



# H&G High Conviction Fund

31 July 2021



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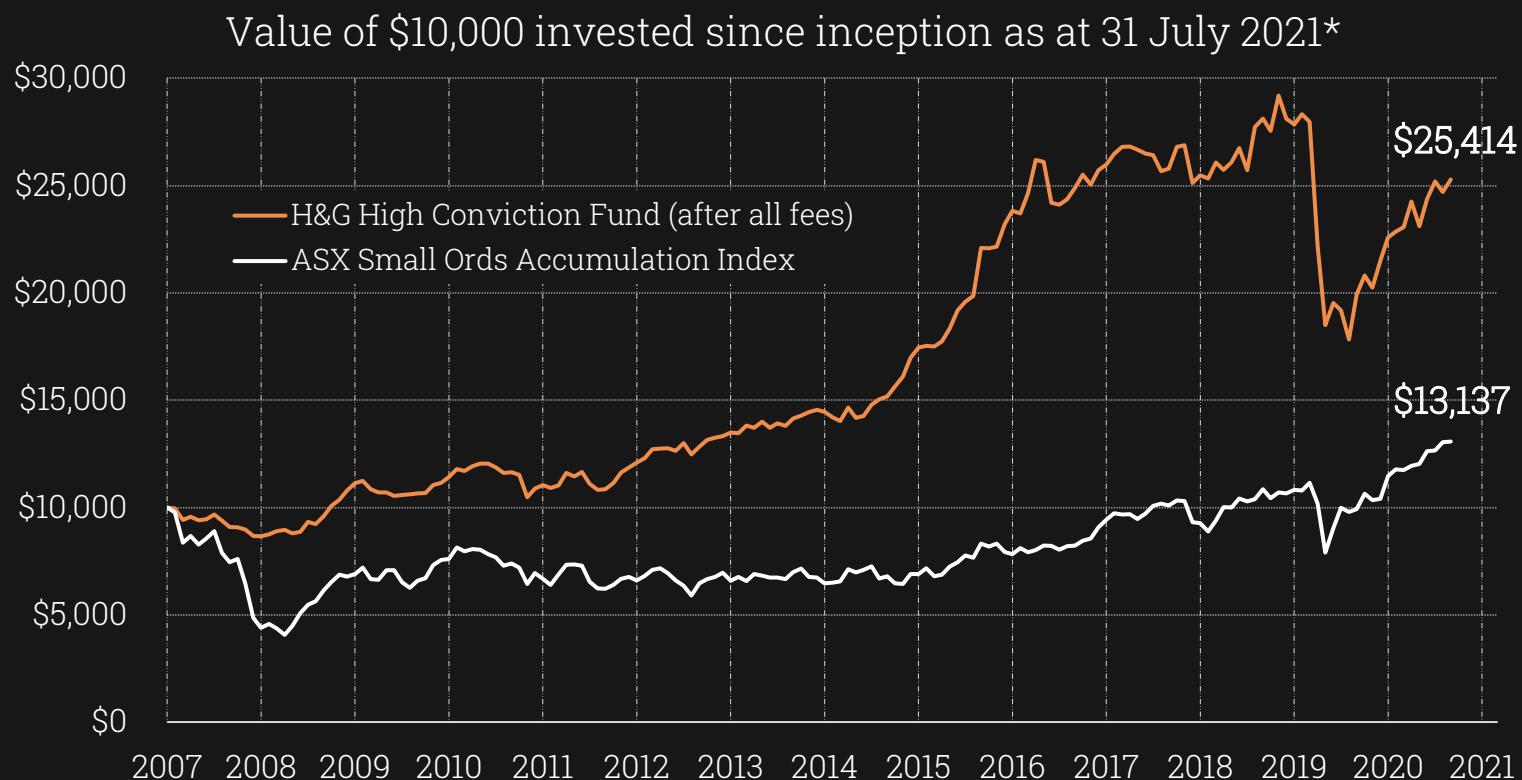
The Fund is only open to wholesale clients, who are Australian residents, as defined under section 761G of the Corporations Act.

## Confidentiality

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Fund name	H&G High Conviction Fund
Investment manager	H&G Investment Management Limited
APIR code	SIA0002AU
Fund inception	November 2007 (relaunched April 2021)
Fund size	A\$12m
Fund pricing	Monthly
Fund type	Open-end unit trust
Base currency	Australian dollars
Investor eligibility	Wholesale and sophisticated investors only
Custodian	JP Morgan
Auditor	Ernst & Young
Management fee	1% plus GST p.a. + fund costs capped at 1.05% p.a.
Performance fee	20% of benchmark outperformance, with a high water mark, paid semi-annually
Benchmark	5% p.a.
Buy/sell spread	0.4%

# Performance



*\*Includes the original vehicle, The Supervised Fund, launched in November 2007 by Supervised Investments Australia Limited (SIAL). SIAL was sold to HGL Limited (trading as Hancock & Gore Limited) in March 2021, and The Supervised Fund subsequently rebranded as H&G High Conviction Fund. The strategy of investing in micro capitalisation listed equities has remained consistent.*

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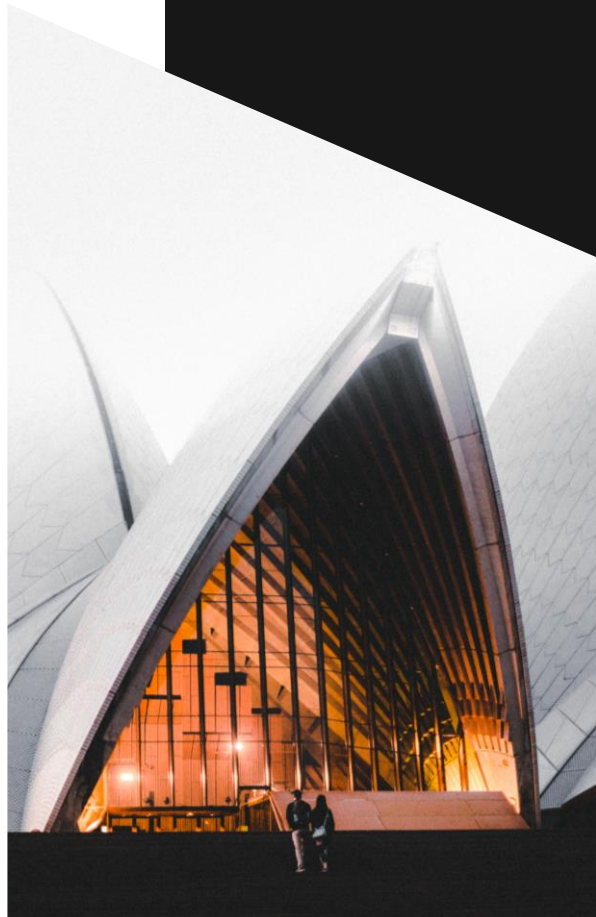
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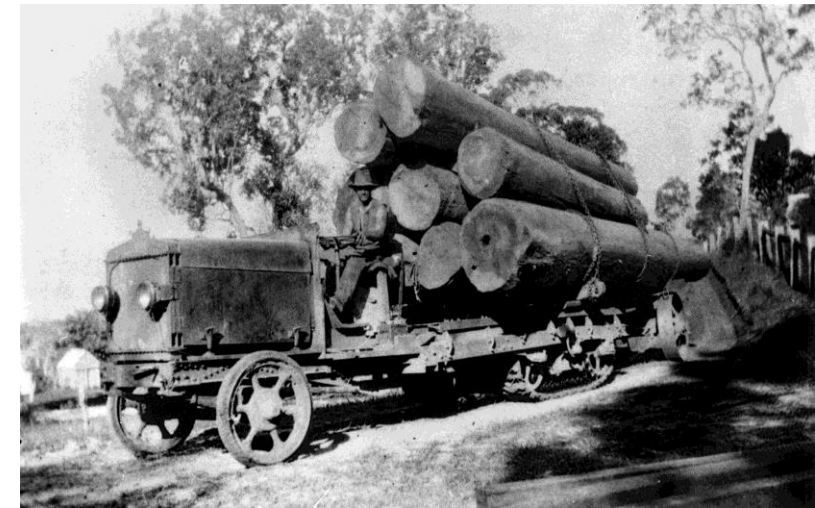
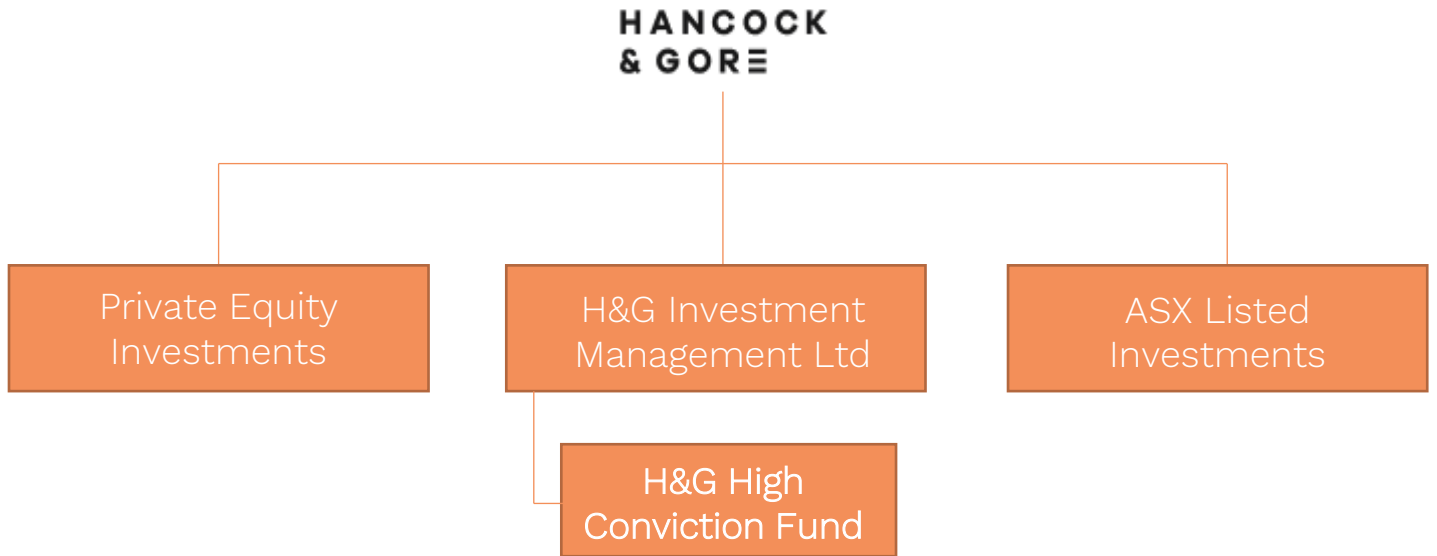


# Who we are: group overview

HGL Limited (trading as Hancock & Gore Limited) is one of the oldest publicly listed companies in Australia (ASX: HNG)

Hancock & Gore Limited, originally a sawmill operator, was incorporated in 1904

Today we are a diversified investment group





# Our team



**Sandy Beard**  
Chairman

**30+ years** of investment experience and Director of numerous public and private companies

Former CEO of CVC Limited (ASX:CVC) (between 1991-2019) where he oversaw annual shareholder returns in excess of 15% per annum for over 15 years

Director of Centrepont Alliance (ASX:CAF), Probiotec Ltd (ASX:PBP), FOS Capital Ltd (ASX:FOS) and Pure Foods Tasmania (ASX:PFT).



**Joseph Constable**  
Portfolio Manager

**5+ years** of experience across capital markets and investment management

Former Investment Manager at Supervised Investments Australia where his stock selection returned 31% p.a.; previous funds management experience at Smith and Williamson (UK) and Hunter Hall International. Current Director of H&G (ASX: HNG)

MPhil (University of Oxford); Bachelor of Arts with Honours (University of Melbourne)



**Iain Thompson**  
Compliance Manager

**20+ years** of experience across finance and company secretarial roles

Former Company Secretary of Brickworks Limited and Chief Financial Officer of H&G (ASX: HNG) since May 2015

Bachelor of Economics (Macquarie University); Chartered Accountant; Graduate of Australian Institute of Company Directors



**Nicholas Atkinson**  
Investment Director

**25+ years** of experience across capital markets, corporate finance and investment management

Former Executive Director of Institutional Equities at Morgans Financial (14 years), oversaw rapid growth of the division's profitability for 10+ years

MBA (Macquarie GSM); Bachelor Commerce (University of Queensland); Grad Dip Applied Investment & Finance (FINSIA)



**Phillip Christopher**  
Investment Director

**10+ years** of experience across private equity, capital markets and investment management

Former Director at Alceon Group Private Equity (6 years) and Analyst at Goldman Sachs in Natural Resources M&A / Capital Markets advisory

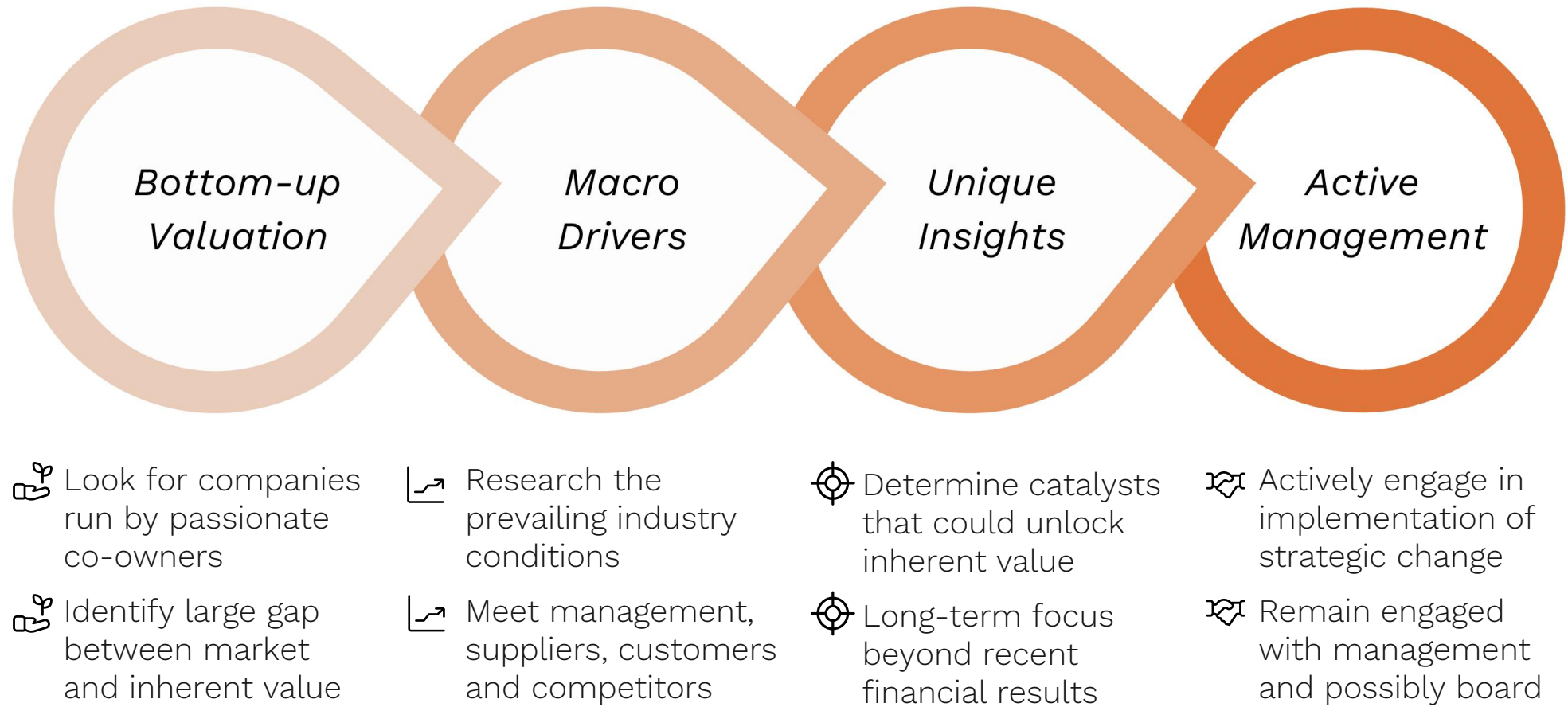
Bachelor of Economics and Bachelor of Commerce (University of Western Australia)

# What we do

<b>Investment return objective</b>	To provide investors with an annual return which out-performs the Benchmark, being 5% p.a. The manager is targeting to provide long term performance of at least 15% p.a. (before fees) by investing predominantly in Australian Microcap listed on the ASX, whilst minimising the risk of a permanent loss of capital.
<b>Strategy</b>	The Fund seeks to invest its capital in companies with a significant discount in the share price relative to perceived inherent value. These companies have superior fundamental prospects, yet negative external events have attracted a flight of investors. The Fund seeks to assist investee companies to demonstrate, grow and realise their inherent value.
<b>Recommended investment timeframe</b>	5-7 years
<b>Target portfolio composition</b>	<ul style="list-style-type: none"><li>• 70-95% in publicly listed companies, with a specific focus on ASX-listed companies with a market capitalisation of up to \$100m</li><li>• 5-30% in cash</li><li>• High conviction portfolio of 10-20 stocks</li><li>• No leverage within the portfolio</li></ul>
<b>Risk level</b>	Very high



## Our approach



## Our purpose





## Our edge

### We are active investors

- We work with management to develop and implement strategic change to improve business performance and unlock value for our Unit holders
- We engage with all company stakeholders to achieve strategic alignment
- We will occupy board positions where required to drive our change strategy

### We fish in uncrowded waters

- We focus on Microcaps that are too small for most funds meaning that for many of our holdings we will be one of few institutional investors
- To that end we intend to keep the Net Asset Value of the Fund below \$50m for the foreseeable future
- We believe small, concentrated funds can generate larger long-term returns

### We meet challenges that others avoid

- The Microcap companies we invest in have superior assets that are adversely impacted by non-operational externalities such as fractious shareholders, domineering directors or industry pressures
- Such externalities tend to cause uncertainty and under-valuation by the market, offering us an opportunity that many others don't see



## Alignment

36% of the Fund is held by the Portfolio Manager & immediate family

We focus on preservation of capital

We only invest in companies with conservative balance sheets

We do not gear any of our positions

# Portfolio

## 31 July 2021

- We hold stock in 19 companies
- 79% of capital is invested in listed equities
- 69% of capital is invested in < \$100m market cap companies
- 17% of capital is invested in resources stocks
- Net asset value: \$12m

Top 8 holdings	% of fund at cost	% of fund at value
Cash	21%	21%
Kangaroo Island Plantation Timbers Limited	9%	16%
Po Valley Energy Limited	7%	12%
Bisalloy Steel Group Limited	4%	10%
Centrepont Alliance Limited	3%	5%
iSelect Limited	3%	5%
Hillgrove Resources Limited	4%	5%
PayGroup Limited	5%	4%





# Case studies

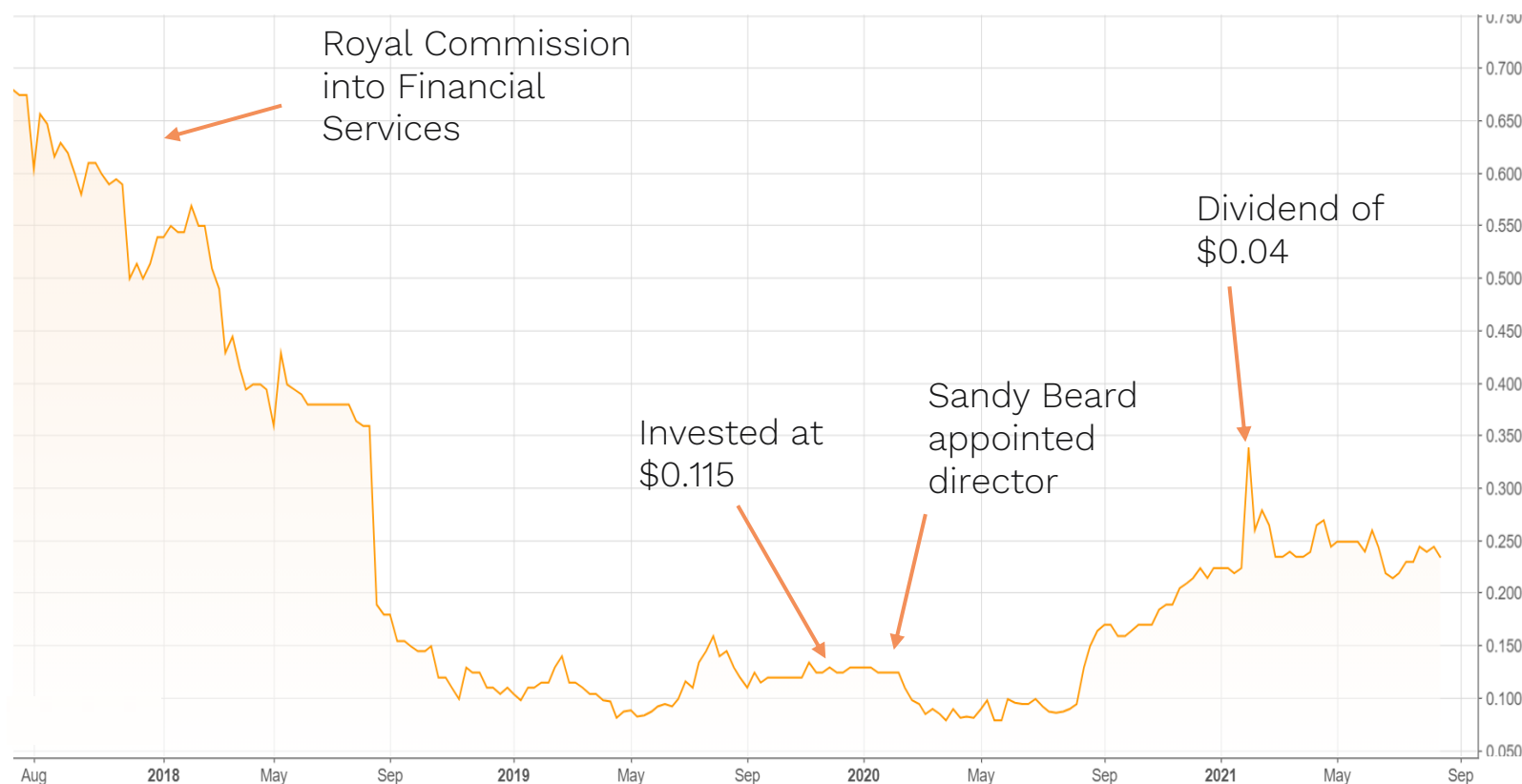
TWO DRIVERS OF RECENT PERFORMANCE



# Centrepont Alliance (ASX: CAF)

- Financial advisory group
- Was temporarily loss-making due to external events: Royal Commission into Financial Services and adverse advice claims
- Institutional investors sold out despite solid underlying business and top-rate group of advisers
- Return since October 2019: 139%
- We still hold stock in Centrepont (5% of the fund)

## 3-year share price





# iSelect (ASX: ISU)

- Comparison website for utilities and insurance

- Fell out of favour with institutions due to poor management, leading to downgrades and external investigations

- Underlying this was a household-name brand trusted by hundreds of thousands of Australians each year

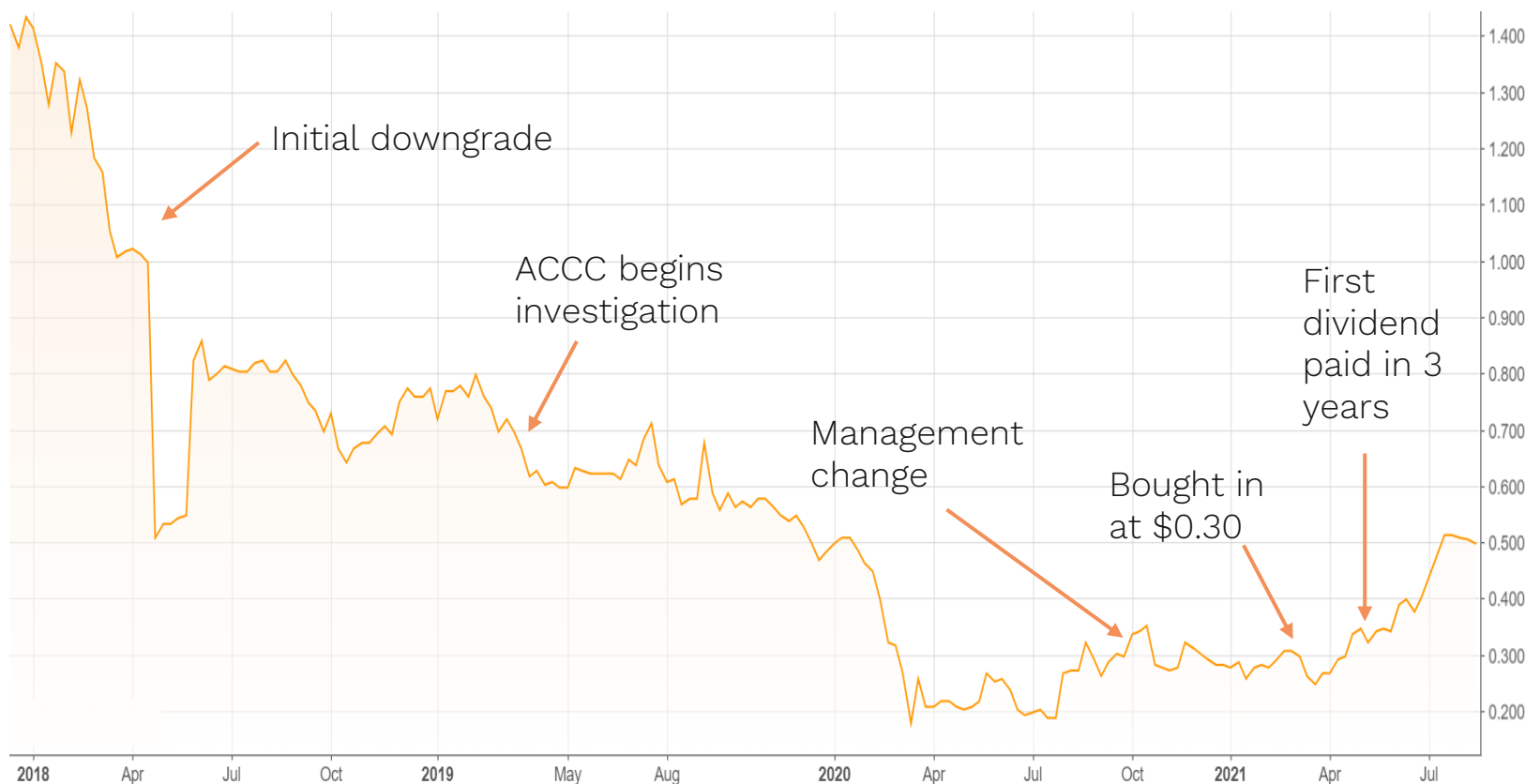
- Resulted in stock trading at a 50% discount to its tangible assets

- Return Mar 2021 – Jul 2021: 72%

- We still hold stock in iSelect (5% of the Fund)

## 3-year share price

iSelect





# Opportunities

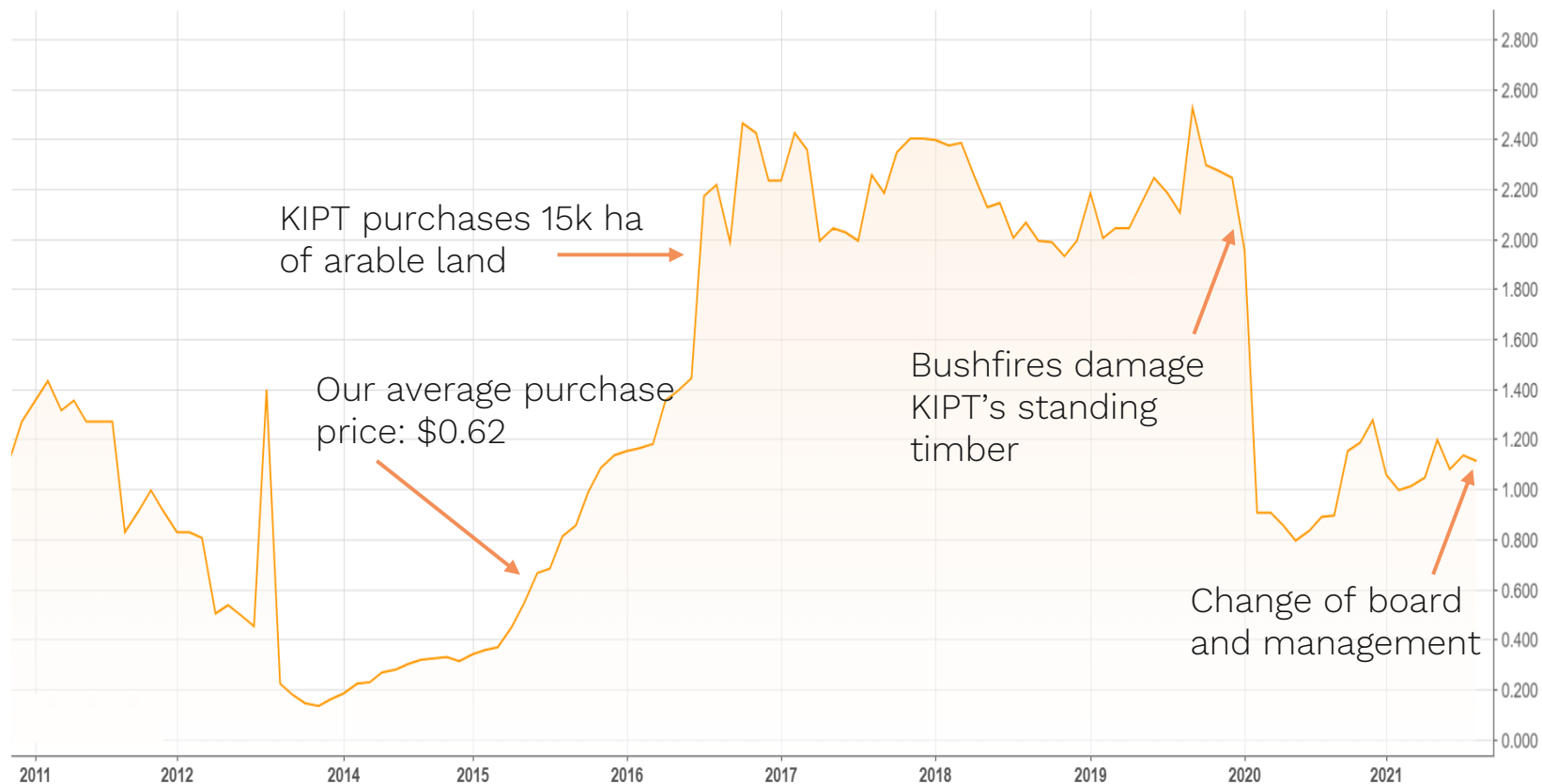
CURRENT INVESTMENTS AND POTENTIAL RETURN



# Kangaroo Island Plantation Timbers (ASX: KPT)

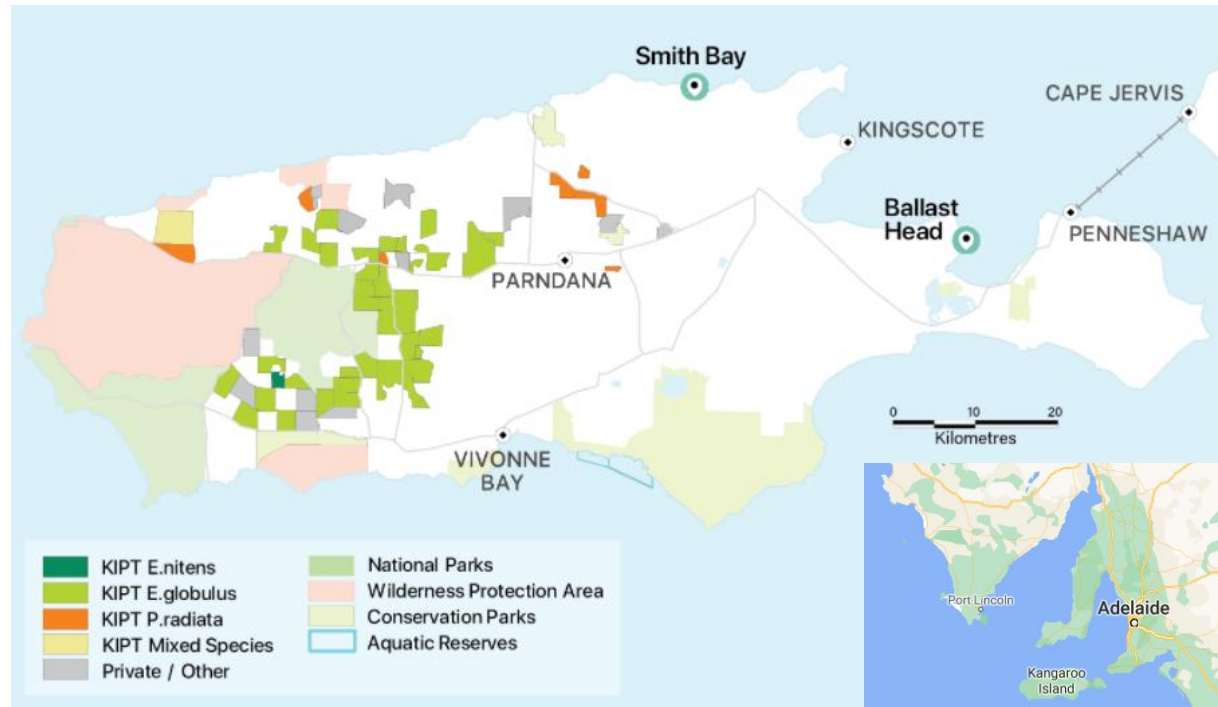
- 20k hectares of arable land, of which 15k hectares planted with timber
- 90% of KIPT's plantations were fire affected in the 2019/20 bushfires
- Stated asset backing of \$1.65 per share (cash& receivables: \$0.65; land: \$0.91; pontoon: \$0.09)
- Share price at 31 July 2021: \$1.14
- In May 2021, KIPT received a \$1.05 per share takeover bid, which was rejected by the board and shareholders
- KIPT stock represents 16% of the fund

## 10-year share price



# Kangaroo Island Plantation Timbers

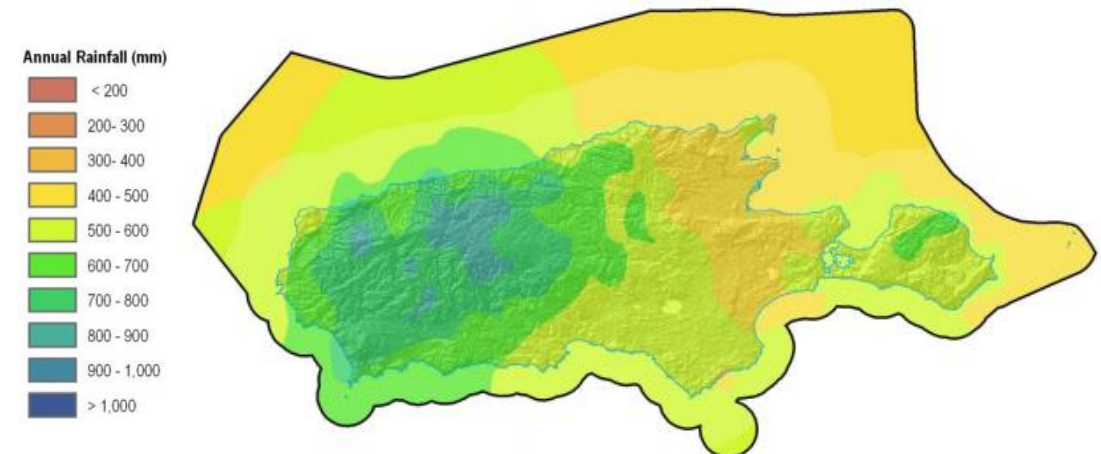
- KIPT owns 86% of the plantation forestry on Kangaroo Island
- Post-bushfires, the company has pivoted to an agricultural strategy
- Kangaroo Island's agricultural property prices have experienced significant uplift in the last 2 years
- Most of KIPT's land is in high rainfall area, > 600mm p.a.
- In addition, there are 7,000 megalitres of water entitlements attached to the land



Above: KIPT's estate

Right: Kangaroo Island in context

Below: Kangaroo Island average annual rainfall 2001-2010



# Kangaroo Island Plantation Timbers

## Strategy:

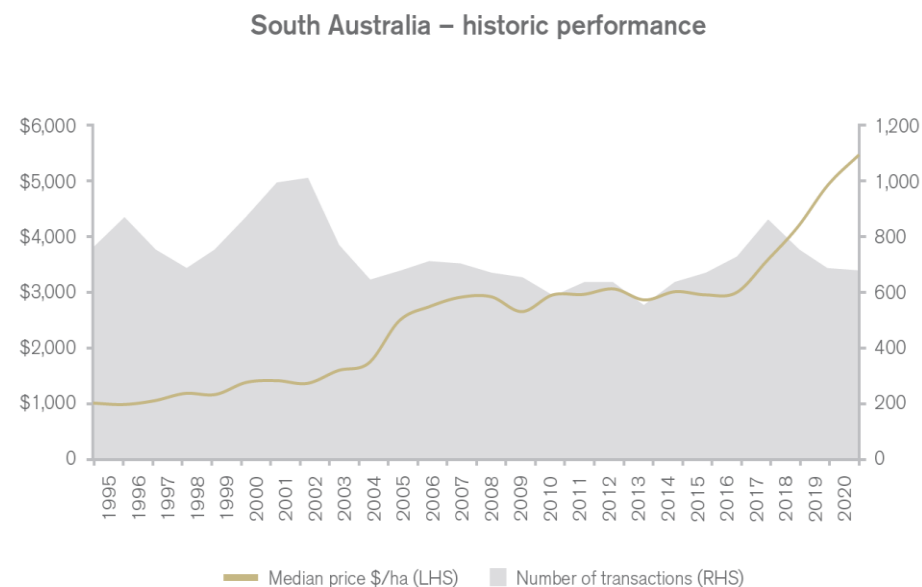
- Work with the shareholders, board and management to ensure the company unlocks its inherent asset value

## Target price:

- \$1.65 in next 2 years, 45% upside
- IRR: 20% p.a.
- Weighted impact on fund return: 9%

Right: our assessment of the inherent value of KIPT's assets

Value of land	\$96,357,500	\$1.71
Remediation	(\$45,000,000)	(\$0.80)
Cash & receivables	\$36,700,000	\$0.58
Pontoon	\$5,000,000	\$0.09
<b>Net assets</b>	<b>\$93,057,500</b>	<b>\$1.65</b>



Above: agricultural land values in South Australia  
Right: charred softwood in KIPT's plantation; photo taken on site tour by portfolio manager in April 2021





# Bisalloy Steel Group (ASX: BIS)

- Australia's only manufacturer of quench and tempered steel (high-tensile and abrasion-resistant)
- Markets: resources, construction and defence
- A real and profitable business that has suffered corporate upheaval with CEO fired in July 2020 and board completely replaced in November 2020 AGM
- Last share price: \$1.28
- Bisalloy stock represents 10% of the fund

## 5-year share price



# Bisalloy Steel Group

- Bisalloy owns its 23,600m<sup>2</sup> processing plant in Unanderra, NSW with a capacity of c. 60,000 tonnes p.a.
- Earnings per share growth over the last 3 years: 50% p.a.
- Current price to earnings ratio: 7x
- Fully franked net dividend yield based on historical payout ratio: 7%
- Business has strong tailwinds from spending in the resources sector and ongoing defence expenditure

Bisalloy's steel is being certified by Rheinmetall for use in the Australian Defence Force's Land 400 Phase 2 Program, building Combat Reconnaissance Vehicles (CRVs)



Around 70% of Bisalloy's steel is used in the resources sector for mining dump truck trays





# Bisalloy Steel Group

## Strategy:

- Work with shareholders, board and management to help stabilise post-corporate upheaval and communicate to the market

- Given unique market position, defence upside and growth profile, Bisalloy should be trading on a p/e ratio of at least 10x

## Target price:

- \$2.12 in next 2 years, 57% upside
- IRR: 25% p.a.
- Weighted impact on fund return: 7%

A vehicle being assembled with quench and tempered steel plate in Bisalloy's facility in Unanderra



Bisalloy's steel is also used in the construction sector



# Thank you!

H&G High  
Conviction Fund

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