

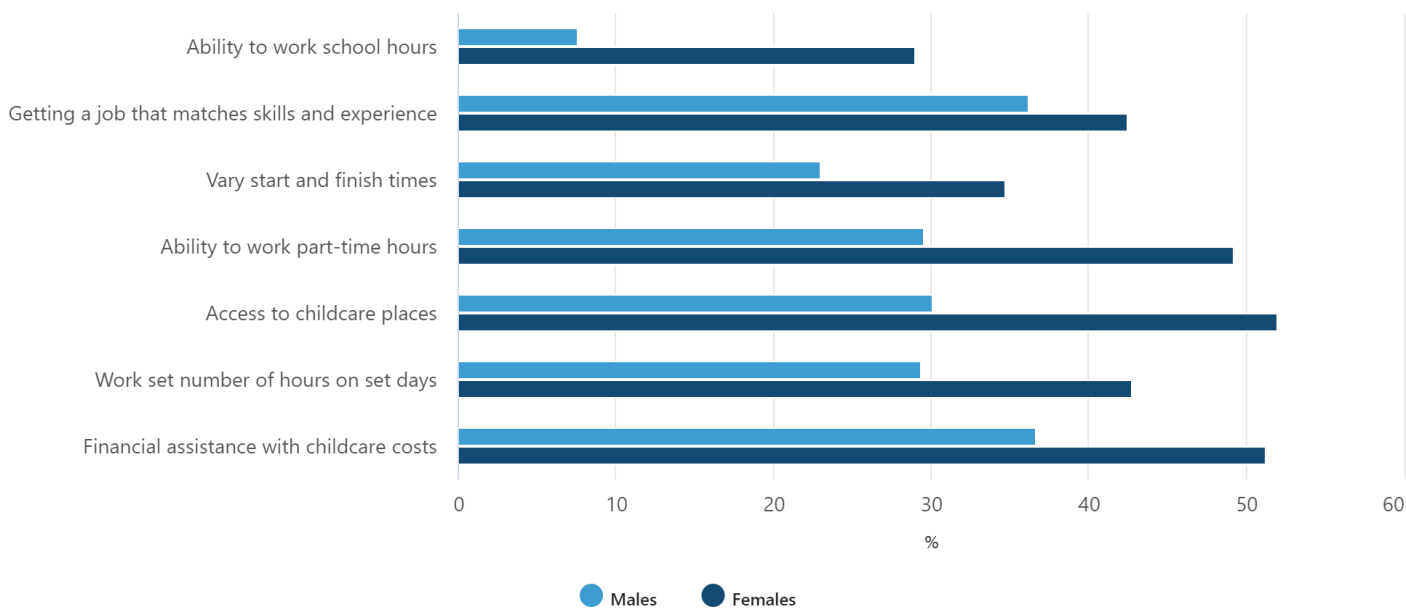
It's that time of the month again where we bring you another edition of our well received series **The Markets in Three Charts**.

As with previous instalments we aim to present some of our current investment thinking in a **social, economic** and **share price** chart.

In this edition, we are focusing on **childcare**, as the Fund has been increasing its holding in early education and care group Evolve Education, which has 135 childcare centres across Australia and New Zealand.

Please note we are presenting general insights into our decision making, not investment advice.

CHART 1 – Incentives to join/increase participation in the labour force¹



Note: Only includes incentives that were considered 'Very important'.

Source: Australian Bureau of Statistics, Barriers and Incentives to Labour Force Participation, Australia 2018-19 financial year

Even before the pandemic, lack of access to childcare was reported as a major reason why people were unable to enter the workforce and/or increase hours worked.

The ABS's survey data to ascertain 'Barriers and Incentives to Labour Force Participation' found that the most important incentive for women was "Access to childcare place" (52% of women rate this as "very important") while for men it was "Financial assistance with childcare costs" (37% of men).

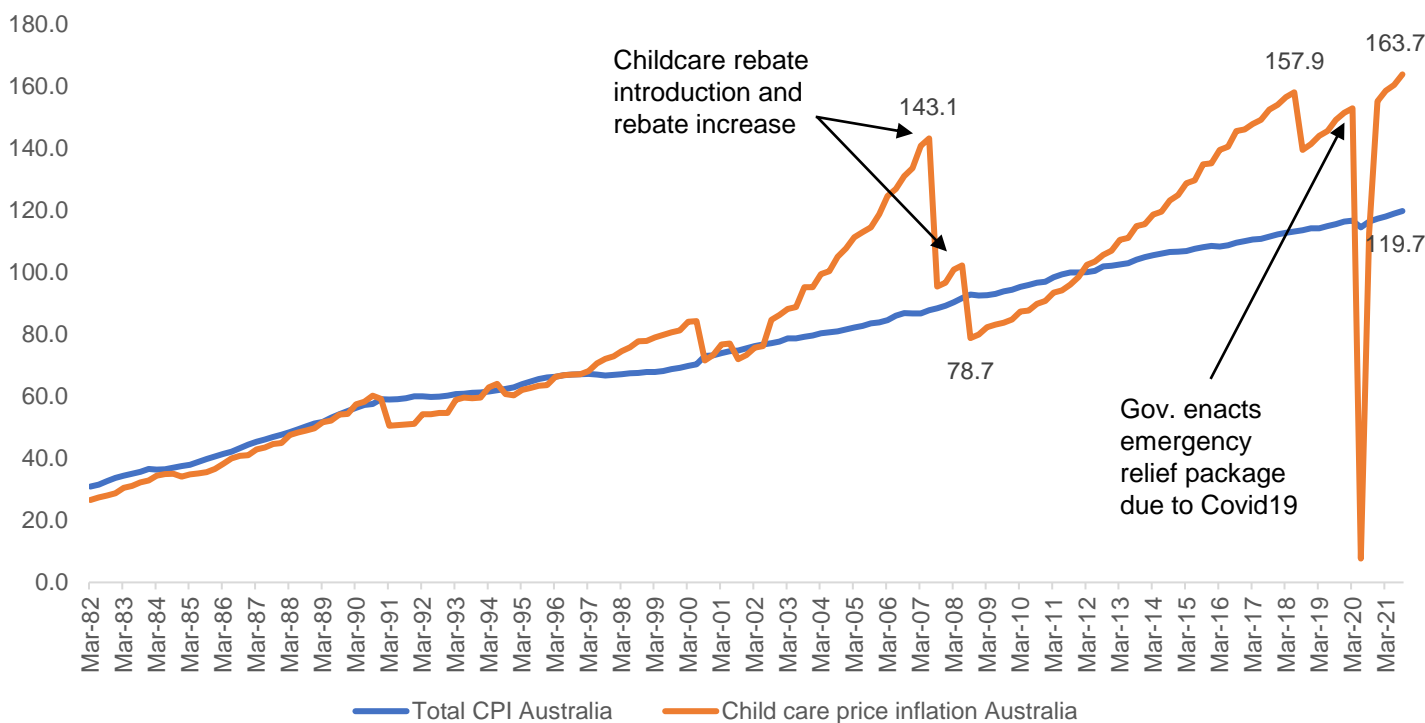
This contrasts with the Australian Children's Education and Care Quality Authority's (ACECQA) latest industry snapshot indicating that the growth rate for new 'long day care' facilities has been declining over the last 3 to 4 years².

¹ Retrieved from: [ABS, Barriers and Incentives to Labour Force Participation, Australia](https://www.abs.gov.au/australian-bureau-of-statistics/publications/barriers-and-incentives-to-labour-force-participation).

² Retrieved from: https://www.acecqa.gov.au/sites/default/files/2021-11/NQF-Snapshot-Q3-2021_0.PDF



CHART 2 – CPI data for childcare vs all components³



This dramatic looking chart compares the index value of the entire CPI basket to that of childcare costs over the past few decades to the end consumer.

With costs of living increasing and real wages remaining subdued over the long term, the need for two household incomes in turn increases the demand for, and subsequently cost of, childcare services.

What are these vast swings? As illustrated by our annotations, at points when childcare has made a substantial deviation from total CPI increases, the Australian government has taken steps to increase the affordability of childcare for parents.

In 2007 the Rudd government introduced the childcare rebate and increased the amount in 2008. This operated as a tax credit on parents' income tax. In 2018 the Liberal government redeveloped the system to replace the Child Care Benefit (CCB) and Child Care Rebate (CCR) with a single, means-tested subsidy. This is paid directly to childcare service providers to be passed on to families.

During the 2020 pandemic the relief package paid directly to childcare service providers reduced childcare costs by 95%.

The flow through effects of childcare to the rest of the economy make it an incredibly important sector for the functioning and equality of society. The latest budget illustrated this by allocating \$1.7 billion in spending on a new childcare subsidy. The commencement of this subsidy was recently brought forward by four months to March 2022⁴.

³ Sourced from ABS, CPI latest release.

⁴ Retrieved from: <https://www.abc.net.au/news/2021-10-10/child-care-subsidy-increase-brought-forward-four-months/100527546>

CHART 3 – Evolve Education Group share price over 7 years⁵



H&G High Conviction Fund has 5% of its capital allocated in shares of Evolve Education Group (ASX: EVO). Our average cost per share is \$0.72 and we began accumulating in July 2021.

What are the company's assets? Evolve owns 135 childcare centres, with 111 in New Zealand and 24 in Australia. The company began with a portfolio of centres in NZ, called Lollipops, and over the last two years acquired Australian centres in Queensland and Victoria.

What has driven share price performance over the last 7 years? Since listing in 2014 at \$8 per share, the stock has been a significant disappointment considering the current price of \$0.86. Shortly after its IPO, Evolve had a series of profit downgrades. This was largely due to declining occupancy rates across the Group's childcare centres (solely in NZ at this point), perhaps resulting from an overly corporatised model and friction between head office and individual centres. In 2018-19 Evolve was recapitalised and restructured, involving the selling out of the founders and introduction as MD of Chris Scott, former founder and MD of G8 Education (ASX: GEM). Having personally invested a significant sum into Evolve, Chris initiated a turn around in NZ and acquisition strategy in Australia. This led to a positive share price reversal until Covid-induced lockdowns in NZ and Australia severely hampered the childcare sector.

What does the future hold? With Australia and NZ committed to a Covid strategy of management rather than elimination, the childcare sectors in both countries have an important role to play in boosting employment post-lockdowns. We have already noted the support of governments for the sector. In the private sphere, there is increasing institutional interest in childcare. Busy Bees, which is backed by the Ontario Teachers' Pension Plan, recently acquired 75 centres in NZ and 36 in Australia, while Quadrant Private Equity acquired 150 centres in Australia. Such acquisitions have been on multiples of around 10x EBITDA, compared with Evolve's current forward multiple of around 6x. Given the favourable industry dynamics, we believe the market has overlooked Evolve because of its unstable past.

⁵ Sourced from Thomson Reuters.

FUND INFORMATION

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\$14m
Fund pricing	Monthly
Fund type	Open-end unit trust
Base currency	Australian dollars
Investor eligibility	Wholesale and sophisticated investors
Trustee	Equity Trustees
Custodian	JP Morgan
Auditor	Ernst & Young
Management fee	1% plus GST p.a. + fund costs capped at 1.05%
Performance fee	20% of benchmark outperformance, with a high watermark, paid annually
Benchmark	5% p.a.
Buy/sell spread	0.4%



Sandy Beard
Chair



Joseph Constable
Portfolio Manager



Iain Thompson
Compliance Manager



Arthur Fokschaner
Consultant/Analyst

DISCLAIMER: This report has been prepared by H&G Investment Management Ltd (ACN 125 580 305; AFSL 317155) to provide you with general information only. In preparing this report, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither H&G Investment Management Ltd nor its related parties, their employees or directors, provide any warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. You should obtain a copy of the Information Memorandum before making a decision about whether to invest in this product.