

ASX: HCF

Annual General Meeting Presentation

16 October 2023

# IMPORTANT INFORMATION

## **Status of this document**

This document contains general information regarding H&G High Conviction Limited (HCF) as at the date of this presentation. The information contained in this document (including this notice) (Information) is not comprehensive and subject to change. The Information should not be considered to comprise all of the material which a shareholder or potential investor in HCF may require in order to determine whether to deal in shares.

This document and the Information contained in it are provided to you on the basis that you are a person to whom an offer of shares or other securities would not require a disclosure document under Chapter 6D of the Corporations Act 2001 (Cth). By attending an investor presentation or briefing, or by accepting, accessing or reviewing this presentation, you acknowledge and agree to the terms set out in this document.

Not an offer to acquire shares

This document is not a prospectus. This document does not constitute an offer, invitation, solicitation or recommendation in relation to the subscription, purchase or sale of shares or other securities in any jurisdiction and neither this document nor anything in it will form the basis of any contract or commitment.

## **No reliance**

HCF has not verified the accuracy or completeness of the information, statements and opinions contained in this document. Accordingly, except as required by law, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the Information, opinions and conclusions, or as to the reasonableness of any assumption contained in this document. By receiving this document and to the extent permitted by law, you release HCF and its respective officers, employees, agents, advisers and associates from any liability (including, without limitation, in respect of direct, indirect or consequential loss or damage or loss or damage arising by negligence) arising as a result of the reliance by you or any other person on anything contained in or omitted from this document.

## **Forward looking information**

This presentation may contain certain forward looking statements and comments about future events. You can identify these statements by the fact that they use words such as "anticipate", "estimate", "expect", "project", "intend", "plan", "believe", "target", "may", "assume" and words of similar import. Indications of, and guidance on, future earnings and financial position and performance are also forward looking statements.

Any forward looking statements included in this document involve subjective judgment and analysis and are subject to significant uncertainties, risks and contingencies, many of which are based on interpretation of current market trends and are outside the control of and are unknown to HCF and its respective officers, employees, agents, advisers or associates. Actual future events may vary materially from the forward looking statements and the assumptions on which those statements are based. Given these uncertainties, no representation, warranty or assurance (express or implied) is given or made by HCF that the forward looking statements contained in this presentation are accurate, complete, reliable or adequate or that they will be achieved or prove to be corrected. You are cautioned to not place undue reliance on such forward looking statements.

Subject to any continuing obligation under applicable law or relevant listing rules of the ASX, HCF disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements in this presentation to reflect any change in expectations in relation to any forward looking statements or any change in events, conditions or circumstances on which any such forward looking statements are based.

Except for any statutory liability which cannot be excluded, no responsibility is accepted by HCF or any of its respective officers, employees, agents, advisers or associates, nor any other person, for any of the Information or for any action taken by you on the basis of the Information. Nothing in this presentation shall, under any circumstances, create an implication that there has been no change in the affairs of HCF since the date of the presentation.

## **Not advice**

This document does not constitute investment, legal, taxation or other advice and does not take into account your investment objectives, financial situation or particular needs, nor does it contain all the information which would be required in a disclosure document or prospectus prepared in accordance with the requirements of the Corporations Act 2001 (Cth). You are responsible for forming your own opinions and conclusions on such matters and should make your own independent assessment of the Information and seek independent professional advice in relation to the Information and any action taken on the basis of the Information.

## **Third party information**

Certain market and industry data used in connection with this presentation may have been obtained from research, survey or studies conducted by third parties, including industry or general publications. None of HCF nor any of its respective officers, employees, agents, advisers or associates have independently verified any such market or industry data.

## **Historical information**

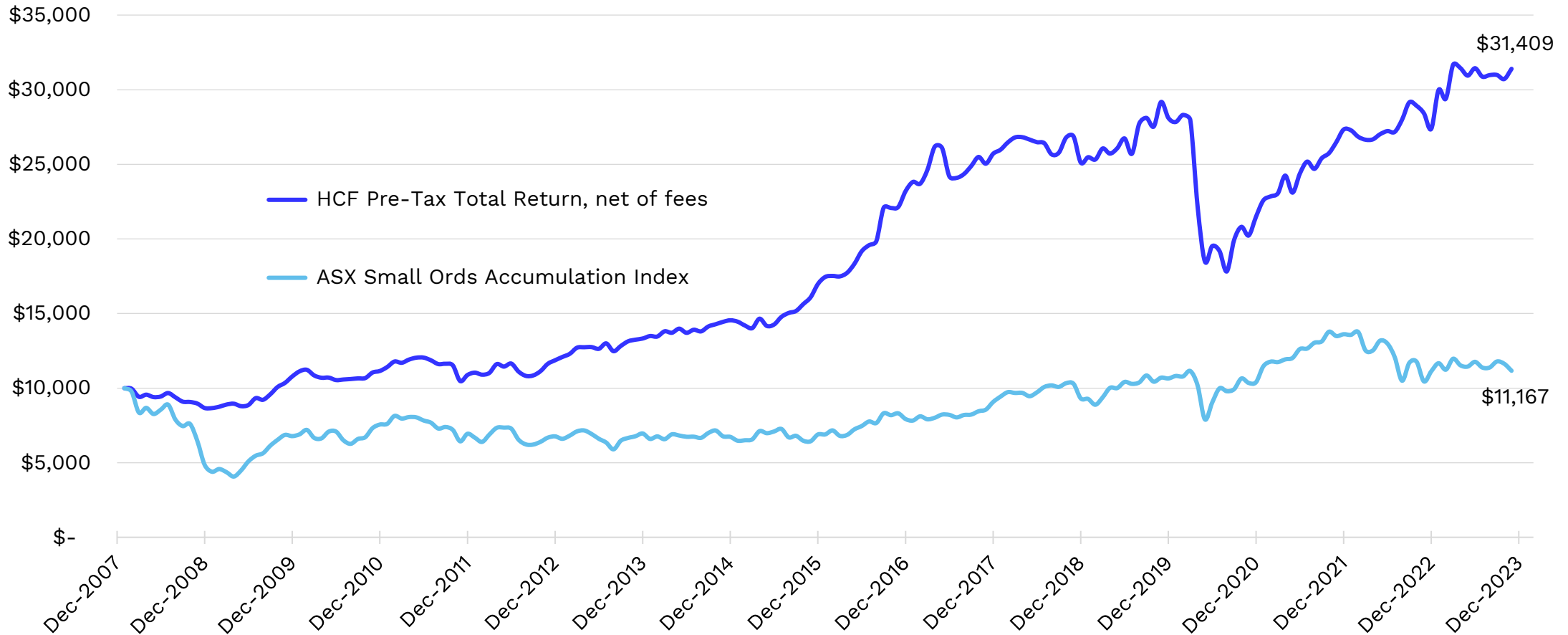
Past performance information in this presentation is given for illustrative purposes only and should not be relied upon as, and is not, an indication of future performance.

## **Australian Dollars**

All currency amounts are expressed in Australian dollars (\$, \$A or AUD) unless otherwise stated.

# Long-term market outperformance

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



*\*Performance data, as applicable throughout this presentation, 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).*

**Historical performance is not a guide to future performance.**

# A fruitful first year as a listed company

Our last twelve months in key figures

**3**

Takeover bids received at significant premiums for our portfolio companies

**10.5%**

Pre-tax portfolio performance after all fees, compared to -1.9% by the ASX Small Ordinaries Accumulation Index

**\$949,535**

FY23 declared dividends (equivalent to \$0.04 per share)

**\$1,858,904**

Net realised gains from selling portfolio companies

**\$16,148,705**

Invested into new and existing microcap companies



## Three takeover received bids in the last year

M&A activity realising inherent value of microcaps

Portfolio company	Bid received	Acquirer	HCF realised return
Proptech Group (PTG)	October 2022	Private equity (US)	115%
Cirrus Networks (CNW)	September 2023	Trade buyer	73%
Ensurance (ENA)	August 2023	Trade buyer	23%



# Where we fit in the LIC landscape

A uniquely concentrated microcap investment company



Sources: Bell Potter Weekly LIC Report 6 October 2023; LIC ASX Announcements and Annual Reports; HGIM internal data. 1 Year Return as at 30 September 2023, calculated as change in pre-tax NTA. Number of holdings as at most recent annual report of LIC.

## Why HCF?



Only ASX-listed investment company focused solely on microcaps



Exposure to an uncrowded part of the market



History of long-term above-index returns



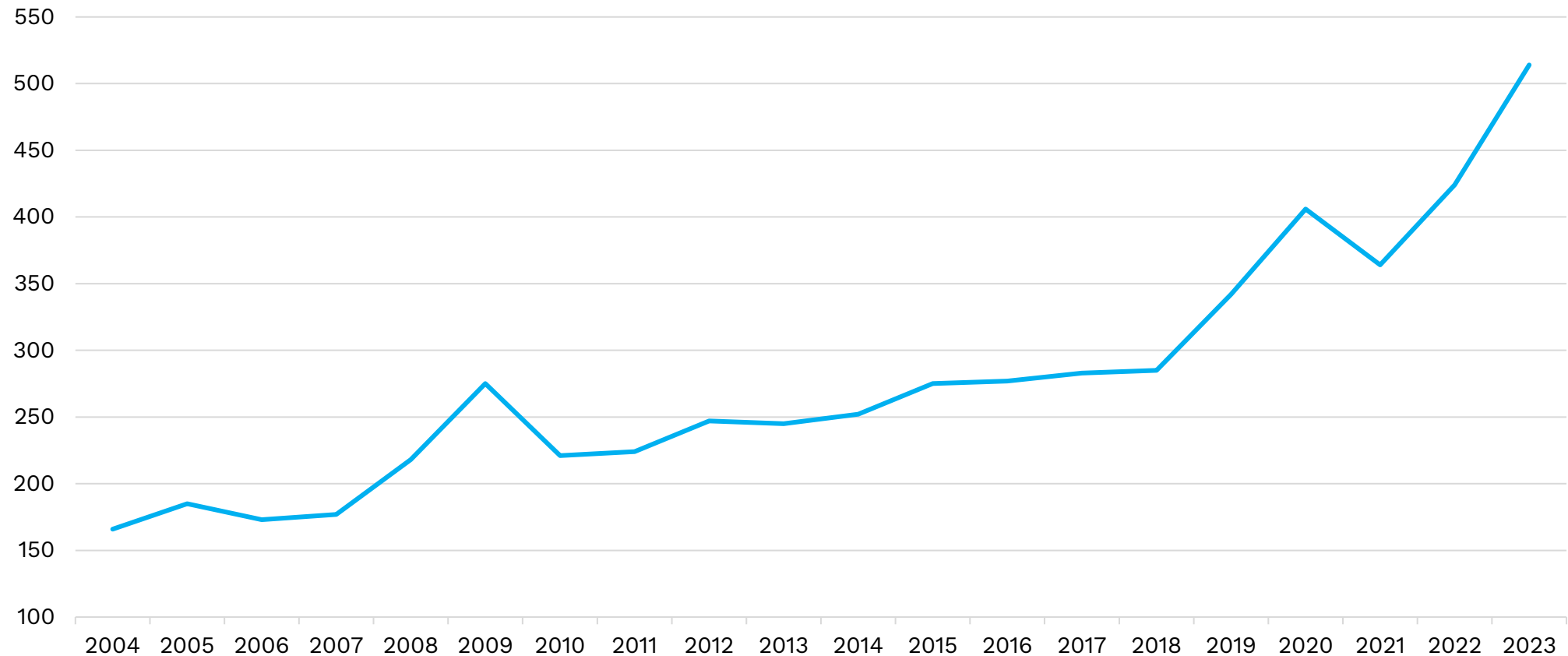
Microcaps are at cyclical lows relative to large cap companies



# Number of companies appearing in HCF's sweet spot

Continuing increase in investment opportunities

Companies with market capitalisation < \$200m and revenue > \$5m p.a.





## What does HCF look for?



Depressed share prices with the potential for double-digit returns



Limited downside due to a high margin of safety and robust balance sheets



Companies run by an aligned board and management



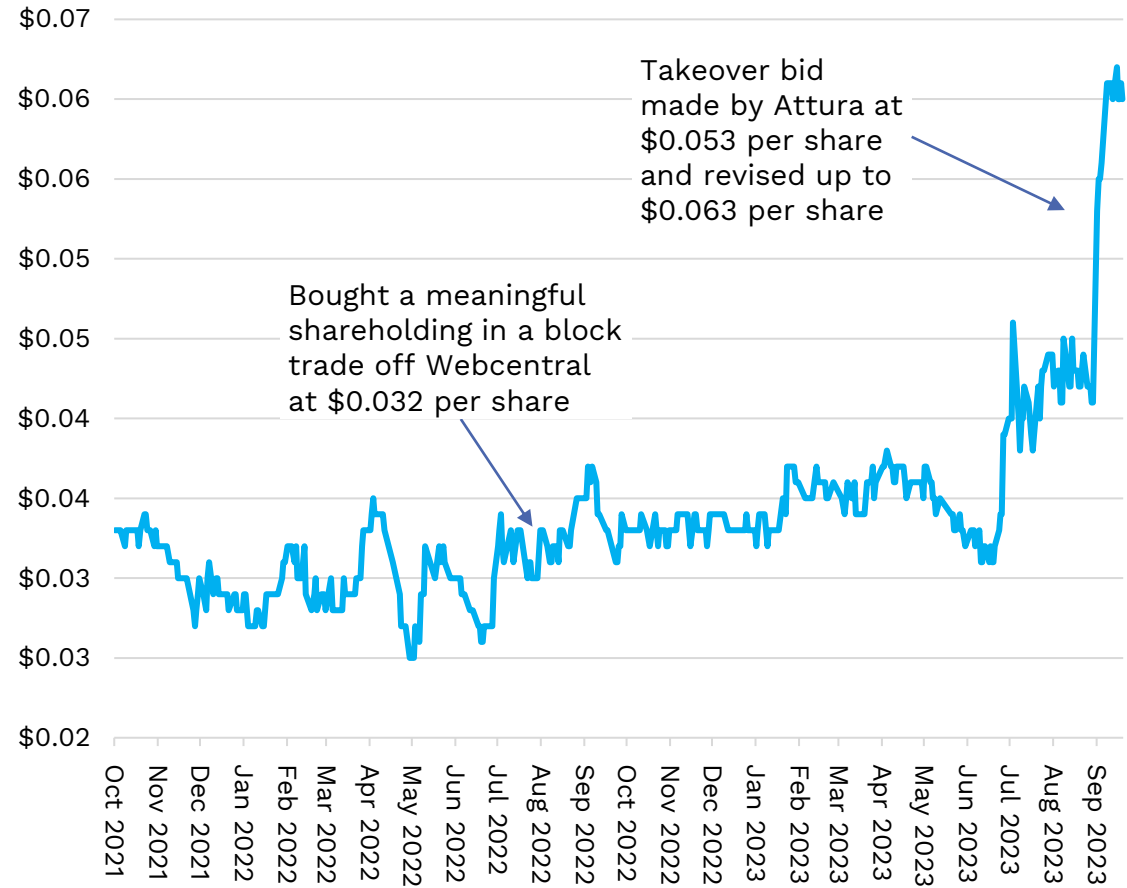
Catalysts for bridging gap between inherent and market value



# Case study: Cirrus Networks (CNW)

- First acquired shares in CNW in August 2022
- CNW provides IT services to government and enterprises
- EV/EBITDA of 5x and market cap 30% backed by net cash at our entry price
- Unloved stock due to historical corporate issues
- New board and management with strong alignment
- Attura (competitor) attracted by CNW's work on hand
- 73% realised return over 13 months

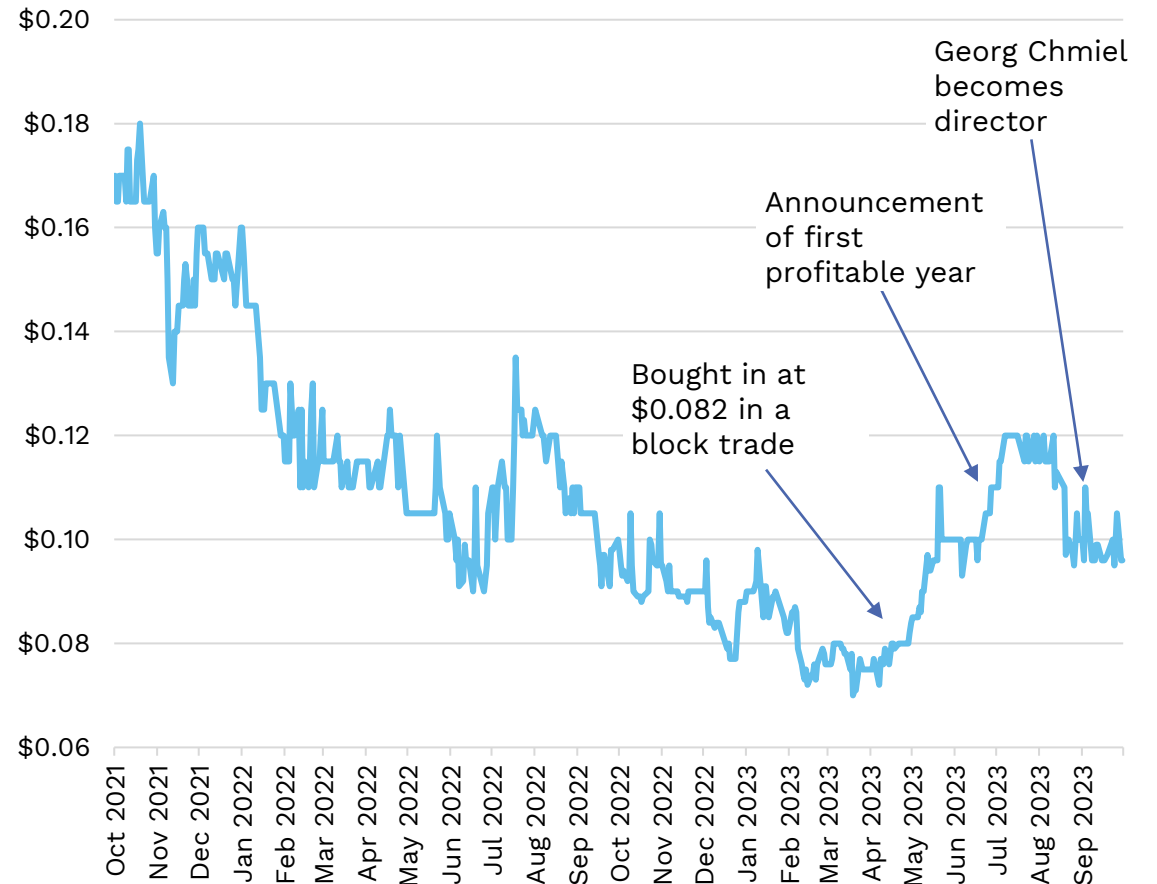
Cirrus Networks 2-Year Price Chart



## Case study: Kinatico (KYP)

- First acquired shares in KYP in May 2023
- KYP provides identity validation software to government and enterprises
- EV/EBITDA run-rate of 5x and market cap 30% backed by net cash at our entry price
- Unloved stock due to historical underperformance
- New CEO Michael Ivanchenko delivering on profitable strategy
- HCF nominated Georg Chmiel to the board
- 17% unrealised return over 5 months

Kinatico 2-Year Price Chart



## Material investments during the year

Investing cash in a buyer's market

New holding	Industry	% of HCF at cost	Return-to-date*
Eildon Capital (EDC)	Real estate lender	12%	1%
Kinatico (KYP)	Regulatory technology	8%	17%
Clearview Wealth (CVW)	Life insurance	5%	12%
Connexion Telematics (CXZ)	Automotive technology	5%	36%
Undisclosed	Undisclosed	4%	10%

\*Based on prices at market close on 13 October 2023



# Team available to HCF

A lifetime of experience

PORTFOLIO MANAGEMENT



**JOSEPH CONSTABLE**  
DIRECTOR & PORTFOLIO MANAGER



**ARTHUR FOKSCHANER**  
INVESTMENT MANAGER

GOVERNANCE & INVESTMENT COMMITTEE



**DAVID GROVES**  
CHAIRMAN

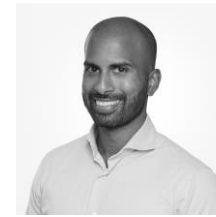


**NICHOLAS ATKINSON**  
DIRECTOR &  
INVESTMENT DIRECTOR – H&G

PLUS, THE WIDER H&G GROUP



**SANDY BEARD**  
CHAIRMAN – H&G & HGIM



**PHILLIP CHRISTOPHER**  
INVESTMENT DIRECTOR – H&G



## Why invest with HCF?

Continuing our strong momentum in a weak market

- Investing cash in a **buyer's market** following 2022/23 microcap sell-off
- Scale as a **voice for shareholder focus** amongst investee companies
- Strong **alignment between HCF manager and shareholders** with 18% direct ownership by portfolio manager's family, 6% by H&G, and 3% by Sandy Beard
- Intention to continue to **pay fully franked dividends**
- **HCF strategy complementary** amid volatile markets and poor index returns



# Thank you for your time

Performance as of 30 September 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 Pre-Tax Total Return (after all fees)	1.4%	10.5%	8.9%	15.8%	5.1%	9.0%	7.5%
ASX Small Ordinaries Accumulation Index	-1.9%	6.9%	-8.5%	2.6%	4.5%	5.1%	0.8%
<b>Outperformance</b>	<b>3.3%</b>	<b>3.6%</b>	<b>17.4%</b>	<b>13.2%</b>	<b>0.6%</b>	<b>3.9%</b>	<b>6.7%</b>

*\*Includes the original vehicle since inception, H&G High Conviction Fund, launched in November 2007, and the pre-tax performance of H&G High Conviction Limited from 23 June 2022. The strategy of investing in micro capitalisation listed equities has remained consistent. Historical performance is not a guide to future performance.*

**Get in touch with further questions anytime!**

JOSEPH CONSTABLE  
PORTFOLIO MANAGER

[joseph@hng.com.au](mailto:joseph@hng.com.au)  
+61 431 886 186

[www.highconviction.com.au](http://www.highconviction.com.au)





## APPENDICES

1. Portfolio characteristics
2. Points of difference & alignment
3. Shareholders of the company
4. Structure and fees



# Portfolio characteristics

As at 30 September 2023

## Top Holdings (Alphabetical)

Anagenics Ltd (AN1.AX)

Centrepoint Alliance Ltd (CAF.AX)

Clearview Wealth Ltd (CVW.AX)

Connexion Telematics Ltd (CXZ.AX)

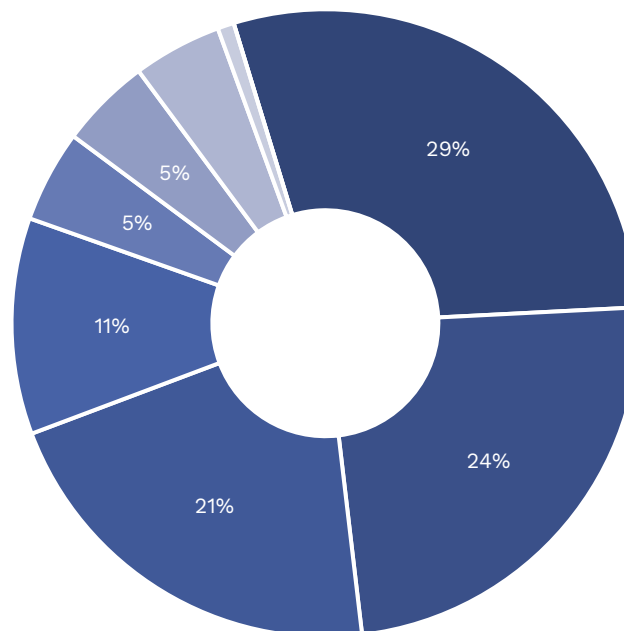
Eildon Capital Group Ltd (EDC.AX)

Kiland Ltd (KIL.AX)

Kinatico Ltd (KYP.AX)

Po Valley Energy Ltd (PVE.AX)

## Primary exposures as a percentage of total equities allocation



- Real Estate/Land, 29%
- Information Technology, 24%
- Financials, 21%
- Energy, 11%
- Consumer Staples, 5%
- Industrials, 5%
- Communication Services, 5%
- Utilities, 1%
- Agriculture, 0%



# Point of difference & alignment



## UNIQUE POINT OF DIFFERENCE

Access to the knowledge, experience and networks of H&G



## DEEP VALUE

Concentrated portfolio of overlooked and undervalued companies with limited broker coverage



## ACTIVE ENGAGEMENT

Close relationship with management & board including strategic collaboration where necessary



## PROVEN TRACK RECORD

Long-term superior returns over the cycles and regular distributions to investors



## TIGHT & SUPPORTIVE REGISTER

Constable family holds 18% of HCF, H&G holds 6%, top 20 own > 85%



## MODEST COSTS

1% management fee & an absolute benchmark of 5% meaning no performance fees on negative returns



## PERFORMANCE FEE INCENTIVE

20% of above benchmark returns with a high-water mark only paid out semi-annually, incentivises positive performance



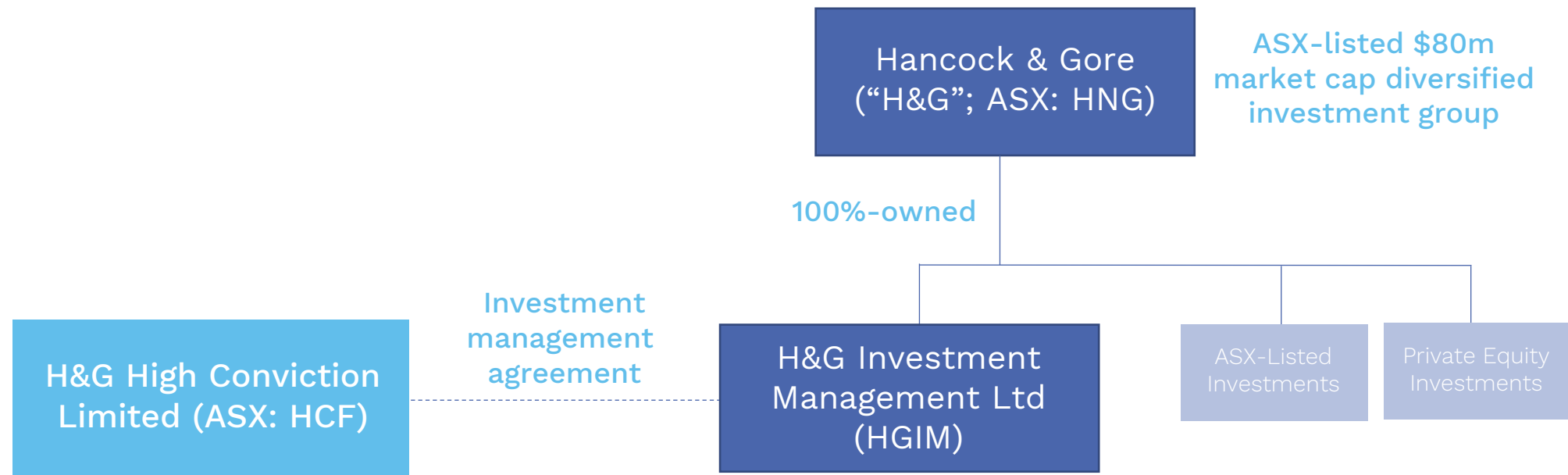
# Shareholders of the company

Top Shareholders include managers (& family), as well as supportive investors

<b>Investor/Group – as at 11<sup>th</sup> October 2023</b>	<b>% of SOI</b>
Former H&G High Conviction Fund Unit Holders	<b>26.1</b>
Constable Group	<b>22.9</b>
Perennial Value Management	<b>14.2</b>
Hancock & Gore Limited	<b>6.1</b>
Alexander (Sandy) & Pascale Beard	<b>3.1</b>
<i>Sub Total</i>	<i>72.4</i>
Remaining shareholders	<b>27.6</b>
<i>Total</i>	<i>100</i>



# Structure and fees



Management fee	1% of gross asset value plus GST p.a. paid monthly in arrears
Performance fee	20% of pre-tax benchmark outperformance, with a highwater mark, paid semi-annually
Benchmark	5% p.a.