EVANS & PARTNERS

GLOBAL DISRUPTION FUND

JUNE 2018 QUARTERLY INVESTMENT UPDATE

All data is at 30 June 2018 and in Australian dollars (AUD), unless otherwise indicated.

PORTFOLIO COMMENTARY

During the June quarter (**Q2**) the Fund remained close to fully invested, with the Investment Manager choosing to increase the cash holding marginally following a strong run-up in equity markets. The Fund continues to perform well, returning 13.0% in Q2 on a net tangible asset (NTA) basis, and has returned 34.3% since inception to Unitholders. Volatility continued in equity markets during the quarter, however, US equities performed strongly as the US economy continued to strengthen. The Nasdaq returned +10.4%, the S&P500 +6.9% and the MSCI AC World Index Net +4.4%.

Wirecard (+41%), Netflix (+38%), Amazon (+22%) and Salesforce (+22%) provided the strongest share price appreciation following quarterly results. Facebook also rebounded (+22%) with an impressive result, following a period of challenging sentiment which included fallout from the Cambridge Analytica revelations and the introduction of GDPR in the EU. Conversely, Nintendo (-23%) and Tencent (0%) were key detractors for the portfolio.

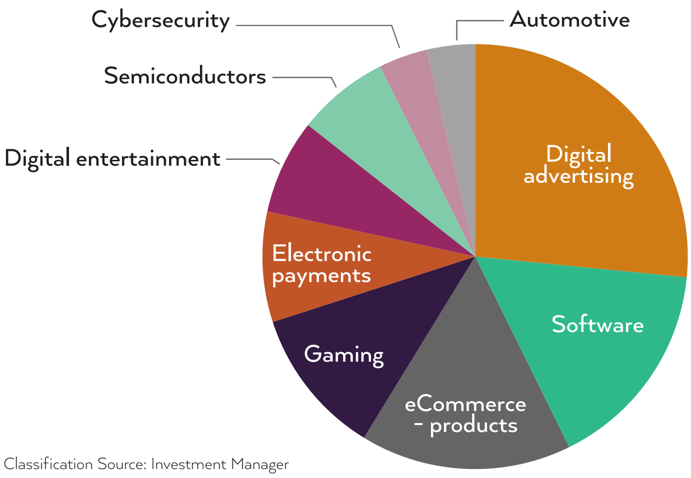
During the quarter, the Fund's Investment Committee chose to initiate a position in Spotify, a music streaming platform, following its IPO.

MARKET REVIEW

Companies in the disruption universe attracted share price support during Q2, as results in April and May reflected continued strong operating and earnings momentum. The majority of these results were ahead of market expectations.

Netflix's first quarter (1Q18) result highlighted strong US and international subscriber growth ahead of market expectations. Its strategy of investing in original content drove engagement and helped to unlock the international opportunity, as well as also underpin price rises. FY18 operating margins are expected to improve as revenues grow faster than costs.

SECTOR BREAKDOWN



Classification Source: Investment Manager

TOP 10 HOLDINGS

Top 10 positions in the Fund listed in alphabetical order.

IN ALPHABETICAL ORDER	SECTOR EXPOSURE
Activision Blizzard	Gaming
Alibaba	eCommerce
Alphabet	Digital Advertising
Amazon	eCommerce
Baidu	Digital Advertising
Facebook	Digital Advertising
Microsoft	Software
Netflix	Digital entertainment
Salesforce.com	Software
Tencent	Digital advertising

FUND PERFORMANCE

	1 MONTH	3 MONTH	6 MONTH	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION
Unit price (%)	5.4%	12.5%	13.1%	N/A	N/A	N/A	34.3%
NTA[2] (%)	2.5%	13.0%	22.2%	N/A	N/A	N/A	34.8%
NTA[2] in USD[3] (%)	0.2%	8.9%	15.9%	N/A	N/A	N/A	25.8%

Notes: [1] All returns beyond one year are annualised. [2] NTA performance numbers are total returns, with distributions reinvested and net of fees and costs. [3] NTA in USD is converted by the month-end closing AUD/USD foreign exchange rate. Exchange rate source: Bloomberg

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MARKET REVIEW (CONTINUED)

Amazon delivered a 1Q18 result which was well received by the market. Revenue and earnings were ahead of market estimates, with strong growth reported across all segments. The cloud thematic appears to have strengthened, with Amazon Web Services growth accelerating for the second consecutive quarter (+48% pcp) as new customers signed on and existing customers increased their pace of migration and take up of additional services.

Further, Amazon revealed that Prime services membership now exceeds 100 million globally. It also announced a price rise for the first time since March 2014 for US members, from $99 per year to $119 per year. In addition, Amazon's emerging advertising business has accelerated, providing another higher margin revenue stream for the group.

Wirecard – the German-based payments company – reported a strong fourth quarter (4Q17) result with enduring operating momentum, as the company continued to take market share across the payments value chain. Structural market growth was underpinned by increasing mobile payments, convergence of online and in-store channels and transition away from cash, meaning Wirecard remains well positioned. The company also raised FY18 guidance and increased its long-term 2020 targets for transaction and revenue growth.

Despite challenging market sentiment, Facebook reported a strong 1Q18 result, with its share price reacting positively. Revenue growth accelerated to +50% (its best since 1Q17), with margins also ahead of expectations. Importantly, monthly users and engagement grew in the US, following a decline in 4Q17. The company tightened FY18 Opex guidance to the upper end of its 50-60% range, with spend focused on safety/security and content. Capex is expected towards the high end of initial guidance range ($14bn-$15bn), with a focus on strategic investment into datacentres and network infrastructure.

Despite a solid result, Nintendo underperformed during the quarter. FY17 revenue and earnings exceeded market expectations, however, operating profit guidance for FY18 was below consensus (we note Nintendo is traditionally conservative with guidance). Market sentiment was also weaker after its presentation at the annual E3 game industry trade show, which included few positive surprises. Nintendo remains in the early stages of a new hardware cycle, has an industry-leading franchise IP, stands to benefit from the shift to digital/mobile and has valuation support versus its peers. However given the weaker than expected earnings outlook and recent share price weakness, Nintendo is a company that the Investment Manager is monitoring closely.

During the quarter, the Fund initiated a new position in Spotify, following the company's listing on the NYSE. Spotify is the largest digital music platform globally, with 174m subscribers (75m paid) and more than 40% market share. While Spotify faces competition from Apple, Amazon and Google, we believe the growth outlook is strong given the large global addressable market, its premium/freemium model, leading user experience, as well as its increasing importance to the music industry.

In June, Portfolio Consultant Raymond Tong travelled to the United States to meet with a series of companies, industry experts and venture capital funds. The technology sector continues to outpace the overall US economy (which continues to grow well) and take market share. In addition, it appears disruption and growth is accelerating, being driven by the significant rise in investment in the sector.

The technology giants are significantly increasing their capital expenditure and Research & Development (**R&D**) budgets, and there is continued growth in venture capital funding across the sector.

Discussions with industry experts in the cloud and advertising segments reaffirmed the view that Amazon Web Services is the runaway leader in this sector of the market. The company has continued to build on its market-leading position by investing aggressively in R&D to develop new, premium services that should result in greater levels of client retention, such as Artificial Intelligence, voice and serverless computing.

In digital advertising, Facebook and Google continue to be the preferred platforms given the scale of their audience and the sophistication of their advertising technology platforms, which remain well ahead of competitors (including, for example, machine learning). While data regulation will continue to be monitored in future, both Google and Facebook appear relatively better placed compared with smaller competitors given their scale and size, as well as the cost and complexity of compliance with increased regulation.

FUND FACTS

KEY FUND DETAILS	
ASX ticker	EGD
Structure	Listed unit trust
Inception	25 July 2017
Currency	AUD (unhedged)
Unit price	$2.11
NTA	$2.05
Market capitalisation	$262.1 million
Units outstanding	124.2 million
ONGOING FEES (EXCLUSIVE OF GST)	
Responsible Entity fee	0.08% p.a.
Administration fee	0.25% p.a.
Investment Management fee	0.95% p.a.
DISTRIBUTIONS ANNOUNCED (LAST 12 MONTHS)	
28 June 2018	4 cents per unit

INVESTMENT OBJECTIVE

The objective of the Fund is to provide investors with capital growth over the long-term through exposure to companies that will benefit from disruptive innovation.

INVESTMENT STRATEGY

Evans and Partners Investment Management Pty Limited (the **Investment Manager**) will target a concentrated portfolio of global investments (primarily listed companies) which may exhibit some or all of the following characteristics:

- a proven ability to disrupt, and the potential to continue to disrupt, existing markets and businesses
- the ability to utilise new technology to disrupt existing industries
- demonstrated growth potential and scalability
- an appropriate capital structure to fund research and development, as well as growth.

Complementing a relatively large exposure to major listed global companies will be a selection of smaller positions identified by the Investment Manager that have the potential to successfully disrupt existing industries and companies.

The Investment Manager may seek to identify and source opportunities in unlisted Australian and international companies that are typically at an earlier stage in their business life-cycle than the Fund's listed investments, but which have a disruptive business model or technology that the Investment Manager believes has the potential to be successful. This may involve participation in pre-IPO fund raisings but will not encompass early stage or venture capital-type investments.

The investment process is conducted by the Investment Manager who coordinates with the Investment Committee and Portfolio Consultant to assist with investment decisions.

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INVESTMENT COMMITTEE

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RICHARD GOYDER
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PAUL BASSAT
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DAVID THODEY
Committee Member

SALLY HERMAN
Committee Member

JEFFREY COLE
Committee Member

RAYMOND TONG
Portfolio Consultant

ABOUT THE INVESTMENT MANAGER

Evans and Partners Investment Management Pty Limited is a subsidiary of the Walsh & Company Group. Walsh & Company is a multibillion-dollar global funds management firm founded in 2007, with assets under management across global equities, residential and commercial property, private equity, fixed income, and sustainable and social investments.

We provide investors access to unique investment strategies that are not readily accessible to investors, and focus on building high-quality, diversified portfolios.

IMPORTANT INFORMATION

Want to know more? epgdf.com.au