

SUMMARY

Fund net performance for the month of July was 4.21% taking since inception returns to 36.09%.

COMMENTARY

A feature this month were the handful of capital raisings we saw across our portfolio companies. All else equal, we prefer not to see share issuance as it has a dilutionary effect on shareholders and so it's important to differentiate between the capital raisings we like to see in our long book vs the capital raisings we saw in the short book during March and April. The key difference is the use of capital. Is the fresh capital required due to previously poor returns? Or is it required to fund a high returning future opportunity? Many of our short positions were forced to raise capital at the depths of the market panic to satisfy expanding debt balances and in the face of rapidly reducing profitability. Diluting shareholders at depressed prices is often the penance for prior sins.

The A,B,C's of capital raisings we like were demonstrated by Afterpay, BWX and City Chic who have raised funds this month from a position of strength and to bring forward future opportunity. Each of these business models have been resilient enough to continue to grow despite the crisis and this gives them the option to fund future earnings growth either from operating cashflows or share issuance dependent upon whether the return opportunity exceeds the time value of money.

Afterpay's trading update confirmed its status as a COVID-19 beneficiary as huge volumes of retail spend moved online at the same time as bad debts remained low, even during a global crisis. The 'Afterpay-ing it' market appears to have the characteristics of a 'winner takes most' market and as such, the race for scale is on. We have never-before seen such rapid execution as Afterpay has demonstrated and for these reasons the case for further investment into geographical expansion is strong.

Owner of Natural skin care brands, BWX provided a trading update indicating 25% revenue growth and 30% earnings growth for the year. Additionally, product rollout programs especially in US pharmacy and grocery outlets help underwrite next year's growth. This revenue growth allows BWX to scale its manufacturing capability to the point where cost savings per unit become material. This comes with a capital investment that will be satisfied by BWX's share issuance. The expected savings on manufacturing costs per unit exceed both our return hurdles and those of company management. For this reason, we believe the investment will pay back quickly.

Women's plus size fashion retailer City Chic was a top contributor to returns this month as they pre-released their financial result, raised capital and made an acquisition. In a world where bricks & mortar retail is suffering from both structural and virus-related challenges, City Chic has been somewhat insulated from these impacts as they have roughly three quarters of their sales online. A feature of the result was the implied profitability from their recent acquisition of Avenue.com. Given management's track record of execution, we're backing them to create at least as much value out of their latest acquisition of Catherines.com.

Afterpay, BWX and City Chic were all amongst the top contributors for the month.

OUTLOOK

Topics on our mind include Australia's second wave, the nature of further economic stimulus and most importantly, the imminent August reporting season. At this point many corporates have pre-reported their results or given enough guidance such that earnings estimates are now well within the ballpark. What we don't yet know is the full detail around the quality of those earnings. How much of underlying earnings are backed by cash earnings? How many non-recurring items are included or excluded? Are the long term, normalised earnings of these businesses higher or lower should we come out of this COVID defined environment? This reporting season's earnings will have more moving parts than a swiss watch, an ideal environment for the fundamental investor.

Gross exposure is 170% while net exposure is 50%

NET PERFORMANCE

PERIOD	FUND RETURN
1 month	4.21%
3 months	16.66%
Since Inception (13 th May 2019)	36.09%

TOP 5 HOLDINGS

1. Afterpay (APT)
2. Uniti Group (UWL)
3. City Chic (CCX)
4. Xero (XRO)
5. BWX Limited (BWX)