, Smalls posted a 21.4% return versus big caps +24.1%. Cyclical names, such as construction materials and mining services, companies enjoyed solid investor support during the quarter, as did a number of information technology names.

The quarter was notable for a number of earnings downgrades, many coincident with AGM's held during the period. **Bega Cheese** and **Sims Metal** issued profit warnings subsequent to outlooks previously revised lower at the time of their FY19 results. Fallen angels, **Costa Group** and **Speedcast,** downgraded numbers and incurred immediate investor indignation. **Southern Cross Broadcasting, Jumbo Interactive, Viva Energy, G8 and AP Eagers** also had grounds to reset earnings expectations for FY20.

Arguably the most redeeming feature of the quarter was how circumspect investors had become towards primary and secondary equity raisings slated for December quarter. Seemingly linked to WeWork's failed IPO and the ongoing struggle that Uber has had transitioning to a listed company investors adopted a more hard-nosed appraisal of new deals. Old fashioned yardsticks like valuations, track records, motive for listing and degree of 'spruik-factor' suddenly came into investor's consideration and the IPO death toll began to mount as deals were rejected. **Latitude Financial** (second IPO attempt), **FunLab, Property Guru, Retail Zoo, Education Centres of Australia, OnSite** and **Xynapse** spring to mind. Meanwhile, a raft of well reasoned deals from companies well known to investors successfully raised fresh capital including **Saracen** (~$800m), **Sealink** ($154m) and **Karoon** ($284m) to name a few. Mention needs to be made of one IPO that came to market in the midst of the maelstrom with a well thought out offering, from a company with a long track record and a 'sleeves-rolled up' management team at a not unreasonable valuation. The company is **Tyro Payments** and investor interest during and after the IPO has been extraordinary.

As a reminder, we are very selective when it comes to IPO's and typically look to establish significant positions when an IPO scores well in our investment process. After in depth analysis and numerous private industry meetings, the team established enough conviction on the future prospects of Tyro to seek early engagement in the IPO process. This helped secure a scarce cornerstone allocation and establish EGG as a top 5 institutional investor.

Takeover bids were received for **Panoramic Resources**, **National Vet Care** and **Village Roadshow** during the period in review.

From the field in the December quarter, EGG analysts can report on visits to both the US and China. Meetings with US economic commentators, market strategists and Australian small companies revolved around the trade war, yield curve and the health of the US economy looking out 12 months.

A soft-landing or mid cycle slowdown scenario was considered most likely with a recession trigger requiring: 1. An exhausted consumer, 2. a deterioration in credit markets and 3. A m-o-m rise (over 3 mo) in the initial (unemployment) claims figures. None of which are evident at present.

In China, an exhaustive list of observations from a number of meetings but key messages include: 1. The Chinese economy tracks worse in the very short term before it improves through 2020 with loosening liquidity/funding, 2. Key to any recovery will be fiscal policy initiatives incentivising infrastructure and property investment, 3. Auto (incl EV) to slowly recover but not without industry rationalisation and 4. The Chinese consumer has quietened for myriad reasons and a return to health is expected but at a steady pace.

Technical Summary

Stocks

The momentum with which the US stockmarket charged through 2019 has been nothing short of astonishing. A retracement through July-August allowed a period of consolidation in stock prices ahead of the rapid ascent from early October till current. A succession of new daily highs were achieved through a lens of investor apathy, trade wars and a presidential impeachment. Markets can climb a wall of worry after all. The current price action has distinct shades of blow-off about it. It's hard to argue otherwise. The advance continues to be focussed on S&P100 names with small caps caught in the dust. The Nasdaq is the real star, with semi conductors advancing at warp speed.

So, in summary, price is relatively balanced with time (bullish), indicators are overbought but shy of extreme settings (constructive), investor surveys are moderately bullish and equity ETF flows are rallying significantly. The performance of a number of US indices is starting to look euphoric but curiously no indications of fatigue are present. It's hard to step off this train just yet.

Locally, the **ASX 200** achieved all time highs in November, rejected them and again in December before a sustained move in the early days of January swept the index to new levels for the first time since November 2007. The benchmark's uptrend channel continues intact from its origins in February 2016. Investors should heed the call in the *September Quarter Encyclical* to stay long Aussie stocks. Fibonacci disciples should take note of the following natural resistance levels for the ASX200 (based on the measured move from 2007 November highs to the March 2009 low): **8277** (1.382), **8718** (1.5) and **9158** (1.618).

The **ASX Small Ordinaries Index** is finally doing the heavy lifting required to validate its bullish break on long term charts. Small industrial names continue to look unstoppable whereas the small resources index looks languorous with only the slightest interest in being a part of the small ordinaries advance. The investment line (aka the 100 dma) is trending positively which will keep investors long this space. The **ASX Emerging Companies Index** has been in melt up and the most recent move in prices neatly validates a break of the downtrend in place since 2007.

Gold/Currencies

Gold continues to look attractive and squarely on uptrend from September 2005. Completion of this cycle should ultimately see a test of the 2011 high of $1921 but the Fibonacci 61.8% level of $1588/oz is an important next level to take note of. Traders remain very long but curiously no further extended than the ratio of longs to shorts observed in early October 2019, according to the CFTC. Both US-listed, Van Eck Gold ETF's are setting up for further upside gains.

The **US Dollar Index** (DXY) continues to take on water, as long liquidation takes its toll on the unit. The CFTC reported non-commercial longs to shorts of 5.5:1 at the end of October with this number now a snug 2:1. Price action shows fading momentum with lower highs and lower lows highlighting the unfolding down trend. Support at 96 will be critical here.

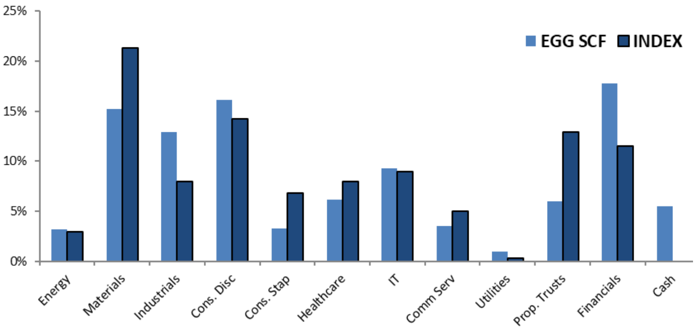
The **Australian dollar** is trying to bottom out but having shorts to longs of 1.5:1 is unlikely to sponsor a significant short covering rally in the short term.

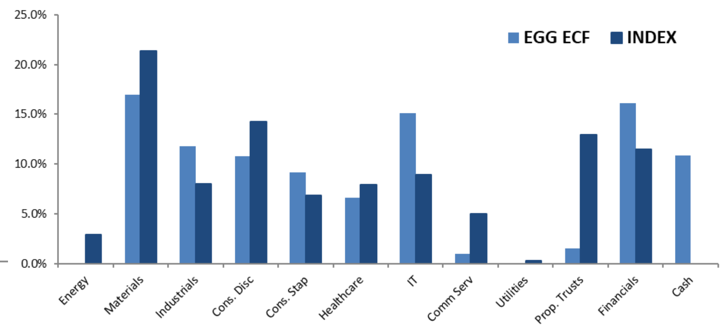
Oil

It is hard to get enthused about crude given it is well outside of its uptrend channel and its rally to $72/bbl was spectacularly checked and reversed in short order in the early days of January. This poor price action not only signified a failed return move to trend but marked a key reversal week for the commodity in early January. Both ominous signs for traders. Surprising to your scribe is that WTI remains very long with non-commercial longs to shorts at 8.8:1. A relief rally here seems implausible given market positioning at present.

The Portfolio

Sector Allocation





During the December quarter, our Small Companies Fund (SCF) enjoyed rallies from **IMF Bentham**, **NRW Holdings** and **Chorus**. Our positions in **SmartGroup Corporation** and **AP Eagers** detracted from performance. In the Emerging Companies Fund (ECF), positions in **Napier Port Holdings**, **Australian Finance Group** and **Megaport** contributed to the portfolio. **Mosaic Brands** and **Mastermyne Group** detracted from performance during the period.

One or both EGG funds held the following stocks during the quarter and changes may have been made to portfolio positioning.

Both funds benefited from a cornerstone allocation in the **Tyro Payments** IPO (as referenced above), with the stock rallying 28% during December. Tyro is a provider of card payment solutions for merchants for both in-store and on line commerce. The company has been winning market share from the 4 major banks over its 17 years of operation and today speaks for over 30000 merchants in 3 key industry verticals (retail, hospitality and health). The value proposition centres around doubling market share (from 10% to 20%), expansion into new verticals and enjoying the benefits of operating leverage as the business scales.

IMF Bentham remains a significant investment for the small companies fund. The group merged with UK-based Omni Bridgeway in November 2019 to become a leader in litigation funding, enforcement and recovery to plaintiffs, legal practices and corporations. IMF received a favourable ruling in the Brisbane flood class action in December, an investment they have been co-funding with fellow litigation funder, Innsworth. This is a major de-risking event for the company and the precise investment return to be realised will be known at some point in the future. The stock rallied 29% in December and was trading at historic highs at the time of writing.

A position in **Kathmandu** was initiated during the quarter. EGG analysts have been impressed with the group's stewardship under CEO Simonet and the impressive performance of footwear brand Oboz (acquired in March 2018). It appears that investors are onside with the company's tilt at surf brand Rip Curl. The $350m acquisition will give the group seasonal diversification, sourcing/network efficiencies and greater opportunities to wholesale the Kathmandu brand into international retailers. A recent B-Corp certification (the gold standard for corporate social/environmental performance) for Kathmandu should prove invaluable for customer cognizance as was the case for Patagonia and logically Rip Curl at some point in the future. Priced at ~ 12x for 10% epsg (average next two years) the market seems to be taking an overly conservative view of this emerging house of brands.

Our position in **Cleanaway** (now in the ASX100) was quit from the portfolio during the quarter. Having amassed a holding in the company from late 2016, the stock's history of outperformance began to flag post its August result downgrade and further impacted by a subsequent revision announced at its October AGM. The most recent update guided to a flat earnings outlook in H120 through a combination of lower volumes (esp in Qld) and commodity prices as well as a slower than expected realisation of Tox synergies/cost outs. That said, structural trends remain positive for the group with likely shifts in public policy and regulation being in the industry's favour. Trading on a ~ 27x forecast PE requires a confident earnings outlook and investors have justifiably become a little timorous post downgrade no 2.

EGG exited its position in **Helloworld** during the three months through the end of December. Despite a resilient Q1 trading update in the face of a tougher consumer environment, downgrades from **Flight Centre** and heedful commentary from **Webjet**, our confidence in the company's organic top-line growth for FY20 had been wavering. The company has executed its cost-out strategy masterfully in recent years but our concerns focussed on the challenges of growing incremental margins from present levels without a supportive TTV tailwind.

Your manager accepted the $3.85 per share takeover bid for it's holding in **GBST** from suitor, the FNZ Group**.**

Quarterly Attribution – Top 5

Code	SCF Stock	Sector
AQG	Alacer Gold Corporation Ltd	Materials
CNU	Chorus Ltd	Communication Services
IMF	IMF Bentham Limited	Financials
NWH	NRW Holdings Ltd	Industrials
SLR	Silver Lake Resources Ltd	Materials

Code	ECF Stock	Sector
AFG	Australian Finance Group Ltd	Financials
MP1	Megaport Ltd	Information Technology
NPH.NZ	Napier Port Holdings Ltd	Industrials
SLR	Silver Lake Resources Ltd	Materials
TPW	Temple & Webster Group Ltd	Consumer Discretionary

** In alphabetical order*

Outlook

'Tamed Optimism' is how Bloomberg framed their 2020 survey of Wall Street practitioners. It seems strategists are the least bullish on the S&P500 in 15 years, expecting an average 4.3% advance in the benchmark. Customarily these savants shoot for ~ 10% in any given year.

A number of elements are higher this year versus last - the starting point for the index being one thing. Consensus US EPS growth estimates are ~ 9% compared to 0-3% this time last year. Valuations are appreciably higher as well. Jonathan Pain in his excellent *The Weekly Pain Report* highlights the Price/Sales ratio for the S&P500 being higher than the nosebleed levels of 2000.

It is easy to curate a bear case for equities but remember it is never valuation that derails a bull market, rather it is some form of catalyzing event that draws on valuation as the fuel for the retracement.

Goldman Sachs Sentiment Indicator suggests moderate but not stretched stock positions across retail, institutional and foreign investors. Their proprietary Financial Conditions Indicator continues to loosen as well. Add to the cocktail a generous equity risk premium, normal/benign credit markets and a manic search for yield and investors can be talked back off the ledge.

Locally, the broad measure of the Australian sharemarket, the S&P/ASX200, is posting new highs every other day, propelled by low cash rates, an improving global growth outlook and the reality that equities are now the default asset allocation for investors craving meaningful returns.

The market apophthegm is that traders should buy new highs and sell new lows. The imminent reporting season will be good test of the virility of the market's bid at 7064.13 . Meanwhile, we continue to be bullish.

ELEY GRIFFITHS GROUP

Eley Griffiths Group Ratings

Small Companies Fund			
Zenith	Recommended	2nd Highest Rating	February 2019
Lonsec	Recommended	2nd Highest Rating	February 2019
Emerging Companies Fund			
Lonsec	Highly Recommended	Highest Rating	February 2019
Zenith	Recommended	2nd Highest Rating	February 2019

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