

January 31, 2020

Dear Clients and Colleagues:

Australia has been under fire lately - literally and figuratively – as the bushfires continue to devastate the country. Further, NASA predicts that the smoke from the bushfires will do a full circle around the globe and return to Australia. The estimated economic impact of the 8 million hectare blaze is set to exceed \$3 billion USD. Aside from the impact on tourism and agriculture, Australia's already low consumer confidence index will likely weaken further. But more significantly, the aftermath of this large scale disaster to Australia's economy could be permanent as it shapes mainstream ideology on climate change.

Australia's revenues derived from "dirty industries" such as iron ore, coal and natural gas represent an important part of the economy. In the last financial year, resource and energy products accounted for around 60% of Australia's total exports. The country is the third largest producer of coal in the world, behind India and the United States. Therefore, going forward it will be important to monitor political changes that could affect regulations concerning the natural resource industry and its impact on the Australian economy at large.

While a changing regulatory landscape could potentially be a headwind to economic growth, there is the possibility that it could accelerate other industries such as renewable energy. In addition, Australia's economy has other areas of strength that are non-cyclical in nature and will not be affected by increased regulations as Australians attempt to prevent future disasters.

Financial technology has emerged as an important area of development for the country. As it turns out, Australians are good at financial management infrastructure. Australians started tax sheltered investing in 1915. By 1989, 60% of all employees in Australia had a managed pension; this number grew to 90% in 1990 when it became compulsory to contribute to superannuation funds. Today, Australia has the fourth largest pension system behind the United States (US), Japan and the United Kingdom (UK).

These large funds required administrative infrastructure consequently igniting an entire industry of financial service providers. Global Alpha owns one of them, Bravura Solutions. Bravura provides web-based software products to the wealth management and funds administration industries, primarily in Asia Pacific and Europe. The company has in excess of 71 blue-chip clients with \$2.3 trillion AUD assets being managed via their technology. Bravura is a global company with 12 offices in eight countries. Its 1300 employees are mostly focused on customizing client offerings and less on selling as clients are large financial services companies.

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- The company has two flagship products:
 - **Sonata** software for retail wealth management represents 70% of revenue and 63% of EBITDA, product sales growth rate is 12%.
 - Sonata is a software for front office wealth management. Services include: account set up, transactions, reporting and account balances. Thirty clients now use Sonata with approximately \$5.1 million USD of revenue per client, for a cost per seat of \$10,000 to \$15,000 USD. The software typically takes 24 month for full implementation.
 - Software contracts are 12 years long giving a secure 67% recurring revenue level.
 - Sonata holds 6% market share in the UK, and Sonata UK accounts for approximately half of segment revenues while growing at double digits. Key clients include Fidelity, Westpac New Zealand, Mercer, Suncorp, Schroders and Citi.
 - **Rufus** software for funds administration represents 30% of revenue, 36% of EBITDA and a 2% growth rate.
 - Rufus is a fully managed digital solutions for fund administration. It has standardized functionality is priced at the mid-point level to superannuation management fund companies.
- Bravura holds 12% market share in Australia, 7% in New Zealand and 4% in South Africa.

Market Size:

- Wealth management is growing 7% in Asia and Europe.
- The UK wealth management software market size is \$3 billion USD. Of this, 62% is in-house solutions and 38% is outsourced to companies like Bravura.
- Regulation complexity pushes to software outsourcing. The UK market is therefore still underpenetrated.
- Australia's fund administration market is sized at \$500 million USD. On the tail end of a financial royal commission that froze financial business activity, market could soon accelerate.

Outsourcing is the investment theme and the growth strategy is distribution.

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Management

- The CEO is Tony Klim. He joined Bravura in 2008 and became the Group CEO in 2011. Klim owns 0.88% of the company and his salary is \$1.6 million AUD.

ESG

- Bravura has an abbreviated environmental, social and governance (ESG) report. As a software company, its environmental impact is minimal. The company reports on human capital, social initiatives and return to society. Women have a 20% representation on the board and 67% of directors are independent.

Capital Allocation

- \$30 million AUD is invested into Sonata yearly and 71% of this amount is funded by clients.

Have a great weekend.

The Global Alpha team

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