H & G HIGH CONVICTION

Portfolio Manager's Performance Report for financial year 2023

Highlights during the year:

- Listed on the ASX in October 2022 following successful IPO
- Deployed raised funds into existing holdings and new microcap companies following dramatic pullback in market prices
- Became substantial shareholders in three new investments
- Pre-tax NTA & dividends return since IPO of 11.25% after all fees
- Declared and paid first dividend of $0.02 per share
- Pre-tax NTA per share of $1.086 (after dividend) at 30 June 2023, compared to listing price of $0.983

Pre-Tax Net Assets Per Share:

$1.086

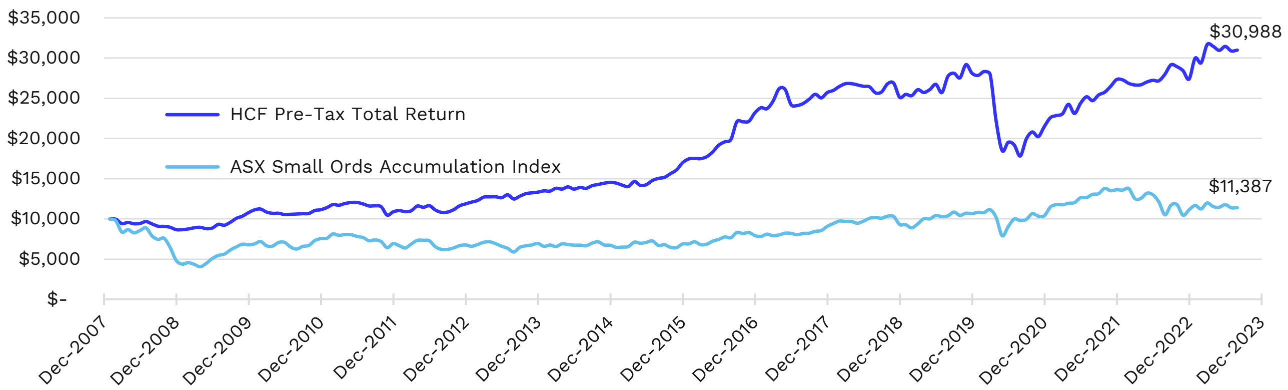
At 30 June 2023

Current Market/ Share Price:

$0.995

At 14 July 2023

Value of $10,000 invested since inception as at 30 June 2023



*Performance data is after all fees and includes the original vehicle, H&G High Conviction Fund, launched in November 2007, until 23 June 2022, and the performance of H&G High Conviction Limited since 23 June 2022. Performance of H&G High Conviction Limited is calculated monthly as profit before taxation divided by opening net assets (adjusted for capital movements and dividends during the month, if any). Past performance is no guarantee of future returns.

Challenges bring opportunities

FY23 was a challenging and exciting year for investors in ASX-listed microcaps. Markets were erratic and participants continued the FY22 trend of fleeing from illiquid to "blue-chip" companies.

This has presented a sustained level of opportunities in microcaps unseen for some years and a fertile ground for our investing strategy.

This is best depicted by a chart we released earlier in the year, which is included on the next page.

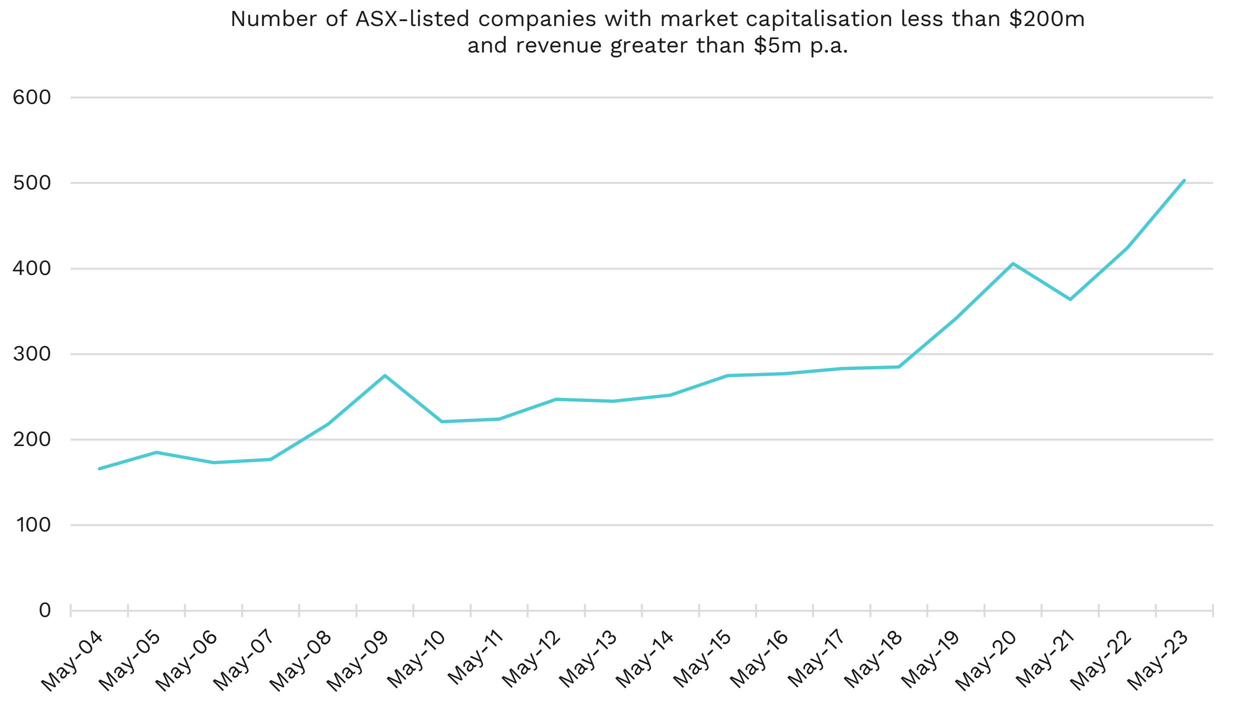
Despite this wider uncertainty HCF ended the financial year with a positive performance, has raised and deployed substantial capital, and thanks to some early wins has firepower with which to pursue further compelling investments.

I encourage new, existing and prospective investors to book an appointment to access the portfolio management team should they have any questions about the company's holdings, strategy and policies.

Book yourself a meeting now!

Joseph Constable
Executive Director &
Portfolio Manager

Scan the QR code to get H&G news & insights sent to your email!



*Source: Refinitiv/H&G Investment Management

With limited buying interest and numerous sellers in microcap companies, valuations in our universe have fallen significantly below long-term averages. In this context, we were delighted to raise $8.3m in cash during the financial year.

A net $6.8m was invested into existing and new ASX-listed microcap companies at a favorable time in the market cycle.

Following the profitable realisation of some holdings, we ended FY23 with $5.9m in cash, which we intend to invest in exciting opportunities in the coming months.

HCF's Investment Philosophy

H&G High Conviction Limited (HCF) invests on a multi-year horizon in a concentrated portfolio of ASX-listed microcap companies, a niche segment of the market.

Microcaps are overlooked by most institutions due to size, meaning frequent inefficiencies in security prices and opportunities to buy stakes in businesses at attractive valuations.

By insisting on paying low prices for good value in companies with aligned management and creating a margin of safety via thorough research and informational edge, HCF targets double digit risk-adjusted returns over the market cycle.

As a key differentiator, HCF actively engages with investee companies. This is crucial for microcaps, where success is heavily reliant on a small group of key people.

HCF leverages this strategic approach to help unlock the full value of management teams and core assets.

HCF's primary goals are to minimise capital loss and focus on long-term capital growth and income from portfolio companies.

The shape of our portfolio

Major changes to our portfolio during the year include significant investments in Eildon Capital, Kinatico and Connexion Telematics, as well as the sale of Proptech Group shares following the company's receipt of a takeover bid, and disposal of shares in Bisalloy Steel Group and Hillgrove Resources after both companies reached our target prices.

During FY23, our portfolio of companies produced a net return after all fees of 10.7%, a moderate outperformance of 2.2.% against the ASX Small Ordinaries Accumulation Index.

The three major contributors to this performance were Kiland (5.4% contribution), Proptech Group (5.2% contribution) and Po Valley Energy (4.3% contribution).

It is encouraging that three out of our top four holdings at the beginning of the financial year provided meaningful returns.

Our fourth, Centrepoint Alliance, had a slightly negative contribution, hampered by a lack of traction in its pursuit of consolidation in the financial services sector, as discussed further below.

It is also encouraging that two high conviction positions acquired in the last six months, Kinatico and Connexion Telematics, contributed meaningfully to our return (fourth and fifth greatest contributions, respectively). We discuss below the factors that drove positive returns in Kiland and Po Valley Energy.

Top & bottom 3 contributors to performance

Code	Name	Weighted Contribution
KIL	Kiland Ltd	5.4%
PTG	Proptech Group	5.2%
PVE	Po Valley Energy Ltd	4.3%
AN1	Anagenics Limited	-1.0%
LDX	Lumos Diagnostics	-1.1%
CF1	Complii Fintech Ltd	-1.6%

As always, we seek to learn from our wins and losses, in order to maximize the conditions that lead to positive returns and minimise those that lead to negative returns.

In general, the best performing positions were those in which we had greatest conviction (and therefore, portfolio weighting), a meaningful shareholding, and were actively engaged with the board and management.

The worst performing positions tended to be absent those conditions (except for Centrepoint Alliance).

We will continue to work closely with the board and management of all investee companies to help realise full value for shareholders, and for underperforming holdings work constructively to affect positive change.

Connexion Telematics Ltd (ASX: CXZ)

CXZ generates USD recurring SaaS revenues by offering fleet management software to franchised dealerships participating in courtesy transportation programs (CTPs) for automakers (OEMs).

CTPs offer dealership customers replacement vehicles during services, providing OEMs a marketing opportunity & dealers higher utilisation of fleet cars.

Connexion's major customer is General Motors (GM), which comprises the bulk of revenues. GM has mandated the use of CXZ's software at all its 4,000 franchised dealerships in the US.

CXZ was a perennial underperformer until new management entered in 2020 and refocused operations on organic reinvestment of cash into development and expansion of existing and complementary products.

The company is a genuine SaaS revenue business trading at a low multiple of 3x EV to maintainable EBIT. In addition, there is considerable margin of safety due to an estimated 30% of its market capitalisation backed by cash. The MD is a conservative operator with capital allocation skills.

CXZ is generating significant free cashflow, which is being used to reinvest into the business and expand the company's software offering, in addition to buying back stock.

HCF owns 8.3% of Connexion.

Kinatico Ltd (ASX: KYP)

CVCHECK + Cited™

Formerly CV Check Ltd, KYP operates a business model centered around various technological solutions designed to simplify and improve compliance, verification, and management processes within organisations.

This includes CVCheck, a transaction-based service that provides background screening and credential validation; Cited, a SaaS-based platform for end-to-end workforce compliance and management; the OnCite app, which offers compliance visibility and control to every worker; and Enable, a solution aimed at streamlining onboarding, verification, and mobilisation management for asset owners in sectors such as mining, oil, and gas.

The company is the largest provider of employee identity validation services in Australia with > 10,000 customers. Since 2021, new management has been embarking on a strategy of transforming this from one-off transactional to recurring revenue by marketing Kinatico's SaaS solution to CV Check's existing client base. Early signs are positive, with SaaS revenue at 3Q23 growing by 143% YoY to represent 21% of revenue.

New management is also undertaking software development to automate processes. This should enable a meaningful reduction in headcount that should lead to an attractive steady state valuation in the coming years.

There is considerable margin of safety due to 22% of KYP's market capitalisation being backed by cash. The company is presently buying back its own stock.

HCF owns 6.7% of Kinatico.

Update on largest portfolio holdings

Po Valley Energy (PVE) shares increased by 43% during an eventful year, which included a capital raise, construction of a gas plant and connections at onshore field, Selva, and securing all regulatory approvals to commence gas production.

This occurred in early July, a significant milestone for PVE, which now progresses from a natural gas explorer into a cash-generating producer. We are proud to have been actively engaged shareholders, with board representation, during this seminal period in Po Valley's history.

Kiland (KIL) shares increased by 54% in FY23. During the period, Kiland advanced the redevelopment of its 14,500 hectares of fire-damaged tree plantations into agricultural land.

It also progressed its carbon removal biochar project, including raising external capital in a new subsidiary (Nobrac). Throughout the year, KIL purchased on market a meaningful amount of its shares.

Centrepoint Alliance (CAF) returned -10% during the year net of dividends. CAF continued to generate strong cashflow from its core business of providing services to financial advisers, with earnings in line with expectations. Nevertheless, disappointingly, the share price fell by 20% over the year on low volume to 22.5c.

The non-binding indicative offer made by Diverger in June 2022 to acquire all Centrepoint Alliance shares at 32.5c per share was rebuffed by the CAF board and no subsequent corporate activity occurred throughout the year.

We maintain our belief that CAF shares are undervalued given the company's low earnings multiple, strategic appeal, and position to pursue industry consolidation.

Pre-tax performance as of Friday, 30 June 2023	3 months	12 months	2 years p.a.	3 years p.a.	7 years p.a.	10 years p.a.	Since inception p.a.
HCF total return, net of fees	0.1%	10.7%	12.0%	20.2%	6.6%	9.5%	7.5%
ASX Small Ords Accumulation Index	-0.5%	8.4%	-6.6%	5.2%	5.8%	6.8%	0.8%
Outperformance	*0.7%*	*2.2%*	*18.6%*	*15.1%*	*0.7%*	*2.7%*	*6.7%*

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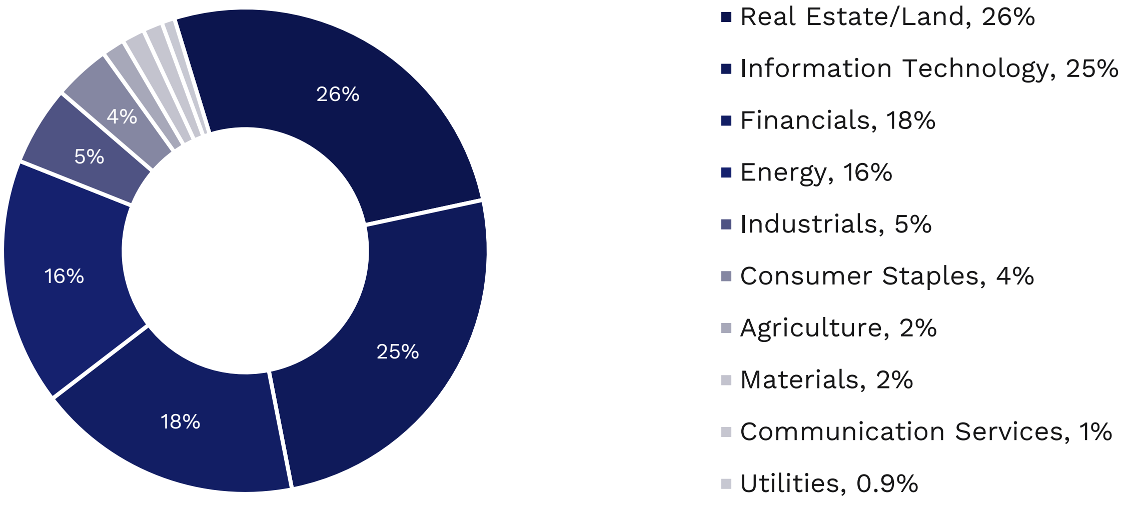
Exposures as % of Equities at 30 June 2023



Outlook

We believe our current investments have significant latent value, with our weighted average target price per company demonstrating 113% upside across the portfolio.

For each investment, there are a series of identified catalysts that should help bridge the gap between current market prices and our targets.

Accordingly, we expect future returns to be event-driven and encourage shareholders to look beyond any month or quarter given our multi-year investment horizon.

As evident in the following table, the balance sheets of our investee companies are robust, with limited debt, strong cash positions, and no immediate need for dilutive capital.

This is especially important in the current climate, as the era of cheap money has been replaced with higher costs of capital.

Company name	Shareholders' equity divided by total assets	Net cash & liquid investments divided by market capitalisation
Kiland Ltd	94%	28%
Po Valley Energy Ltd	85%	2%
Eildon Capital Ltd	88%	34%
Kinatico Ltd	73%	24%
Centrepoint Alliance Ltd	72%	35%
Connexion Telematics Ltd	90%	30%
Cirrus Networks Holdings Ltd	63%	47%
Clearview Wealth Ltd	82%	122%
Anagenics Ltd	79%	37%
Ensurance Ltd	73%	44%

"It ain't what you don't know that gets you into trouble.

It's what you know for sure that just ain't so." – Mark Twain

We don't make predictions about the future of markets but strive to understand current investor psychology and seize opportunities when they arise.

Within the ASX-listed microcap segment, there is considerable fear and a lack of investor appetite. By way of example, according to data from Thomson Reuters, there are currently 59 ASX-listed companies with a market capitalisation of less than $300m trading at a discount to their cash backing.

Two years ago, this was 24.

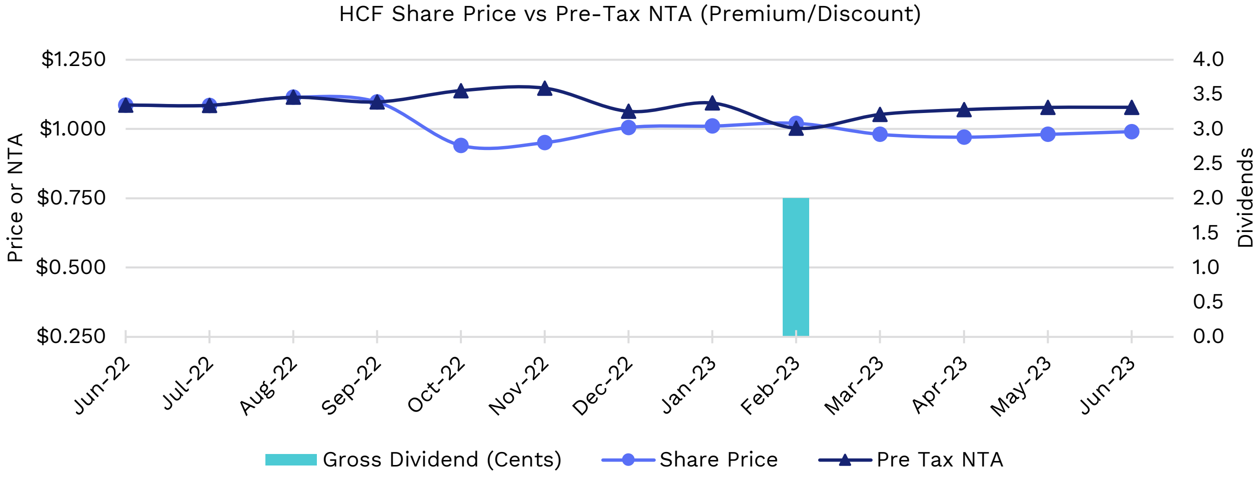
This negative sentiment is understandable given the difficulties facing the global economy after a material increase in interest rates and tightening of credit.

Nevertheless, given our bottom-up focus on individual stocks, we can selectively pick companies that have been undiscerningly caught up in the fear but in our estimation can continue to thrive due to strong balance sheets and valuable assets or businesses.

We are finding discounts to intrinsic value and intend to invest our cash in such opportunities in the coming months while remaining disciplined in only seeking enterprises that have identifiable catalysts to drive shareholder returns. We aim to spend the remainder of the calendar year investing our cash and increasing the concentration of our portfolio.

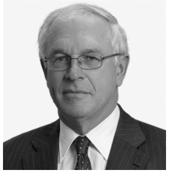
We look forward to updating HCF investors on our progress in our September 2023 quarterly report.

In the meantime, please do not hesitate to get in contact with any questions.



Company Details	H&G High Conviction Limited
ASX Code	HCF
Company Type	Listed Investment Company
ISIN	AU0000236218
Shares on issue	25,059,428
Investment Manager	H&G Investment Management Limited
Management Fee	1% plus GST p.a.
Performance Fee	20% of benchmark outperformance, with a high watermark
Benchmark	5% compounding annually, absolute

The Team: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Chair – H&G High Conviction


Nick Atkinson
Director


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Portfolio Manager & Director


Sandy Beard
Chair – H&G Investment Management


Nishantha Seneviratne
CFO – H&G Investment Management


Arthur Fokschaner
Investment Manager

Disclaimer: This performance report has been prepared by H&G Investment Management Ltd (ACN: 125 580 305; AFSL: 317155) on behalf of H&G High Conviction Limited to provide you with general information only.

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