

# Monthly Performance Report

## September 2018

### Monthly Update

For the first quarter of the financial year, the portfolio increased by +2.92% (after fees) compared to the S&P/ASX200 up +1.21% and the Small Ords up 1.10%.

For the month of September, the portfolio decreased by -0.24% (after fees) during which the S&P/ASX200 decreased by -1.26% and the Small Ords by -0.35%.

This month value was added from good news for Leigh Creek (ASX: LCK) and by participating in the Healthia (ASX: HLA) IPO, which together offset some price weaknesses in other stocks.

### Monthly Portfolio Metrics

<b>Outlook Stocks (Long)</b>	17 Positions: 61%
<b>Outlook Stocks (Short)</b>	1 Positions: -3%
<b>Event, Pair and Group (Long)</b>	2 Positions: 11%
<b>Event, Pair and Group (Short)</b>	1 Positions: -6%
<b>Cash</b>	36%
<b>Gross Exposure</b>	81%
<b>Net Exposure</b>	64%
<b>Beta</b>	0.57

### Return Summary Since Inception<sup>1</sup>(after all fees)

<b>Since Inception (p.a.)</b>	9.57%
<b>1 Month</b>	-0.24%
<b>3 Months</b>	2.92%
<b>6 Months</b>	2.26%
<b>FYTD</b>	2.92%
<b>1 Year</b>	8.84%
<b>3 Years</b>	3.73%
<b>5 Years</b>	5.42%
<b>Cumulative</b>	76.87%

### Portfolio Analytics Since Inception

<b>Sharpe Ratio</b>	0.80
<b>Sortino Ratio</b>	1.56
<b>Standard Deviation (p.a.)</b>	9.12%
<b>Positive Months</b>	61%
<b>Maximum Drawdown</b>	-15.21%
<b>Avg. Gross Exposure</b>	87.80%
<b>Avg. Net Exposure</b>	76.10%
<b>Avg. Beta</b>	0.57
<b>Avg. VAR</b>	1.20%

<sup>1</sup> Inception date is 2 July 2012

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### Healthia

Healthia operates in the allied health services of podiatry and physiotherapy. It owns:

- 72 “My FootDr” podiatry clinics (out of the 5,920 in Australia)
- 23 “Allsports Physiotherapy” physiotherapy clinics (out of the 2,393 in Australia)
- 7 “Extend Rehabilitation” hand therapy clinics
- An “iOrthotics” orthotics laboratory, and
- A 50% interest in “D.B.S. Medical” allied health supplies

It is looking to expand its network, and bring efficiencies of scale from consolidation, to improve the quality and profitability of the fragmented allied health industry.

We have seen such models successfully implemented many times in the past. For example, Sonic Healthcare (ASX: SHL) was a consolidation of pathology services, Primary Healthcare (ASX: PRY) a consolidation of General Practitioners, Greencross (ASX: GXL) a consolidation of veterinary clinics, and G8 (ASX: GEM) a consolidation of childcare centres. All of these consolidations were very successful in their initial stages.

Typically, these “industry roll-ups” start small, and demonstrate a solid track record of growing revenues and margins, and integrating businesses. They are able to acquire private businesses at valuation multiples below their own share price, and this allows them to raise equity as they consolidate their industry, creating a virtuous circle. During this process the stock price usually sees an increase in its own valuation multiple, at the same time it is growing earnings per share, leading to solid share price growth over the medium term.

The Healthia IPO looks to us to tick all the boxes in terms of following in the footsteps of successful industry consolidations.

- The allied health industry is particularly fragmented. For example, no one operator in the physiotherapy sector held more than 3.0% of total sector revenue in 2017. So, this is a very early stage roll-up.
- The business has highly experienced senior management, whose learnings from previous endeavours have shaped its organisational structure and practitioner incentives. Dr Glen Richards, the founder and former CEO of Greencross, is HLA Chairman. Wesley Coote, the former CFO of Greencross, is the HLA CFO.
- The initial PE multiple was relatively low – at \$1 it was 13x pro-forma EPS, despite expected organic growth, and balance sheet headroom to grow by acquisition before making a call on the market.

We invested in HLA at an IPO price of \$1.00 and it closed at 30 September at a price of \$1.22.

### Leigh Creek

Leigh Creek Energy Limited is developing remnant coal resources at Leigh Creek, in South Australia, via in-Situ Gasification. On 3 September, it received final approval from the regulator to proceed with its Pre-Commercial Demonstration (PCD) to produce synthetic natural gas.

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Successful PCD operations will be a significant milestone in LCK's progress to commercialisation and the Company's immediate near term objective of then upgrading of its 2,964 PJ 2C resource to a 2P reserve in Q4 2018.

To put this in perspective, this is about 2.6% of Australia's gas reserves as reported in the AFR recently<sup>i</sup>.

On the business day following regulatory approval, an application was made by The NSW Environmental Defenders Office seeking:

- judicial review of the decision by the South Australian Minister for Energy and Mining to issue various approvals, and
- to injunct the operational start-up of the Pre-Commercial Demonstration facility (PCD) at Leigh Creek in South Australia.

Within a few days, the South Australian Supreme Court dismissed the application. With the granting of PCD approval and its successful legal defence, the LCK share price rose 50% for the month of September.

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<sup>i</sup> <https://www.afr.com/business/energy/gas/reserves-shock-sharpens-east-coast-gas-crisis-20180309-h0xa3l>