ELEY GRIFFITHS GROUP

TO OUR UNIT HOLDERS

Our Fund's Performance (after fees) to 30 June 2020

Returns post fees	1 Month	3 Months	1 Year	3 Years p.a.	5 years p.a.	10 years p.a.	Inception* p.a.
EGG Small Companies Fund	0.40%	20.35%	-7.11%	7.69%	8.38%	8.26%	10.11%
S&P/ASX Small Ord Accumulation Index (XSOAI)	-1.95%	23.90%	-5.67%	6.10%	7.90%	4.57%	5.69%
Outperformance	**+2.35%**	**-3.55%**	**-1.44%**	**+1.59%**	**+0.49%**	**+3.69%**	**+4.42%**

Returns post fees	1 Month	3 Month	6 Months	1 Year	2 years p.a.	3 years p.a.	Inception* p.a.
EGG Emerging Companies Fund	3.42%	30.12%	-6.99%	6.15%	7.11%	17.63%	17.22%
S&P/ASX Small Ord Accumulation Index (XSOAI)	-1.95%	23.90%	-9.21%	-5.67%	-1.95%	6.11%	6.20%
Outperformance	**+5.37%**	**+6.21%**	**+2.22%**	**+11.82%**	**+9.05%**	**+11.52%**	**+11.02%**

Market Review & Strategy

It would be hard to dream up a more stunning account of what markets did during the March-June period than what ultimately unfolded, especially given the carnage of the prior quarter.

A technically precise *climax sell-off* on March 23 kickstarted a rally that became known as the 're-opening trade'. Equities were drawn into a strong updraft as evidence built that the real world had began to revive and governments and central banks across the globe reaffirmed their commitment to policies that would underwrite a path to recovery.

By close of trading on June 30, the S&P500 would have rallied 42% from the March low, the S&P/ASX200 34% and the S&P/ASX Small Ordinaries 46%. Australian small caps handily outpaced ASX100 names, with resource names (chiefly gold) making short work of small cap industrials during the period in review.

A series of pivotal announcements from the US Federal Reserve in April underscored investor confidence and propelled the equity market higher. First, the Fed advised it was going to buy high yield bonds and municipal debt, shoring up the junk bond market and ensuring a buyer was on hand. Then, late in April on *60 Minutes*, Fed governor Powell decreed there will be 'no limit to the amount of monetary support (bond purchases) to be provided until growth returns'. A none too subtle message to investors: follow the Fed, they print the money! Before long the re-opening trade had morphed into the FOMO trade as manic traders across the globe scrambled to get set.

The Fed's brinkmanship combined with contracting credit spreads, lower credit default swap rates and steepening yield curves to foment a potent backdrop for stocks, none more so than bank stocks. Long neglected US banks rallied 15% across two sessions. ASX banks chimed in too, reportedly booking their biggest trading week in 20 years. Investors rushed these market pariahs, with an oversubscribed NAB equity raising seeing the retail component upsized by $750m to $1.25bn (out of a total $3.5bn raising).

By week two of June the broader US market, including bank stocks, had slowed its rate of ascent as news of rising COVID-19 case rates across all 50 states in the US sank in. New infection numbers would be chalked up in record numbers by the end of June.

Also notable during the quarter:

1. Crude (WTI) oil traded to negative US$38/barrel. At futures contract expiry, traders actually had to pay buyers to take oil from them due to the non-availability of oil storage, hence the negative oil price (Your author has never seen this occurrence before). The negative oil price resulted in well shut-ins which brought on a spike in natural gas prices (as gas is commonly produced with oil) and a slump in the sugar price as traders perceived reduced demand for ethanol, a major user of sugar production.
2. Day traders returned to the market with a bang. The FT reported that 800k people opened sharetrading accounts with the three largest US on-line brokers through March-April. The world was introduced to Robinhood.com too.
3. Stockmarket demigod, Stanley F. Druckenmiller, declared in mid May 'the risk-reward for equity is maybe as bad as I've seen in my career'.
4. GS expect US equity issuance to top US$300bn in 2020 with US$170bn raised to date. This will be the highest level since the dotcom mania of 2000.

Locally, consumer discretionary stocks were +36% over the quarter, with materials +34% and small cap financials/financiers +28%. By the end of May the ANZ/Roy Morgan Consumer Confidence Survey had reported on 8 consecutive weeks of improved readings, doubtless aided and abetted by JobKeeper, JobSeeker and the early superannuation redemption initiative. Retail therapy, especially of the on-line variety, was on display with buoyant updates from **Temple & Webster (TPW)**, **Kogan (KGN)**, **The Reject Shop (TRS)** and **Beacon Lighting (BLX). Motor Cycle Holdings (MTO)** advised a 'best ever' May trading month for new and used bikes as well as accessories. This resilience coincided with a number of ASX companies reporting reduced requests for financial assistance from customers.

J P Morgan advised that fewer ASX listed companies made changes to consensus earnings estimates from March and those that did, increasingly upgraded estimates (% of companies upgrading: April 16%, May 28% and June 60%). Corporate confession season is underway as I write this note and I expect the market to remain alert to any major shift to trading environments.

There was a significant equity call on the market during the quarter. In excess of $27bn in primary issuance occurred on the ASX post the March lows. The motivation for raising graduated from liquidity/working capital/bank appeasement to opportunistic funding for asset acquisition/M&A. The 'discount needle' to raise funds shifted from 40-50% to 5-10% with the passage of time. Notable small company raisings included **Metcash (MTS)** $330m, **Auckland International Airport (AIA)** $1,132m and **Invocare** $250m.

A number of large shareholder selldowns occurred during the period with holders taking advantage of the markets improved liquidity. **Westpac (WBC)** opted to quit its 9.5% stake in **Pendal (PDL),** US-listed Digital Realty sold its 4% stake in **Megaport (MP1)** and the family Zuellig sold 9% of **EBOS Group (EBO).**

In M&A, **Uniti Group (UWL)** bid for **Opticomm (OPC)**, **Alacer Gold (AQG)** merged with SSR Mining of Canada and BGH Capital revised their bid for **Village Roadshow (VRL).** A brief bidding war ensued for wind farmer **Infigen Energy (IFN)** with UAC Energy being outbid by Iberdrola Renewables for the company.

Technical Summary

Stocks

Several closely followed US equity benchmarks have seen momentum dissipate in recent weeks. It is possible to draw valid downtrend lines across the tops of February 20, June 8 and the early days of July for the **S&P 500** and **S&P 500 (equal weight)**, **NYSE Composite** and the **Wilshire 5000**. It therefore follows that nascent support lines projecting out from the March lows need to be monitored for durability rather closely. Also worth noting that open positions in the E-mini S&P 500 Futures are modestly net short.

The **Nasdaq** and **Nasdaq 100** have been running their own race with record highs a daily occurrence through July trading notwithstanding deteriorating breadth. Non-commercial traders continue to be well long E-mini Nasdaq 100 Futures. The overheating in this market moved to a crescendo on July 13 with both indices posting *daily key reversal*s. This set up is synonymous with trend turning points so the grounds for a retracement from these levels are compelling (incidentally, weekly indications hold greater weight than dailies but they remain a powerful signal all the same). Look out below.

Sentiment indicators are strangely mixed. **Citigroup's Panic/Euphoria Model** is camped firmly in the euphoric bracket while the **AAII Bull Index** is sitting snuggly in the BUY zone, a contrarian read on cooling investor sentiment. The NYSE **Put/call ratio** has moved lower indicating complacency on the part of investors, not ascribing much value to downside protection. It is also worth pointing out that speculative positioning in **VIX futures** is very short with bears outweighing bulls by 2:1. This implies professionals are betting on lower volatility moving forward. Another indicator of investor lassitude.

The **ASX/S&P 200** Index appeared to be approaching stall speed into the early days of July. With narrowing range days and declining daily turnovers-never a great indication of market health. Despite moving off trend from the March 23 rally the benchmark has shaken off its torpor and resumed upside momentum. Early days but encouraging all the same. We draw succour from the local markets secular uptrend from December 1992 and how spectacularly it held in March to extraordinary results as evidenced.

The **Small Ordinaries Index** had been troubled by resistance from the February highs. Price action on July 20 was decisive and appears to have set the scene for a renewed upside thrust. Resource names are leading the campaign with passage to the old (2018) high the first stage in an unfolding bull drive. It is also reassuring to see that breadth through the small ords has been improving from the March lows with ~72% of stocks trading above their 100 day moving average versus 51% in May and 7.6% in March.

Commodities/Currencies

Gold continues to behave constructively, tentatively pushing through $1800/oz in recent trade. This level should be monitored as it checked the metals advance in February and October 2012. Speculative positioning (via the weekly CFTC reportings) isn't as extended as it was at March quarter end, with longs v shorts at 4.8:1 vs 9:1 previously. This sets the scene for an assault on the 2011 high of $1921/oz. Gold equities are at an interesting juncture. The North American **GDX** ETF has finally broken out of its seven year base and its current price action sits precisely on the Fibonacci 0.5 level of natural resistance. Applying the likely measured move out of the aforementioned base puts gold stocks, wait for it ….~28% higher than present.

Silver bulls will be heartened by developments with the SLV ETF sitting with a record high 832mn oz. Chart-wise there is more work to do here but US silver equities sense its game on and have decisively broken clear of their 2011-2015 bear market. Seasoned bullion traders say that silver runs late in the bull market. The gold/silver ratio is currently at ~94x, having plumbed 130x back in mid March. The five year average I'm advised runs ~81x.

Brent crude feels tired and resistance at $44/bbl has proven an obstacle to traders. The Williams % R oscillator is displaying clear bearish divergence and pointing to a correction back to $36/bbl. Not helpful to observe speculative positioning in West Texas Intermediate at 4.5:1 Long v short, quite a turnaround from a modest net short at March end.

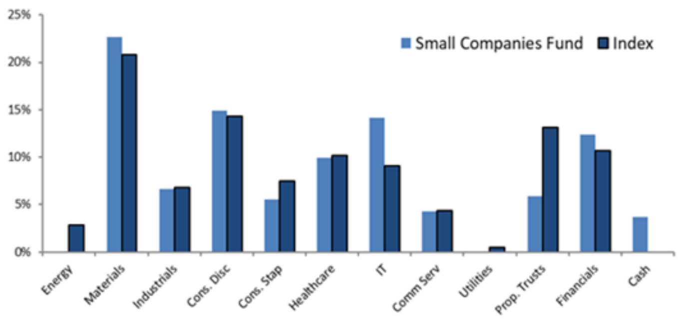
Copper did a good job to, more or less, hold a support line that has been sustained the market since 2000. It is currently in the process of breaking upside and needs to be respected. Long positioning is a modest 1.4:1 so ample room for speculators to begin getting set with a long way to go before spec longs crowd the market.

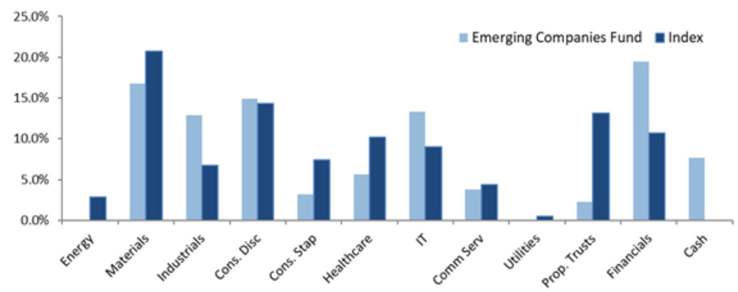
The **USD Index** has lost all forward momentum with speculators increasing their bearish exposure to the unit. The dollar looks insipid across all the crosses your author looks at. This lays the ground for further upside in the **Australian dollar**. Short traders have been smoked here in the powerful rally from $0.55 struck in March this year. It is apparently the first time the AUDUSD futures contract has been net long since March 2018.

Curiously, the **Canadian dollar** does not look anywhere near as constructive as the Aussie.

The Portfolio

Fund Sector Allocations





During the June quarter, our Small Companies Fund (SCF) benefited from the strong performance of **Saracen Mineral (SAR), Silverlake Resources (SLR)** and **Omni Bridgeway (OBL).** Our positions in **Navigator Global Investments (NGI), Metcash (MTS)** and **Freedom Foods (FNP)** detracted from performance. In the Emerging Companies Fund (ECF), positions in **Ramelius Resources (RMS), Capricorn Metals (CMM)** and **The Reject Shop (TRS)** contributed to the portfolio. **Atomo Diagnostics (AT1), Freedom Foods (FNP)** and **SG Fleet (SGF)** 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.

After a lengthy spell, your manager returned to **The Reject Shop (TRS)** register. An executive overhaul, equity raising and plan to rework the business model attracted us to this one-time retail darling. Key areas of focus in this redux involve a) striking the appropriate rent and wages per sales ratio's, b) SKU rationalization and supply chain review, c) renegotiation of store leases (av 2 yr tenor), d) IT investment and e) where practicable, 'borrowing' from the highly successful US-based Dollar General Corp model. A thoughtful store roll out should logically follow.

A position was established in **PushPay Holdings (PPH)** during the quarter. The company is the market leader in digital giving solutions to the faith sector in the US. The faith based giving market is estimated to be ~US$100bn in the US with PPH's addressable market ~US$50bn. PPH processed around $5bn USD in FY20 giving the company around 10% market share. Over the last 12 months it has become clear PPH is at an inflection point for both cashflow and earnings. Under the stewardship of CEO Bruce Gordon PPH has transitioned from a founder led investment phase into an optimize/monetization phase. What is more surprising is the very conservative nature of the accounts (a rarity in small cap tech outside Iress). We believe the next few years for PPH will be rewarding and that COVID-19 will accelerate the already entrenched trend to digital giving/engagement from cash.

During the quarter we spent significant time monitoring the progress of economies opening globally. After a strict level 4 lockdown, NZ emerged as one of the few countries with the Virus under control and an economy that proved relatively resilient.

SkyCity Entertainment (SKC) NZ properties had been closed since March were allowed to progressively reopen during Alert Level 2 in early May. With a significant debt load, ongoing capex for the Auckland Convention Centre & Adelaide Casino refurbishment, the stock had seen a significant de-rate as analysts expected earnings to be depressed for more than 18mnths.

SKC is a monopoly asset in NZ, that largely targets the domestic market, with International VIP earnings in a normalized year ~10%. Despite borders remaining closed as the alerts were scaled back, patrons flocked back to the casino ensuing record weekends and 90% occupancy in the Auckland Hotel on a number of Saturday nights.

We initiated a position in May as we began to get clarity on re-opening, post a labour restructure and gained further conviction as the balance sheet was improved with a NZ$230mil equity raising in June.

During NZ stage 4 lockdown**, Synlait Milk (SM1)** was granted essential service status allowing it to continue production of its key dairy products. After a downgrade in early February on lower infant base volumes, and ongoing margin pressure from the A2 Contract, we grew concerned that new contracts for infant formula manufacturing remained illusive, and covenant uncertainty on the Pokéno site would continue to weigh on the stock. We took advantage of the infant formula pull-forward trade which benefited Synlait's share price during lockdown to exit the position during the quarter.

Platinum Asset Management (PTM) was quit from portfolio's during the quarter. We have long been believers in Platinum's contrarian investment process and the business is highly leveraged to a recovery in Emerging Markets and a weakening USD. Unfortunately, net outflows have been pervasive, primarily due to performance, but also increased competition. We have found relative value in other wealth manager names e.g. PNI, that provide a clearer path to earnings growth and have used PTM to fund these purchases.

Your manager also removed **Invocare (IVC)** from portfolio's. We believe IVC is moving into a high-risk phase as the long-promised benefits of 'Protect and Grow' (the company's $200m refurbishment program to stabilize and accelerate market share) are due to be delivered. We had long suspected the current CEO would not be around to deliver the final results and the recent announcement of his departure confirmed this.

Ultimately, we do believe that 'Protect and Grow' will succeed however there is material risk that it underwhelms in the short-term. The company has also diluted its share base by 23% in recent months to de-gear the balance sheet due to the impact COVID-19 restrictions had on cashflow. We think this also points to the lack of alignment between Management/Board and shareholders given that, in our view, EPS growth is critical to long-term return in small caps.

Quarterly Attribution – Top 5

Code	Small Companies	Sector
BRG	Breville Group Ltd	Consumer Discretionary
OBL	Omni Bridgeway Ltd	Financials
SAR	Saracen Mineral Resources	Materials
SLR	Silver Lake Resources Ltd	Materials
SDF	Steadfast Group Ltd	Financials

Code	Emerging Companies	Sector
CMM	Capricorn Metals Ltd	Materials
MP1	Megaport Ltd	Information Technology
RMS	Ramelius Resources Ltd	Materials
TRS	The Reject Shop Ltd	Consumer Discretionary
TPW	Temple & Webster Group	Consumer Discretionary

(Alphabetical order)

Outlook

In writing the outlook for this edition of *The Encyclical* I find myself in that perplexing position (with Druckenmiller's retort fresh) of marrying the markets resilience with the abundance of disconcerting data/anecdotes around.

Dallas Fed chief, Robert Kaplan, was recently quoted "The US economy is slowing due to the chilling effects from rising infections, muting the rebound and muting growth". Public health outcomes will continue to have a short-term effect on investor sentiment for some time none more so than vaccine/therapeutic announcements.

There is no missing that US valuations, certainly PE ratios, have returned to levels last seen in the late stages of the dot.com rally in 2000. Equity risk premiums have been dented when the debilitating 2020 growth shock is imputed but if incorporating a 2021 recovery then equities continue to be highly appealing over bonds.

The amount of liquidity afforded the market by central banks as well as fiscal accommodation by governments will continue to support risk appetite and therefore stocks.

Professor Jeremy Siegel (Wharton School, Penn and author of vade mecum 'Stocks for the Long Run') recently offered an interesting insight into US financial conditions today versus the GFC. Events during the crisis in 2008-2009 necessitated banks hold excess reserves. Banks complied, holding these balances to shore up balance sheets. Today these reserves have been lent out and now sit in current accounts-transaction accounts held by individuals, small and large businesses and **ready to be spent.** The result is M1 (money supply) is +25% in eight weeks. During the GFC M1 grew 15-20% but it took well over a year to materialize. Siegel quoted famed economist Milton Friedman who offered that excess reserves in the banking system were potent but far more so when they found their way into M1/M2. The conclusion here is that the US will see a substantial consumption boom in 2021 that will propel the economy upward, backfilling the strong move in equities in 2020.

At the time of writing, Chinese stocks were cooling down post a 17% rally in the CSI 300 from June 30, fueled by credit growth and policy stimulus and fanned by state-owned media reporting a bull market to be underway. We have previously seen how their bubbles can end if left to inflate freely but there are important benefits to be had from advancing stockmarkets namely bolstered consumer sentiment, capital inflows (therefore currency stability) and access to FAI funding.

On closing, the arrival in force of the household/retail investor across global markets needs to be watched. For me it is an unmistakable marker that the eleven year old bull market is maturing with their participation a requisite closing chapter in the cycle of markets.

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Small Companies Fund			
Zenith	Recommended	2nd Highest Rating	February 2020
Lonsec	Recommended	2nd Highest Rating	February 2019
Emerging Companies Fund			
Lonsec	Highly Recommended	Highest Rating	February 2019
Zenith	Recommended	2nd Highest Rating	February 2020