Growth With Value
Your investment can make the difference

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Growth With Value Investment Fund – 31 March 2021 Quarterly Report

The Growth With Value Investment Fund focuses mainly on investing in Australian listed businesses. Our concentrated portfolio will consist primarily of businesses which are able to generate strong Returns on Capital, provide solid Profit Margins, carry little or no Debt and present long-term growth prospects. We also apply an ethical perspective when investing in a business. We look for a business which respects our environment, including both flora and fauna, and cares for its people and customers. We also avoid businesses which produce or provide a service that is considered an addictive substance. Our investment decisions are based on fundamental analysis with a long-term mind set, paying little regard to short term fluctuations in the market. We choose to invest only when the business presents us with an opportunity to buy below its Intrinsic Value. You can expect, over the long term, this portfolio to outperform our benchmark, the ASX 200 Accumulation Index (XJOA).

Fund Performance Since Inception (May 2018):

GWV Investment Fund versus ASX 200 Accumulation Index – Total and Annualised Returns			
Annualised Return		**Total Return**	
GWV Fund Annualised Return	25.7 %	**GWV Fund Total Return**	95.0 %
Benchmark Annualised Return (XJOA)	8.5 %	**Benchmark Total Return (XJOA)**	26.9 %
Outperformance / (Underperformance)	17.2 %	**Outperformance / (Underperformance)**	68.1 %

Fund Month by Month Performance Since Inception (May 2018):

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
GWV FY18	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	11.8%	0.6%	**12.5%**
XJOA FY18	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.1%	3.3%	**3.3%**
GWV FY19	(0.1%)	0.2%	(1.0%)	(1.8%)	2.7%	(3.2%)	3.0%	12.5%	(1.0%)	6.9%	0.9%	(5.3%)	**13.3%**
XJOA FY19	1.4%	1.4%	(1.3%)	(6.1%)	(2.2%)	(0.1%)	3.9%	6.0%	0.7%	2.4%	1.7%	3.7%	**11.6%**
GWV FY20	(0.2%)	(1.5%)	1.8%	(2.6%)	4.0%	3.6%	(0.9%)	(0.0%)	(20.6%)	19.8%	11.7%	3.5%	**6.9%**
XJOA FY20	2.9%	(2.4%)	1.8%	(0.4%)	3.3%	(2.2%)	5.0%	(7.7%)	(20.7%)	8.8%	4.4%	2.6%	**(7.7%)**
GWV FY21	2.6%	12.2%	0.5%	(0.7%)	13.3%	2.0%	(0.0%)	4.5%	0.8%				**43.2%**
XJOA FY21	0.5%	2.8%	(3.7%)	1.9%	10.2%	1.2%	0.3%	1.5%	2.4%				**18.0%**

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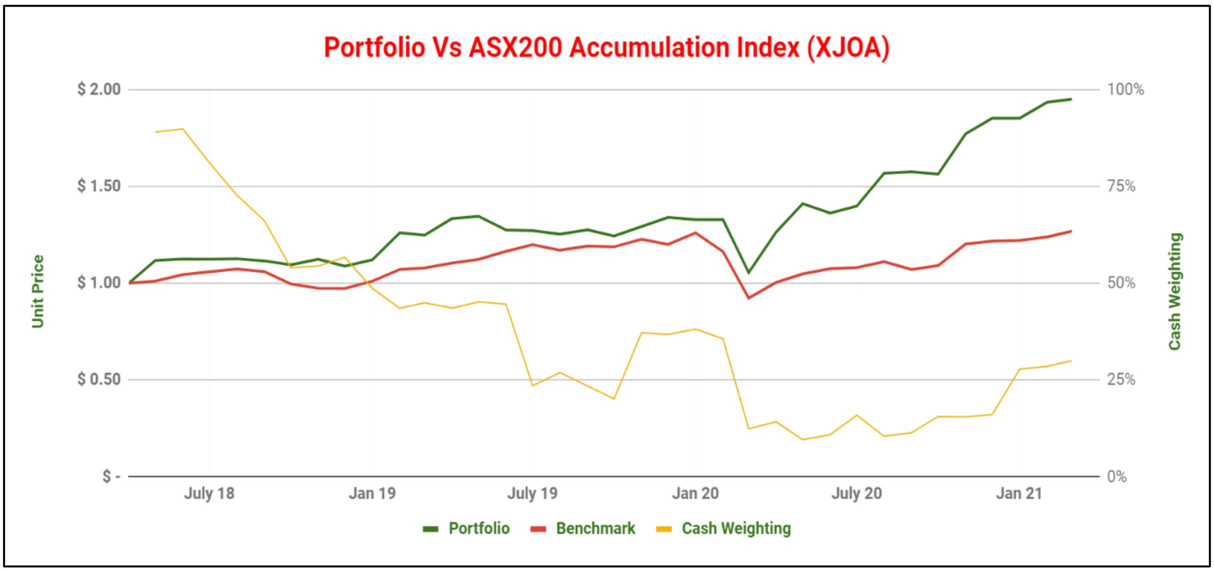
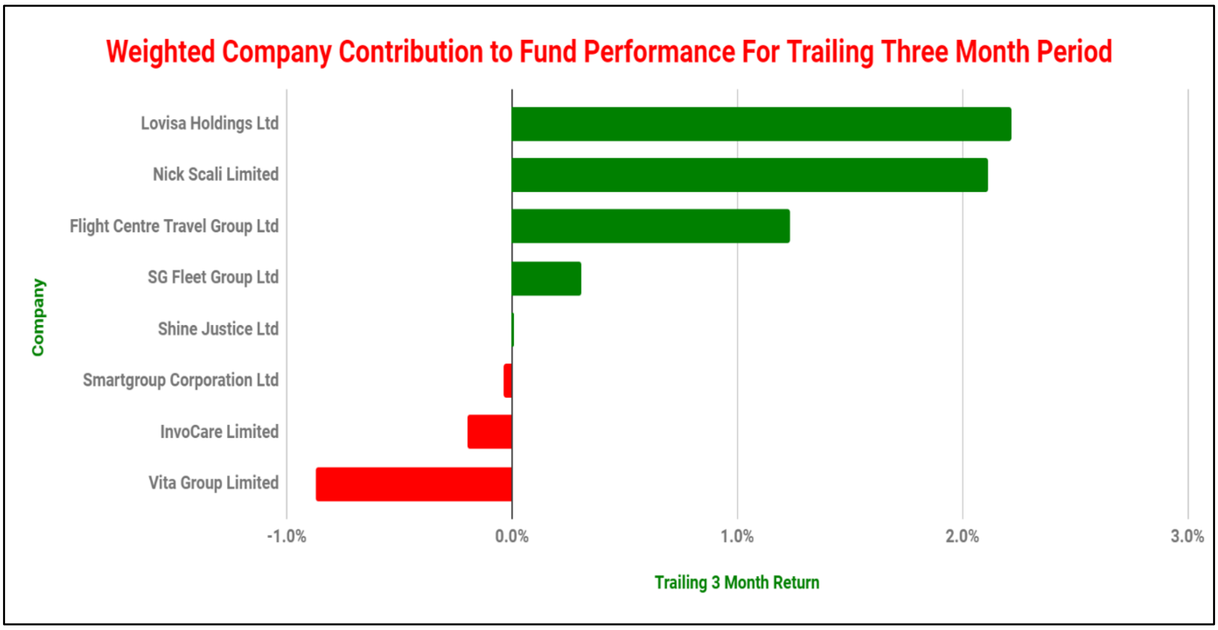
Fund versus Benchmark:



Portfolio:

Company	Initial Purchase Date	Ave. Purchase Price	Annualised Return*	Portfolio Weighting
Cash			3.5%	30.0%
Nick Scali	05/07/2018	$ 4.48	48.1%	22.2%
Flight Centre	16/03/2020	$ 12.32	17.2%	10.4%
Lovisa	25/03/2020	$ 2.86	342.8%	10.0%
InvoCare	02/05/2018	$ 10.47	5.6%	8.6%
Smart Group	20/02/2020	$ 5.90	9.7%	6.4%
SG Fleet	27/07/2019	$ 2.43	(1.4%)	6.4%
Vita Group	31/08/2018	$ 1.09	(1.9%)	3.6%
Shine Corporate	25/07/2019	$ 0.73	18.8%	2.4%

Note: For companies held for less than 12 months, the Annualised Return has been substituted with Total Return.



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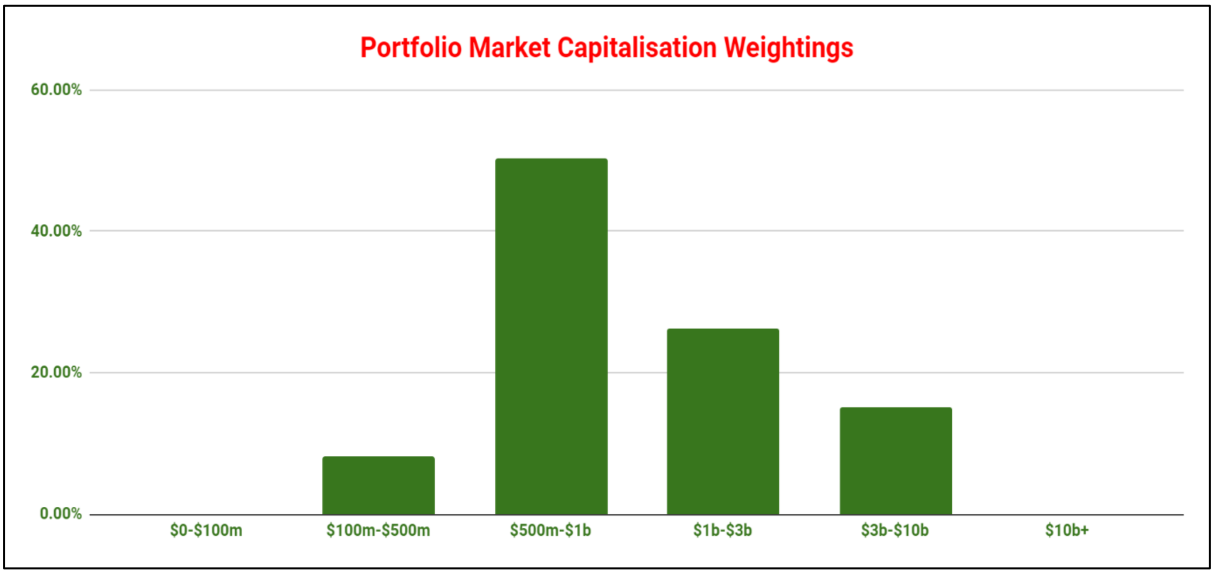

Median Market Capitalisation: $ 860m

Weighted Average Market Capitalisation: $ 1,424m

Performance:

For the Third Quarter ended March 2021, the Growth With Value Investment Fund returned 5.3% versus 4.3% for our Benchmark, the ASX 200 Accumulation Index (XJOA). This is an outperformance of 1.0%. At the end of this period, we held 30% in cash and had eight open positions. We made one sale during the period.

Since its inception, the Fund has provided an annualised return of 25.7%, resulting in a total return of 95.0%. Our Benchmark has an annualised return of 8.5%, resulting in a total return of 26.9% over the same period.

Since our 20% loss last March, our fund has provided an 85% return over the past 12 months versus 37.5% return from our benchmark, which fell by about 7.7% in February and another 20.7% in March. By the end of January 2020, the fund had seen its cash position increase to 38.2% of Total Assets, by the end of May our cash position was reduced to 9.5% after we were able to deploy a relatively large amount of capital into some wonderful companies at more than fair prices. So far, this strategy has proven successful and highlights the importance of being greedy whilst others are fearful. It is in times of fear that we should be so inclined to invest our capital and why a conservative approach to budgeting future expenses and living costs is so important, so we are not forced to draw upon our investments to fund these costs at the worst possible time.

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Portfolio Activity:

Over the last 3 months we did not add any new companies to our portfolio. We did, however, exit one position in Collection House (CLH).

Collection House resumed trading in January, after an 11-month self-imposed suspension in trading from the market. We sold our holding at a price of $0.39 a share, resulting in an annualised loss of 50% versus a gain of 3% a year for our benchmark, obviously a very disappointing result. In terms of portfolio weighting, Collection House made up 5% of our total portfolio at the time of investment. I discuss further the reason for the trading halt and why I decided to sell our holdings, albeit at a large loss, in the FY20 Full Year Report available HERE.

In February, Telstra announced its plan to take back full ownership of its retail store network (350+ stores), 108 of which are currently contracted to Vita Group until June 2025. The telecommunications segment is by far Vita Groups largest source of Revenue, equating to 97.3% of Total Revenue for FY20. Given Vita Group's contract with Telstra is integral for continued revenue generation, this investment potentially has a much higher level of risk attributed to it. I explain in further detail below under the heading 'Learnings' the risks that were involved when I made this investment and how we have attempted to mitigate the potential risk. In 2011 Vita Group launched its own accessory brand, Sprout, which is the largest single-branded phone accessory provider in Australia, with its products being available in over 300 locations. The brand focuses on providing quality products, evident in their low return rate of just 1%, versus an industry standard of 5%. It is still unclear however how big an impact this recent announcement will have on the Sprout accessories business, with management divulging little in the way of financial information and revenue generation for the Sprout business unit. Management did announce however, that in FY20 the Sprout brand sold over 1 million units. With the cheapest item currently available being a $40 phone case and the most expensive a $360 set of portable speakers, we could assume an average unit price of $100, which would provide us with a ballpark figure of $100m in sales (about 13% of total revenue) annually. Once the contract with Telstra expires, Sprout should continue operating beyond 2025, selling its products both online and through selected retail stores.

SG Fleet announced at the end of March that it will acquire the Australian and New Zealand business units of the global auto leasing and fleet management company, LeasePlan. As of FY20, LeasePlan was the largest provider of vehicles in the Fleet Vehicle Leasing Industry in Australia, controlling 21.5% market share. SG Fleet came in at number four, holding just over a 10% market share. After the merger, SG Fleet will be the clear market leader with over 30% of the market. Toyota Finance Australia and Eclipx Group will likely continue to hold just under 15% each in market share.

SG Fleet will pay $387.4m for the acquisition of the Australian and New Zealand Assets of LeasePlan, made up of SG Fleet scrip valued at $114.4 (44.7m shares at a scrip price of $2.56, equating roughly to a 13% stake in SG Fleet), and a cash payment of $273m.

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Learnings:

Continuing on with Vita Group, when we made our initial purchase in August 2018, we were buying a business that received 99% of its revenue from a single segment, Information and Communications Technology. This alone is not an issue, but the continuation of a large part of this revenue was highly dependent on a rolling five-year contract with Telstra, which allowed Vita Group to operate up to 115 Telstra retail stores. This meant Vita Group's long-term performance was ultimately determined by one single contract. Which, most likely, was the reason for Vita Group's decision to diversify into the Skin Health and Wellness segment which operates within the Australian Non-Invasive Aesthetic Treatment Market.

For this reason, an investment in Vita Group came with a considerably larger level of risk, which unfortunately eventuated in February when Telstra announced it will take back ownership of its retail store network. To help us mitigate this risk, we made the investment at a considerable discount to its intrinsic value, known as a Margin of Safety. We apply a Margin of Safety to all our investments to provide some insurance against any future events that may impact negatively on our investments.

The saving grace for us was the fact that we bought Vita Group at a large discount to its intrinsic value (about 50%) at the time. Intrinsic value now appears to be more in line with current market values of around $0.80 to $0.90 a share, this price is assuming business operations cease in 2025, and does not include the Skin Health and Wellness business segment. If we include the potential sales from the Skin Health and Wellness segment, intrinsic value increases to about $1.25 a share, assuming a 60-clinic network is reached by 2025 (management has stated a target of 70 clinics, current network is 20 clinics). Without the large buffer provided by the Margin of Safety employed when purchasing Vita Group, to date, we would have experienced a much greater decline on our investment than the current negative 1.9% a year return versus a positive 7.0% a year return for our benchmark over the same period.

There has been increasing demand in the Australian Non-Invasive Aesthetic Treatment Industry, which is also seeing fairly rapid consolidation as firms like Vita Group begin to purchase smaller boutiques. The industry is expected to grow by almost 10% a year by 2024 with industry revenue increasing from $5.4 billion to $7.8 billion. These are promising signs for current CEO and Founder of Vita Group (originally Fone Zone) Maxine Horne and perhaps is the reason why management selected this particular industry to transition into.

Our investment now relies upon management's ability to create a successful national business, like they once did with Fone Zone. Since management has created a successful retail network once before, it provides us with confidence that it has the expertise required to do so again. Although the business appears to be currently trading below intrinsic value (if we include the Skin Health and Wellness segment), it is still too early to have total confidence in the new business model and whether management will be able to successfully implement the current strategy.

Provided the Skin Health and Wellness segment continues as planned and management is able to maintain the rollout of profitable clinics, which produces higher Gross Margins of about 72% compared to about 27% for the Telecommunications business, we are hopeful for a good return on our investment over the long term.