



Small Companies Fund

Monthly Report

February 2018

Portfolio Performance and Strategy

The Eley Griffiths Group Small Companies Fund (SCF) rose +0.71% for the month, outperforming the market by 0.68%. Volatility is back, if February is any guide. An auspicious start to the month, with a near ~6% fall in the opening days (driven by a collapse in 'low vol' positioning as US10yr treasury yields approached 3% and stoked inflation fears) was soon forgotten as fundamentals were quickly back in focus. An unnerving aspect to the sell-off was the breakdown in typical sectoral correlations, yet perversely, this also provides comfort that the nature of the drawdown was positioning driven and not something more fundamental. Speaking to volatility, reporting season typically brings its share. The skew to downgrades was ~3:2 this time (better than normal), but we saw more than a quarter of the benchmark in number fall 7% or more for the month (in a market essentially flat). The market is

Unit Price at 28 February 2018

| | |
|----------------------|---------------|
| Application | \$2.3996 |
| Redemption | \$2.3880 |
| Fund Size | \$496 million |
| # stocks held | 57 |

unforgiving when names disappoint, particularly those where insider selling has featured in the lead-up (e.g. BWX, EML, IPH, WTC). The magnitude of the re-rate in names where we saw earnings upgrades (irrespective of multiples) did surprise and highlights how significant short-term quantitative momentum has become during reporting season. If the 'Goldilocks' regime of low interest / low inflation continues to re-adjust, then the multiple of earnings you're prepared to pay for will begin to matter (more). The cyclical tilt to the portfolio has served SCF well and remains in place. We are cognisant though that consensus positioning is skewing this way; that isn't necessarily a concern, but means that the risk / reward equation is starting to change.

Performance Statistics to 28 February 2018

| | 1 Month % | 3 Month % | 1 Year % | 5 Year % p.a. | 10 Year % p.a. |
|--|---------------|---------------|---------------|------------------|-------------------|
| EGG Small Companies Fund | +0.71% | +4.35% | +22.94% | +10.92% | +6.52% |
| S&P/ASX Small Ordinaries Accumulation Index (XSOAI) | +0.03% | +2.67% | +20.81% | +6.22% | +1.10% |
| Outperformance | +0.68% | +1.68% | +2.13% | +4.70% | +5.42% |

* Fund returns are calculated post fees.

Attribution*

| Our best performing stocks for the month; | Our biggest detractors for the month; |
|---|---------------------------------------|
| 1. A2 Milk | 1. Afterpay Touch Group |
| 2. Saracen Mineral Holdings | 2. Michael Hill International |
| 3. Seven Group Holdings | 3. Platinum Asset Management |

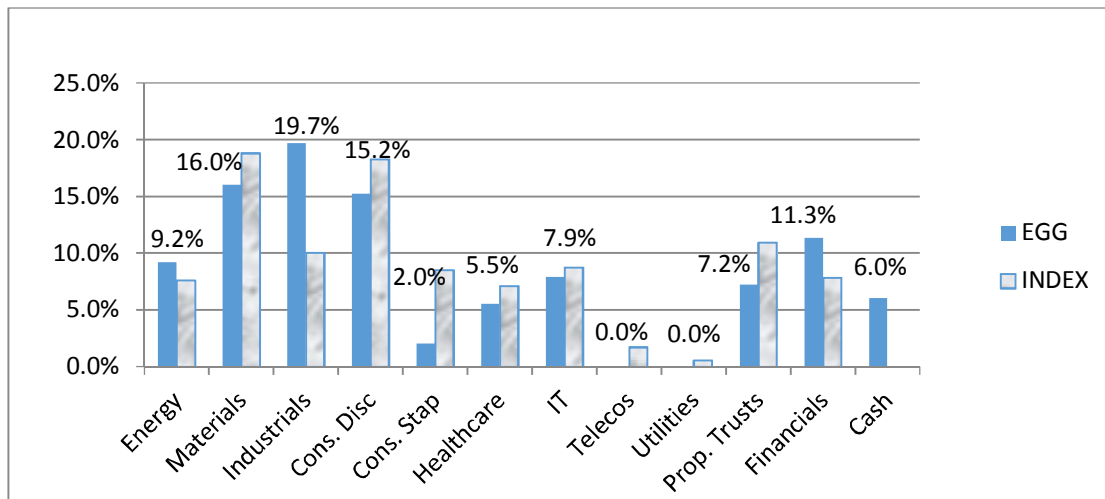
* In alphabetical order, as at 28 February

Top 10 Holdings*

| Name | Industry |
|-----------------------------------|------------------------|
| 1. Afterpay Touch Group Ltd | Information Technology |
| 2. ARB Corp Ltd | Consumer Discretionary |
| 3. Cleanaway Waste Management Ltd | Industrials |
| 4. Reliance Worldwide Corp | Industrials |
| 5. Saracen Mineral Holdings Ltd | Materials |
| 6. Seven Group Holdings Ltd | Industrials |
| 7. Sims Metal Management Ltd | Materials |
| 8. SmartGroup Corp Ltd | Industrials |
| 9. Whitehaven Coal Ltd | Energy |
| 10. WorleyParsons Ltd | Energy |

* In alphabetical order, as at 28 February

Eley Griffiths Group Small Companies Fund by Sector



Eley Griffiths Group Ratings

| | | | |
|--------------------------------|--|---|--|
| Lonsec February 2018 | Recommended 2 nd Highest Rating | Zenith February 2018 | Recommended 2 nd Highest Rating |
| | | http://eleygriffiths.com.au/news-reports/ | |

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