ELEY GRIFFITHS GROUP

TO OUR UNIT HOLDERS

Our Fund's Performance (after fees) to 31 March 2021

Returns post fees	1 Month %	3 Months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Incep^ % p.a.
EGG Small Companies Fund	0.08	1.12	45.48	7.79	9.52	7.95	10.85
S&P/ASX Small Ord Accumulation Index (XSOAI)	0.79	2.09	52.15	8.33	10.69	4.11	6.68
Outperformance	**-0.70**	**-0.97**	**-6.67**	**-0.54**	**-1.17**	**+3.84**	**+4.17**

Returns post fees	1 Month %	3 Months %	1 Year %	2 years % p.a.	3 years % p.a.	4 years % p.a.	Incep^ %p.a.
EGG Emerging Companies Fund	-1.61	0.42	67.16	21.19	17.93	21.23	21.05
S&P/ASX Small Ord Accumulation Index (XSOAI)	0.79	2.09	52.15	9.62	8.33	9.95	10.45
Outperformance	**-2.40**	**-1.67**	**+15.01**	**+11.56**	**+9.60**	**+11.27**	**+10.60**

**Inception September 2003*
^Inception March 2017

Market Review & Strategy

For the quarter the Eley Griffiths Group Small Companies Fund and Emerging Companies Fund finished +1.12% and + 0.42% respectively versus the Small Ordinaries Accumulation Index of +2.09%.

Equity markets continued their relentless march upward during the quarter with the Small Ordinaries Index reaching heights not seen since 2008 whilst the broader market rallied towards levels enjoyed immediately prior to covid.

Markets did have to manage through two brief windows of volatile price action but each episode provided an opportunity for investors to increase long positions:

The first was during the final days of January when Wall Street social/news platforms, *Reddit* and *Discord*, fuelled by social media 'flash mobs' set about targeting hedge fund short positions with an investor 'pile on', aka a short squeeze across several stocks. The scene that followed was one of extraordinary share price moves on monumental turnovers and the absurd situation that in in some cases, more stock was shorted than was actually on issue. Most prominent here was listed stock GameStop whose market capitalisation moved from US$1.2bn to US$24bn in a matter of a week or more. Other names were caught up in the market putsch. The end result being hedge fund de-grossing (position risk management) on a scale not seen since February 2009 and momentary unease across stocks generally. The WSJ would report the event as 'an equalizing force between amateurs and pro's'.

Second, late February saw stocks beat a retreat on the unrelenting back-up in US bond yields. Since beginning of 2021, US 10 year notes have moved from 0.91% to 1.74%, Australian bonds trending just as spectacularly. The market has begun to price in inflationary expectations (according to traders) or a return to strong economic growth (according to the US Federal Reserve). Either way, a significant sentiment shift got under way.

A benign 'confession' period presaged a February reporting season that largely delivered without incident. Retailers exceeded expectations but shares were priced for upgrades resulting in stalled price action for many stocks. Mining services companies pleased investors with buoyant top-lines but regrettably this did not manage to move the earnings needle, prompting an investor give up that extended through the close of the quarter. A weakness in energy/resources stocks generally compounded weaker sentiment through mining service names.

EGG analysts can report that 63/157 small companies reporting revised earnings upwards and 60% of these names rallied whilst 70/157 moved eps lower with 70% of them selling off.

Merger and acquisition activity remained elevated, continuing the tempo from December quarter. Blackstone bid for **Crown Resorts**, a **Macquarie**/Aware Super vehicle bid for **Vocus Group**, a private equity consortium bid for **Bingo Industries** and the Coca Cola Co of the US sweetened its takeover of **CCL**. **Vital Harvest** was courted by two players, **REA** bid for **Mortgage Choice** and **McPhersons** was approached by the Kin Group. Funds administrator, **Mainstream** was also approached during the period in review with a counter bid following in the early days of April.

Primary and secondary equity raisings continued at pace during the three months to March end. In the main, candidates remain of good quality and pricing is not unreasonable. Investor interest remains high but we sense old-school investor rigour has been set aside in the hunt for the next good short term trade. High profile and heavily promoted **Nuix** IPO being a case in point. A stunningly disappointing February result so soon after their public listing prompted questions about the business' true organic growth profile, attainability of FY21 estimates, strength of new business pipeline and scrutiny over investor's understanding of the business model and its gilt-edged client base. The stock slumped 26% on result day and has been more or less adrift since this time.

Technical Summary

Stocks/Bonds

The **S&P500** continues to make new highs on tremendous breadth (~ 93% of names are trading above their 100 day moving average). It is interesting to note that many of Europe's main Indices are seeing > 80% of stocks above this average. The number of NYSE advancers v decliners on a daily basis remains constructive too. For the devotees, the VIX volatility futures curve remains in clear contango and is the appropriate backdrop for a strongly trending market.

Speculative positioning in S&P 500 Futures continues to be modestly net short. US banks (majors and regionals) as well as metals/miners are currently the stars of the market with momentum clearly on their side.

US Small caps, as defined by the **Russell 2000,** have stopped rallying and have been consolidating their 2020 advance. This needs to be monitored for exhaustion-turned-topping price action. It may of course be consolidating for an up leg but this should be discounted somewhat given how late in the trend this congestion is occurring.

Across the broader Australian market, traders patiently await reclamation of the old highs, with both **ASX 200** and **All Ordinaries** indices within line of sight. Clearing February 2020 highs for the market will be an elixir for share prices, with the latter index chalking this milestone up this week. **Mid Caps** continue to notch up all-time highs and remain one of the local market's sweet spots.

The **Small Ordinaries Index** at 3311 is trading at levels last enjoyed in June 2008-a period not easily forgotten by stock owners. It has been a move to date on fair to reasonable stock participation, with plenty of scope for rally breadth to improve. Further, it is reassuring that the benchmark is trading high above the 'investment line' (100 day ma). Investors need to appreciate that the Small resources subset of stocks is at the early stages of an unfolding rally whilst their industrial brethren appear unstoppable and about 7% shy of their all-time highs. Our targeted Small Ordinaries index level of 4177, coincidentally the index's historic high struck late in December quarter 2007, should be noted on the blotters of all EGG unitholders.

The **US 10 year note** finished the quarter at 1.74%, a long way from the 231 year lows of 0.31% struck on March 9 2020. This level could prove to be an eternal low for the notes. The move into the Fibonacci .50 zone (of the Nov 2018-Mar 2020 move) has provided momentary resistance around 1.78%. It would therefore be reasonable to see a mean reversion move of sorts, with a short term rally in the notes to 1.40%/1.44%, possibly to 1.27% before the new downtrend resumes. Look for a measured move to the Fib .618 of 2.13% and then onto 2.70% where a major resistance line from 1994 will take some surmounting.

Commodities/Currencies

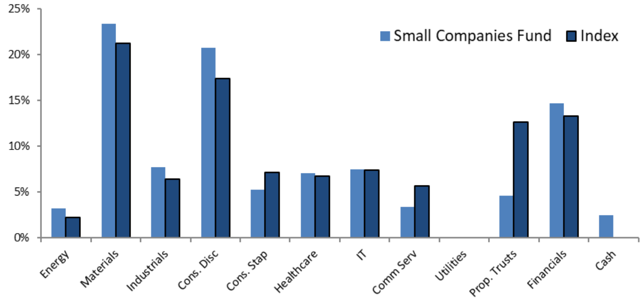
Precious metals continue to disappoint traders however price action this week offered somewhat of a circuit breaker. For silver bulls, failure (twice) at US$30/oz begged a test of lower levels. US$24/oz provides support but the set-up on display is not especially reassuring. Gold similarly has assumed the line of least resistance, which is down. Support at US$1760/65 became resistance to recovering price action. In December's *Encyclical* I cautioned that gold was too well owned for its own good. Speculative positioning has been trimmed appreciably since this time which is unequivocally positive. It is important to note that both gold and silver remain in well defined bull markets. More than the usual amount of resilience (and patience) is required to stomach some of the recent movements in price and remain long the complex

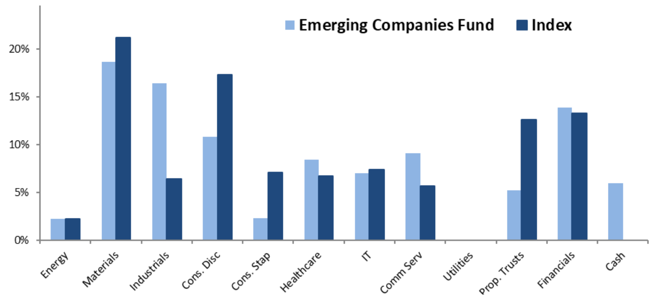
Crude rallied to the point of exhaustion and is consolidating above US$60/bbl. The trend remains upward, the move has been significant and congestion in the price should not be unexpected.

Trader positioning in the **US Dollar Index (DXY**) moved from 2:1 short to 1.2:1 long, partially explaining the units revival through March quarter. The DXY is working through a six year rectangle, hidebound at 100.25 to the topside and 89.50 on the downside. Whilst the ultimate breakout direction cant be known with certainty, the odds favour a move above 100.25 with the longer the range trading persists the more powerful the ultimate break will be.

The Portfolio

Fund Sector Allocations





During the March quarter, our Small Companies Fund (SCF) benefited from the strong performance of **Lynas Rare Earths (LYC), Lovisa Holdings (LOV)** and **Pinnacle Investment Management (PNI).** In the Emerging Companies Fund (ECF), positions in **Sealink Travel Group (SLK), Galaxy Resources (GXY)** and **Johns Lyng Group (JLG)** contributed to the portfolio.

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

EGG initiated a position in **Pro Medicus**, a leading health imaging technology provider. The company's software solution, known as Visage, provides one of the most comprehensive technology solutions to the global radiology market. Visage is typically used by radiologists and other medical imaging professionals to interpret images created by medical imaging equipment such as X-Ray, Ultrasound, CT and MRI Scanners. Based on our internal research we believe the company is significantly ahead of peers with regard to viewer speed and efficiency for clinicians. The recent contract momentum appears to validate this view with $155m in contract awards in FY21 YTD. This compares to ~$50m p.a. of contract awards in FY20 and FY19. PME is an expensive stock but with 20% compound revenue growth over the next 5 years and EBIT margins of ~60% it is in rarefied air. The company has one of the highest Return On Invested Capital (ROIC) metrics in the market and most importantly plenty of opportunity to deploy its capital as it continues to win share and implement its software solutions across the US.

During the quarter your manager participated in an IPO for an emerging Perth Telco. **Pentanet.** The group was founded by two brothers, Stephen and Tim Cornish and is a ISP commercialising high bandwidth fixed wireless technology pioneered by Facebook known as Terragraph. The Terragraph will allow for lower network latency effectively enabling greater capacity/bandwidth for data consumption. Pentanet is winning subscribers at significant pace in their home market of Western Australia with capital only employed as customers sign up. A customer centric offering with some similarities to iiNet from the early 2000s including having the former CEO as Chairman. Pentanet also has a significant gaming opportunity with its partnership with Nasdaq listed Nvidia, which will allow for multiple use of bandwidth within a single household and delivering high processing power to any laptop or standard PC. We understand registrations have been strong for the technology's beta trial.

As an early backer of **Pointsbet**, we have become very familiar with the US sports gaming market. State based de-regulation opens the opportunity for US consumers to embrace the ease of mobile sports betting in a sports obsessed market. With the graduation of Pointsbet into the ASX200, the Emerging Companies Fund has turned its attention to other players with exposure to the same market. We recently added **Betmakers (BET)** to the portfolio. In July last year Global Tote Operator BET secured the rights to provide fixed odds on horse racing in New Jersey, creating the perfect entry to sell their bookmaker and racing operator technology to US operators. The acquisition of SportsTech late last year, has rapidly expanded its presence across 36 states in the US, and positions BET as the pre-eminent operational partner for US racing bodies. Despite horse racing's relative low profile in US vs Australia and other US sports, the advent of mobile sports betting will no-doubt draw more attention to this exciting pastime, as sports-betting companies look to capitalise on the high CACs and provide opportunities for their customers to bet when major sport seasons have come to a close.

After several years on the sidelines, your manager returned to the **Nufarm** share register seeking exposure to the recovering global agriculture story and rallying grain prices. An organsiation-wide operations restructure is close to concluding and when combined with a significantly reformed balance sheet, the group is in the best shape it has been in for many years. The position of chairman was recently filled by the highly fancied John Gillam (CSR, ex Wesfarmers), with new chief financial officer and GM Europe appointments following on. A trading update in early March detailed a strong operating environment across all regions. This has been reinforced by a slew of US agchem groups concurring on plantings, pricing and channel health. The European turnaround appears on track and Australia is enjoying the final stages of a La Nina weather sequence that looks to have underwritten east coast soil profiles ahead of winter plantings. Importantly, Chinese tech (glyphosate predominantly) prices have corrected meaningfully taking pressure off input costs and assisting group profitability. Coincident with the groups fundamental revival, the share price has recently bounced strongly from a secular uptrend line whose origins lay in 1991!

We have long been advocates of the platform disruptors, owning **HUB24** on a number of occasions early in its journey and participating in size at the IPO of **Netwealth** in October 2017 at $3.70. The thesis has been compelling – legacy financial platforms with significant share of Funds Under Advice, have fallen foul of their customers due to years of underinvestment and dissatisfied customers. At the same time we have seen the disaggregation of financial advice, and the emergence of the independents. Netwealth's state of the art solution has been sector leading, and subsequently seen fund flows swell to >$40bil and gain 4.3% market share. Despite the long runway ahead and a very strong management team, Netwealth has a difficult 12months ahead as it seeks to reprice its back book during this half, continues its investment and attempts to renegotiate its next deposit arrangement. With multiples still elevated, we felt it prudent to sit on the sidelines until clarity on the above issues, quitting our holding during the period in review. We will be watching with interest for a better entry point in the future.

We exited our position in **PushPay Holdings (PPH)** during the quarter. Many of the attributes that underwrote our initial investment 12 months ago in PPH are still relevant. The company's leadership in digital giving solutions to the faith sector in the US is in tact and at ~15% market share (addressable market estimated to be ~US50 bn in the US) the company has a long runway for growth. What we learnt over the last 6 months is that PPH needs to broaden its customer reach into the catholic market (roughly 30% of the US market) to drive material customer wins. This will need additional investment that will likely supress earnings growth in the short-term. Given our medium/long-term investment horizon this would not normally have concerned us, however a number of qualitative changes (new CEO, board changes, Huljich family exiting their 20% shareholding) were too great to ignore and our scoring process for the company deteriorated beyond portfolio inclusion.

*Quarterly Attribution – Top 5**

Code	Small Companies	Sector
LOV	Lovisa Holdings	Consumer Discretionary
LYC	Lynas Rare Earths	Materials
PNI	Pinnacle Investment Mgmt	Financials
REH	Reece	Industrials
VOC	Vocus Group	Communication Services

Code	Emerging Companies	Sector
ABB	Aussie Broadband	Communication Services
GXY	Galaxy Resources	Materials
JLG	Johns Lyng Group	Industrials
PWG	Primewest Group	Real Estate
SLK	Sealink Travel Group	Consumer Discretionary

**Alphabetical order*

Outlook

The Dogs may bark but the caravan goes on.

The continuing rally in equities of all stripe is increasingly being greeted with catcalls and market dissidents declaring the advance outsized and illogical. Media commentators are becoming intensely irritated by it and seasoned equity market confreres have been heard openly denouncing the rally.

What we can say with certainty is that plentiful and essentially free liquidity is fuelling a stockmarket rally where classic late cycle markers are now beginning to emerge. The rise of day-trading appears to be the latest iteration of the gig economy. The aforementioned GameStop market putsch featuring 'Roaring Kitty', flash mobs and 'Short squeeze Astronauts' indicates that the household investor is becoming increasingly self-assertive, even brazen, with their market sorties. In the US, the arrival en-masse of SPAC's or cash box companies (outlawed in Australia) suggests an equity product created for the investing masses. March quarter saw US$100bn raised for SPAC investment, equivalent to monies raised in total for CY2020.

Stocks have shifted to Sir John Templeton's 4th quadrant market stage-Euphoria (Pessimism-Scepticism-Optimism-**Euphoria**). Problematic? Eventually but I contend that markets can remain this way for some time. It should be noted that credit markets (including CDS pricing) remain benign and the VIX futures curve remains in clear contango.

As I write, we are moving into the teeth of the US first quarter reporting season which should see corporates report well and confirm 2021 as a year of strong earnings growth. Credit Suisse Strategist J. Golub talks of a 'GDP to Corporate revenue' multiplier of 2-3x, setting the stage for around 16% top line growth and appreciably higher for earnings, if the Feds GDP estimates hold in.

We have talked in previous *Encyclical's* of the looming US consumer revival that pent up household savings is set to unleash and its likely headlong collision with an inventory shortage of housing, consumer durables and motor vehicles. Further, it is logical to expect business capex to increase in response.

Locally, the economy is enjoying a 'miracle rebound' with the labour market (including participation rates) repairing itself faster than expected. The consumer remains high-spirited too. The NAB March survey of business conditions hit a record of 25.2, nicely eclipsing the 1989 high of 17. Anecdotes from EGG analyst company contact supports the buoyancy across many sectors but do note some stresses appearing in the system around sourcing labour, stock shortages and with freight/logistics.

On valuations, GS point out that a US 10 year note at 2.0% simply restores the yield gap (Earnings Yield less 10 year bond) to long term averages. That's another way of expressing that equity risk premiums continue to be fully supportive of an allocation to stocks.

Research Ratings

Small Companies Fund			
Zenith	Recommended	2nd Highest Rating	February 2020
Lonsec	Recommended	2nd Highest Rating	August 2020
Morningstar	Silver	2nd Highest Rating	October 2020
Emerging Companies Fund			
Zentih	Recommended	2nd Highest Rating	February 2020
Lonsec	Highly Recommended	Highest Rating	August 2020

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