

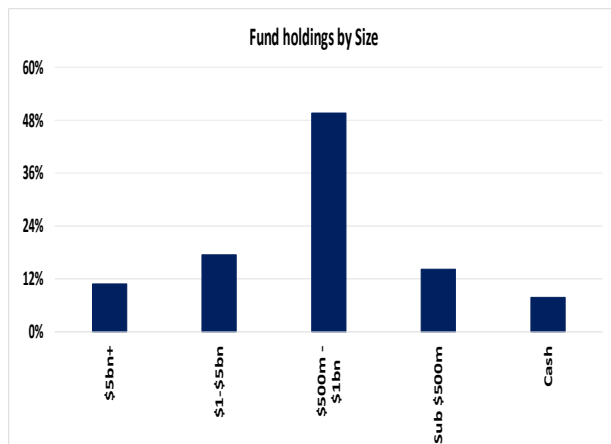
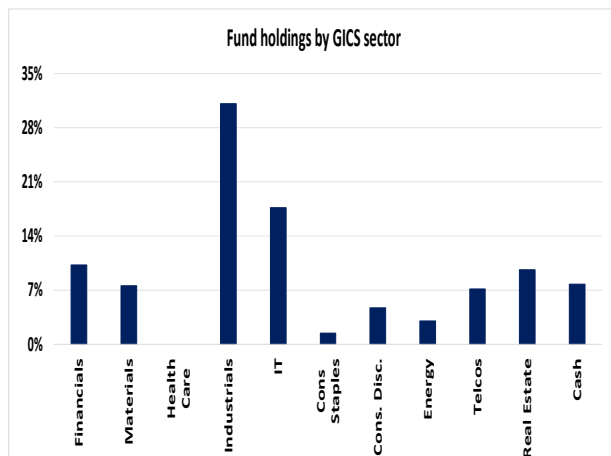
## Surrey Australian Equities Fund

### PORTFOLIO UPDATE

The Surrey Australian Equities Fund (SAEF) posted a return of -9.0% in January after all fees, in line with the Small Ordinaries Accumulation Index (XSOAI) return of -9.0%. Our three year after fee gain since inception now totals 13.9% per annum (XSOAI 10.1% per annum).

The decline in local and global markets we believe, was predominantly driven by perceptions around the likelihood of rising interest rates globally, led by the USA. Other features such as a potential Russian invasion of Ukraine also contributed, although to a far lesser degree.

Following various equity purchases and sales we finished the month with 7.8% of the Fund in cash and a total of 34 holdings diversified across a range of various sectors.



### FUND PERFORMANCE

Stock markets across the world saw declines as pundits attempted to forecast forward interest rate moves. This included the Australian market and our Fund was not immune. While market declines were broad spread, there were a number of positive contributors to the Fund including Cooper Energy (Oil and Gas sector benefited from rising oil prices), Aurelia Metals (AMI) and Maggie Beer Holdings (MBH).

In terms of rising US 10-year bond yields, it rose from 1.5196% on December 31<sup>st</sup> 2021 to a high of 1.8926% before settling at 1.7842% on January 31<sup>st</sup> 2022. In terms of the portfolio, the current blended pre-tax earnings yield is still well in excess of this rate (equity risk premium) while the weighted EPS growth is double digit. Looking at this we still far prefer the Surrey Australian Equities (SAEF) portfolio relative to bonds, particularly given a large number of the companies we own have the ability to pass on inflation+ pricing to their customers.

Performance (to January 31st 2022)	Fund Return <sup>A</sup>	Benchmark Return <sup>*</sup>	Fund Relative Performance
1 mth	-9.0%	-9.0%	0.0%
3 mth	-7.3%	-8.0%	0.7%
1 yr	6.0%	6.6%	-0.6%
2 yr pa	11.0%	6.0%	5.0%
3 yr pa	13.9%	10.1%	3.7%
since incep pa	8.9%	6.1%	2.8%
since incep	36.8%	24.4%	12.5%

<sup>A</sup> After all fees and expenses

<sup>\*</sup> S&P/ASX Small Ordinaries Accumulation Index (XSOAI)

Inception date June 1, 2018

### FUND TOP HOLDINGS (in alphabetical order)

Auckland International Airports (AIA)  
 DGL Group (DGL)  
 Lifestyle Communities (LIC)  
 Kelsian Group (KLS)  
 Uniti Group (UWL)

## FUND OUTLOOK

### Reporting Season

Reporting season kicks off in February and as per normal we will be seeing hundreds of management teams over the month across all sectors of the market. It is an exciting and insightful time for us and we look forward to coming back to you with details and themes we have learned.

Various companies have already released preliminary numbers. In our portfolio some of these include Betmakers (BET) and Pointsbet (PBH) as well as numerous quarterly cash flow statements.

### Retail & Buy Now Pay Later (BNPL) sectors

A theme we have already seen coming into February is weak performance from retail (particularly online retail) as well as weakness in the Buy Now Pay Later (BNPL) sectors. We have limited / no exposure to these areas as we believed they had materially benefitted from a pull forward in spend as we moved through the COVID-19 "stay at home" period.

In addition, as rates do increase this will invariably impact retail spend and also importantly for the BNPL sector, bad debts.

### Mergers & Acquisitions (M&A)

An area the Fund has benefited from recently is Merger and Acquisition (M&A) activity. In this context, a very high conviction Fund Top 5 holding with multiple value latencies is **Uniti Group (UWL)**. The company announced on January 24<sup>th</sup> that it had "received approaches from more than one party indicating potential interest in an acquisition of the Company".

After UWL acquired Opticom in 2020, we factored in the opportunity for further industry consolidation which would target UWL, given the earnings stability from its infrastructure type assets. Therefore, we were not surprised to hear about the takeover interest. Similar transactions have resulted in multiples as high as ~28x EV/EBITDA and with UWL trading at ~19x FY23 EV/EBITDA, we see scope for a higher share price in CY2022.

Corporate activity aside, UWL has guided to consensus earnings of \$144.5m EBITDA In FY22, with consensus of ~\$163m EBITDA in FY23 and the potential for the UWL management team to organically achieve \$200m EBITDA in future periods, the Fund remains optimistic about future share price attribution.

Another position in the Fund is **Praemium (PPS)** which is currently under a non-binding takeover approach from an ASX listed company called Netwealth (NWL). PPS has been a holding in the fund for some time and one where we have been adding to our position.

The bid is an all-share offer meaning PPS shareholders receive 1 NWL share for each PPS share they own. At the time of the bid, it valued PPS at \$1.50 per share – a 29% premium to its prevailing price. Since then, markets have been volatile and the decline in the NWL share price sees the bid now valued at \$1.30 per share – in line with the current share price at time of writing.

Weighing on PPS in short term may be the timing of the sale of its international assets for \$65.1m to Morningstar. While terms have been agreed, finalisation will be in CY Q2/3, forcing the market to be more patient for the potential finalisation of the NWL bid for PPS.

At current levels we see the risk/reward ratio as appealing and remain holders of PPS believing both that a higher priced bid may be coming and also that a combined NWL/PPS business is an attractive proposition.

As always, we thank all Unitholders, staff, and service providers for your support in entrusting us with your capital and welcome any queries you may have.

**SURREY ASSET MANAGEMENT**

Surrey Asset Management is an investment management company established in 2017 to manage the Surrey Australian Equities Fund. It is wholly owned and managed by Nicholas Maclean & Michael Woolhouse who have in excess of thirty years of combined financial markets experience. Both Fund Managers have significant personal investments in the fund.

The Fund offers investors exposure to ASX listed companies with the objective of earning returns in excess of the S&P/ASX Small Ordinaries Accumulation Index over rolling 5-year periods. This is done by following a defined investment process within the construct of our core values of fact-based investing, transparency, authenticity, accountability and humility.

<b>Surrey Australian Equities Fund</b>	APIR Code SPC2070AU
<b>Managers</b>	Nicholas Maclean (B.Com, B.Arts, Grad. Dip. Applied Finance & Investment) Michael Woolhouse (B.Com, Accounting & Finance)
<b>Investment Benchmark</b>	S&P/ASX Small Ordinaries Accumulation Index. (XSOAI)
<b>Fund Objective</b>	To provide investors exposure to ASX listed companies with the objective of earning returns in excess of the S&P/ASX Small Ordinaries Accumulation Index over rolling 5-year periods, with a strict focus on capital preservation.
<b>Typical Portfolio / Active stock limit</b>	20-40 active stock holdings. No one individual stock can represent more than 15% of the portfolio
<b>Debt / Derivatives / Shorting</b>	Nil
<b>Fund administrator</b>	Mainstream Fund Services
<b>Fund Trustee</b>	Specialised Investment & Lending Corporation Pty Ltd
<b>Unit Pricing / Applications / Redemptions / Performance Reports</b>	Monthly 31 Jan 2021: Redemption Price \$1.2771 Entry Price \$1.2847
<b>Surrey Asset Management contact information</b>	Email: <a href="mailto:info@surreyassetmanagement.com">info@surreyassetmanagement.com</a> Ph: +61 3 9691 5490
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**APPLICATIONS**

Further information on the Surrey Australian Equities Fund and how to invest can be found by downloading an Information Memorandum and applying online via our website, and/or contacting the investor services team on the details below:

**Surrey Online Applications:** [www.surreyassetmanagement.com/how-to-invest/](http://www.surreyassetmanagement.com/how-to-invest/)

**Surrey Asset Management Website:** [www.surreyassetmanagement.com](http://www.surreyassetmanagement.com)

**Surrey Asset Management Phone:** +61 3 9691 5490

**Mainstream Fund Services Phone:** 1300 133 451

**Disclaimer**

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