ELEY GRIFFITHS GROUP

TO OUR UNIT HOLDERS

Our Fund's Performance (after fees) to 30 June 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	4.97	9.86	32.79	7.67	10.02	9.67	11.28
S&P/ASX Small Ord Accumulation Index (XSOAI)	3.08	8.50	33.23	8.60	11.24	5.99	7.08
Outperformance	**+1.89**	**+1.36**	**-0.44**	**-0.93**	**-1.22**	**+3.67**	**+4.20**

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	1.62	11.17	42.81	23.12	17.89	23.47	22.68
S&P/ASX Small Ord Accumulation Index (XSOAI)	3.08	8.50	33.23	12.10	8.60	12.32	11.90
Outperformance	**-1.45**	**+2.67**	**+9.58**	**+11.02**	**+9.28**	**+11.16**	**+10.78**

**Inception September 2003*
^Inception March 2017

Market Review & Strategy

For the quarter the Eley Griffiths Group Small Companies Fund and Emerging Companies Fund finished +9.86% and +11.17% respectively versus the Small Ordinaries Accumulation Index of +8.45%.

The Small ordinaries Accumulation Index closed FY21 5.3% ahead of the ASX100 Accumulation Index, with strong leadership shown out of the climactic lows of March 2020 when 'maximum Covid19' was being felt by investors.

A series of important market events unfolded from mid April that would act on investor comportment and prompt a rethink on portfolio positioning.

First, Bitcoin would peak at US$64500 on April 14, the same day Coinbase, a cryptocurrency market place, would IPO with a market cap of US$85bn before both unravelled, halving in value by mid May. Tesla purchased US$1.5bn worth of Bitcoin in February only to have founder Elon Musk turn antagonistic towards it by mid April. FEG (Feed Every Gorilla) and ASS (Australian Safe Shepherd) coins both arrived and crashed in 2021. Gold briefly drew succour from the cryptocurrency collapse but that would quickly pass.

Second, the reflation trade was repriced from early May as the market reassessed the durability of the economic recovery (and therefore pro-cyclical equity allocations) playing out across world economies. Base metals moved lower as bleatings from the Chinese central government about high commodity prices gave rise to threatened price curbs, new restrictions on speculators and State Reserve Bureau stockpile sales. These have traditionally been ineffective but did have the desired short-term effect on prices. Not unrelated to their jawboning campaign, for several months China's PBOC had been slowing credit and money supply growth and generally tightening financial conditions in the wake of galloping inflation data.

Third, the US Federal Reserve issued its FOMC statement on June 16. In short, the recovery was not yet complete, the Fed was looking through the price volatility around 're-opening' sectors (eg lumber, autos and various services) but was keen to wind back stimulus/support. Late 2023 (previously late 2024) would see a lift off in rates according to the 'dot plots'. Several board members were eager for earlier action (read 2022) on rates. Fascinating that the US treasury yield curve had been flattening from the close of the prior quarter, reflecting investor angst around the recovery's resilience. US 10 year notes rallied and regained much of the ground lost in the previous period. This would prove to be an interesting juxtaposition to the Feds June statement.

Merger and acquisition activity continues to be a dominant force globally. The US was on track for ~US$2tn worth of deals by mid year as cashed up SPAC's began investing their booty. Goldman Sachs estimate the value of Australasian M&A at $148bn CYTD, 2.6x the five year average. Interesting the greater number of contested/hostile bids and the growing interest from foreigners in local assets. To numerous to mention, but deals worth noting include the Autodesk (US) bid for **Altium**, the **Realestate.com.au** move on **Mortgage Choice**, Cavalry's bid for **Japara**, **Centuria's** takeover of **Prime West** (an EGG holding) and **Orocobre's** proposed merger with **Galaxy** (also held by EGG). The piecemeal consolidation of the listed investment space continued with bids for **Milton Corp** and **Templeton Global** received during the period in review.

Initial public offerings endured through the three months to June close, capping off a busy 12 month period of fund raisings. Interest from buyers remains high and vendor expectations around valuation appear reasonable in the main. There are however emergent signs of deal fatigue with a number of fancied newcomers, such as **Keypath Education, Latitude Group** and **Pepper Money** currently languishing at or below their float prices. Near daily headlines on the **Nuix** IPO abomination have had an impact on deal fervour around the edges. A growing number of IPO aspirants are struggling to get to the line through a combination of valuation, depth of investor interest or concerns about the vitality of secondary markets.

The Morrison Government tabled a constructive budget in May that outlined $96bn in new spending initiatives over the budget cycle. On balance the planned expenditures were well received by the market.

Technical Summary

Stocks/Bonds

The **S&P500** is maintaining its ascent with bullish price and time symmetry on show. The breadth of the advance remains compelling although lower than when I penned the March quarter *Encyclical* (70% vs 93% of index members above the 100 day moving average). It is pleasing to observe the outperformance of the S&P500 equal weight index relative to the market cap weighted version, an uncommon phenomenon during much of the markets multi-year rally and testimony to the quality of the advance this calendar year.

Speculative positioning in S&P 500 e-Mini Futures sits around 1.2:1 long which reverses the modest net short in place at March end.

Fibonacci apostles should jot down the S&P500 level of 4595. This is the measured move target based around the February-March 2020 retracement and will be natural resistance for the benchmark.

Futures positioning in one of the US' strongest indices these past 12 months, the **Russell 2000** (aka US Small caps), indicates some disquietude with investors with traders now 1.8:1 short the space. This benchmark has been consolidating since March quarter end and is most likely setting up for a move higher if I am reading the tea leaves correctly. For the apostles, the equivalent measured move should take the Russell to 2434 from 2280 currently.

Investors will need to monitor the health of the **Nasdaq** rally given deteriorating breadth. *SentimenTrader* noted the benchmarks recent 52 week high saw only 41% of its stocks above each of the 10, 50, 100 and 200 day moving averages. This marked the lowest % for any day the index has hit a 52 week high.

The latest **AAII Survey** to hand of US investors sees their membership mid-range bullish and a little elevated in neutral settings-hardly investor hysteria! This data is collated weekly and suggests a constructive investor orientation is at play.

Locally, the **ASX 200** and **All Ordinaries** each moved to new highs with the former using the February 2020 resistance ~7200 as support as the index congests this years strong gains. Exciting to see the **Metals & Mining Index** testing the old high struck back in 2008. Traders should expect plenty of work around these levels before further gains can be chalked up. The **Small Resources Index** does not look nearly as impressive when compared to historic share price action but is enjoying improved momentum all the same. Expect the uptrend to continue here.

The **Small Ordinaries Index** at 3330 is in the midst of a bull-drive and enroute to 4177, a level we will continue to confidently proclaim. Witness the solid outperformance (~5.0%) small caps have had over large caps this past 12 months. Reassuring to see 66% of small cap names are trading above their 100 day moving average.

The **Emerging Companies Index** is presently flirting with the historic highs of 2007, fresh from creating historic lows in March 2020. It is natural for indices to probe higher ground once engagement with old highs has occurred. This subset of stocks have been extraordinary performers since Eley Griffiths Group launched the EGG Emerging Companies Fund in early 2017

I would direct readers to the March quarter *Encyclical* for our somewhat prescient thoughts around the **US 10 year note**: *"…the move into the Fibonacci 0.50 zone …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 0.618 of 2.13% and then onto 2.70% where a major resistance line from 1994 will take some surmounting".* No need to alter the script here.

Commodities/Currencies

Gold has been cantankerous in recent months but it is heartening that support from May 2019 held recently. A classic flag formation was taking shape through June but failed to follow through to the downside which will placate the bulls. Bullish divergence against the Williams % R indicator has ushered in a rally of sorts. More noteworthy is the textbook 'new low and upturn' in the slow moving Coppock Indicator, one of this author's favourite technical tools. This is unequivocally bullish. It normally pays to bet with the Coppock with its last dramatic buy signal occurring in March 2020 when gold commenced its rally from US$1555/oz to US$2069/oz.

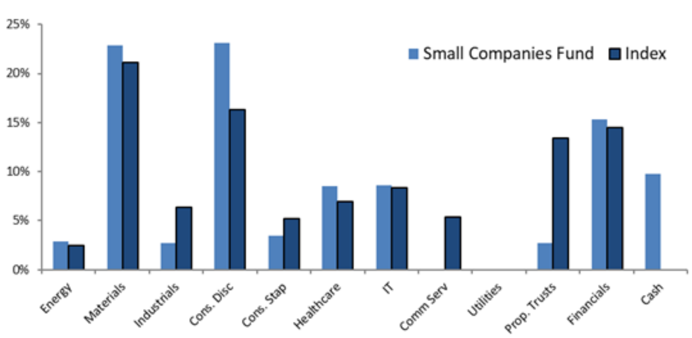
Silver has posted a series of lower highs since February and it too was flagging a move lower in June but like gold that did not occur. Unlike gold, silver has not produced a Coppock buy signal. The metal needs a decisive close above US$28/oz to keep bulls hopes alive.

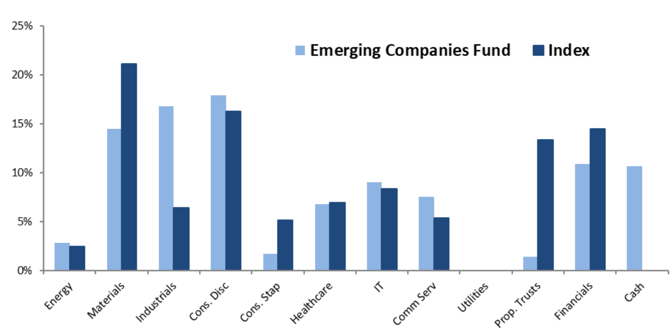
Crude continues its impressive rally. A bearish key reversal week in Brent was in the making heading into July 9 but was invalidated with a solid final up day in trading. Clearly crude isn't ready to sell off just yet.

Trader positioning in the **US Dollar Index (DXY)** has further lengthened to ~1.4: 1 long. Non commercial shorts have been covering and fresh longs have been installed with the index handily picking up support in May at 89.65. Just to remind readers, the DXY is working through a six year rectangle (consolidation), hidebound at 100.25 to the topside and 89.50 on the downside. Whilst the ultimate breakout direction can't 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 June quarter, our Small Companies Fund benefited from the strong performance of **Iress, Pinnacle Investment Management** and **Capricorn Metals.** In the Emerging Companies Fund, positions in **DGL Group, Liontown Resources** and **Aeris Resources** 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.

Pepper Money (PPM) is a specialist residential mortgage and asset finance lender operating in Australia. PPM has a history of specialising in non-conforming and near prime loans, an area underserviced by traditional banks. We see PPM as more entrepreneurial and opportunistic than other operators in the space. For example, in the mortgage broking channel, where customer service and approval times are critical, PPM's investment in technology, particularly in its distribution capability, has positioned it well for further market share gains. The company was priced on a P/E of 10.5x and whilst its debut has been soft we are optimistic about the company's future, particularly as credit growth in Australia continues to recover post The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

We added to **Pilbara Minerals (PLS)** at the expense of **Lynas Rare Earths (LYC)** during the period. This was very much a relative call, with PLS at the early stages of an earnings upgrade cycle, driven by both volume and spodumene pricing upside. It also has strategic optionality near term, with the re-commencement of the acquired Altura operation seemingly the only visible hard rock lithium units to come to market over the next 6-12 months. Conversely, LYC has skilfully executed on a number of its strategic priorities and already enjoyed significant earnings growth on the back of very strong prices recently. It's also in the midst of a capital intensive phase with little volume growth until the Kalgoorlie cracking and leaching facility is commissioned. It is uniquely positioned over the medium to long term, but we felt a better relative opportunity presented in PLS near term.

Pexa (Property Exchange Australia, PXA) is a digital property settlements platform, that undertakes over 4m billable transaction in the Australian market. As various state governments have embraced / mandated digitisation over the last few years, electronic settlement now makes up over 70% of all transactions, of which PXA has a c.95% share. We are very discerning when it comes to IPOs, however we had the luxury of gaining in depth knowledge of the business in 2018 (when an IPO was first explored) and were able to follow it through listed player Link , who retain a ~42% shareholding. The business has excelled over that time frame, growing from ~40m revenue then to in excess of 200m today . PXA exhibits a number of high quality features that we look for in a business, specifically: 1) a capital light business model, 2) dominant market share in a robust industry and 3) growth optionality. We think the latter comes from monetising the unique data set it has (real time property settlements and financings) and investing in new markets (specifically other Commonwealth countries) like the UK, NZ and Canada.

Specialty chemicals and dangerous goods business **DGL** dual-listed in May. We were attracted to founder Simon Henry's experience and vision having established the business over 20years ago with one site and growing it to 26 sites, 280ppl and serving 1300+ customers. $100mil of new capital was raised in the IPO to fund ongoing growth with Henry retaining his entire holding, a rarity in today's capital markets transactions. Specialist licenses and significant scale positions DGL as the leader in chemical manufacturing and logistics across the Tasman, with the top 20 customers having on average over 9yrs of tenure. With sound financials, management alignment and large end markets, DGL is quality industrial addition to the portfolio.

BlueBet (BBT) is a niche wagering operator founded by industry veteran and former Sportingbet CEO Michael Sullivan in 2015. Mobile first with innovative wagering products, BBT has grown to over 90,000 registered customers, with significant growth in betting turnover (>$340mil). As customers have moved away from the local TAB and migrated online particularly during 2020, BBT has been well positioned to pick up market share particularly from regional customers looking for alternative wagering product with a quality mobile and in-app experience. Being cloud native BBT is well positioned to adapt to changing consumer expectations and positions it well to target smaller states in the US with it's competitive B2C wagering solution. With a significant runway ahead in Australia, as BBT becomes more synonymous with race followers, and a strategy to target the significant US market, your manager was attracted to the initial public offering and participated accordingly

*Quarterly Attribution – Top 5**

Code	Small Companies	Sector
CMM	Capricorn Metals	Materials
ILU	Iluka Resources	Materials
IRE	Iress	Information Technology
MIN	Mineral Resources	Materials
PNI	Pinnacle Investment	Financials

Code	Emerging Companies	Sector
AIS	Aeris Resources	Materials
CMM	Capricorn Metals	Materials
DGL	DGL Group	Materials
GXY	Galaxy Resources	Materials
LTR	Liontown Resources	Materials

**Alphabetical order*

Our holding in **Elders** was quit from portfolios during the quarter in response to a share price run up ahead of a strong interim result in May. We believe Elders is presently óver trading', notwithstanding a continuing flow of self-help initiatives via acquisition integrations and eight-point plan wins. The group is well leveraged to livestock prices and is presently booking outsized earnings largely from record cattle prices (via voracious restocker demand). Management concede recent high cattle prices are unsustainable and have disengaged from international benchmarks. The *La Nina* weather episode has also underwritten a solid winter crop. Management execution to date has been close to faultless but history has shown that optimal ag conditions are usually the time to fold and move on.

Two successful investments for Eley Griffiths Group were realized during the quarter following recommended takeover bids. The Small Companies Fund saw **Vocus Group** bid by a consortia comprising MIRA and Aware Super whilst Emerging Companies fund holding, **Primewest Group**, received a bid from **Centuria Capital Group**.

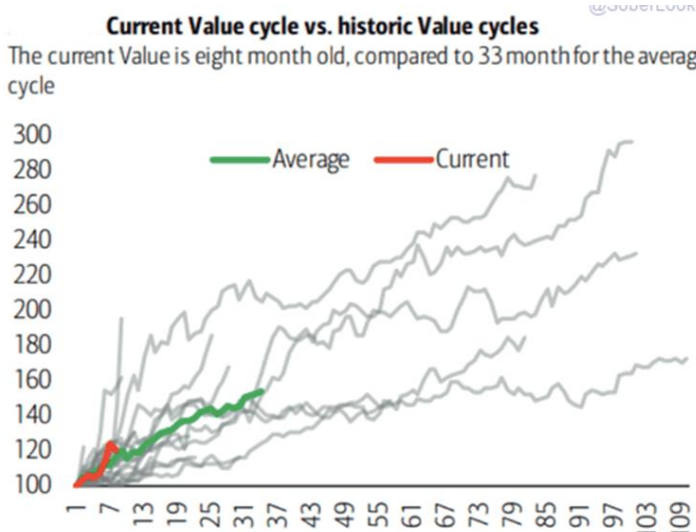
Outlook

This isn't the first time I have referenced Richard Farleigh's excellent investment tome, *Taming The Lion*. It's difficult to fault his many sage observations and his *'Prices move in trends and go further than generally expected'* is perhaps his most valuable and simple dictum. Doubtless this one perplexes most investors as this market has since March 2020.

Right now equity risk premiums in most global stockmarkets (including Australia and the US) remain highly attractive and will continue to underwrite interest in stocks and allow this bull market to trend further.

The tug of war between secular growth stocks, like tech, and value/cyclical stocks that started late last year, suggests it pays to have a bet in both camps at present.

The chart from the BofA US Quant team below highlights the average duration of a value/cyclical cycle is around 33 months compared with the current drive that has been running for around 8 months. The rally in these stocks is a long way from tiring.



Source: BofA Research
WSJ June 2021

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The importance of the slope of the yield curve in driving this is well known. The last two economic expansions (2000 and 2008) saw the 2yr/10yr section of the yield curve steepen by ~300bp over 3 years. The latest steepening has seen ~150 bps in 1 year. When armed with the extraordinary amounts of liquidity, low interest rates and government safety nets (although moderately lessening in impact now) it is easy to see how cyclical stocks can continue to shine in the short-medium term. Valuation differentials between growth and value are also stark, suggesting a lack of confidence in the latter's earnings prospects.

We are presently in the midst of one of the more benign earnings confession seasons this author can recall. Over the next 6 weeks or so, corporates will begin reporting full year and interim results and expectations are that a good reporting period should be delivered.

US companies will shortly report their June quarter results where expectations are also rather elevated.

The local economic revival continues to amaze in its speed and breadth. Concurrent favourable NAB business and consumer surveys (virtually unheard of), positive credit growth, strong housing market and bullish ANZ Jobs Series data suggests the outlook is improving with the obvious caveat remaining the vaccine rollout and keeping state economies out of lockdown. Right now I'll stick with the Lion, convinced that stocks push higher from here!

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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Online New & Additional Applications Forms
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