

Flinders Emerging Companies Fund

Monthly Update: January 2018



Performance (after all fees and expenses)	1 Month (%)	3 Months (%)	FYTD (%)	1 Year (%)	Since Inception [^] (% pa)
Flinders Emerging Companies Fund	0.6%	7.6%	24.9%	15.8%	16.9%
S&P/ASX Small Ords Accumulation Index	-0.5%	6.6%	18.1%	22.4%	19.1%
Net Value Added	1.2%	1.0%	6.8%	-6.5%	-2.2%

[^] Inception date is 30 September 2015. Past performance is no indicator of future performance. Information relates to the Flinders Emerging Companies Trust Class B.

Investment Objective

Exceed S&P/ASX Small Ordinaries Accumulation Index by 3% pa (after-fees) over rolling 3 year periods

Investment Time Frame

5 years

Portfolio Managers

Andrew Mouchacca and Richard Macdougall

Risk Profile

High

Distribution Frequency

Half Yearly

Minimum Investment

\$25,000

Inception Date

30 September 2015

APIR Code

ETL0449AU

M-Funds Availability

Code FEC01

Responsible Entity

Equity Trustees Ltd

Research Ratings

Lonsec: Recommended
IRR: Recommended
Zenith: Approved

Platform Availability

MLC, Netwealth, Powerwrap, HUB24, Macquarie Wrap

Further Information

www.flindersinvest.com.au
or +61 3 9909 2690

Flinders Investment Partners
Level 15, 385 Bourke Street,
www.flindersinvest.com.au

- **Small caps consolidate after 8 months of outperformance (vs large caps)**
- **Commodity prices strong, reflecting synchronised global growth**
- **Rising bond yields a focus – negative for interest rate sensitive sectors**

Market

Small caps (-0.5%) slightly underperformed large caps (-0.4%) in January, breaking an eight month winning streak in which small outperformed large caps by +13.8%. Within the small cap index, industrials (-0.4%) led resources (-0.9%).

The Australian equity market lagged its global peers which were up quite strongly (the S&P500 index in the US up 5.7% for example). This was despite commodity price strength and better than expected domestic economic releases including retail sales and labour market data. WTI crude oil continued its strong run (+7.8%). Nickel (+10.6%) and zinc (+8.5%) were also highlights. Synchronised global growth and upward revisions to GDP growth forecasts remain drivers of improving commodity prices. Rising bond yields also continue to be a focus, with US 10-year Treasury yields hitting their highest level since April 2014, weighing on interest rate sensitive sectors in equity markets.

Portfolio

The Fund had a positive month returning +0.8%, outperforming the benchmark by +1.2%.

Key Contributors: Independent platform provider **HUB24 (+11.7%)** reported a strong December quarter of inflows onto their platform, advising the market that it currently administers \$7bn. New customers and increased services to existing clients helped achieve this milestone. Zinc miner **Red River Resources (+21.7%)** also delivered a solid quarterly, with its Thalanga operation delivering its first full production quarter following restart. Furthermore, the company made its first shipment of zinc concentrate. **Sino Gas and Energy Holdings (+9.7%)** had several developments, with the Overall Development Plan (ODP) for their Sanjaobei project submitted for approval, an important milestone. Also, the company secured a US\$100m five-year debt facility with Macquarie Bank, and reported a quarterly in line with guidance. The December quarterlies from other key contributors **Catapult Group International (+11.8%)** and **Cooper Energy (+12.3%)** were to expectation.

Key Detractors: **Sirtex Medical (+66.2%, not held)** was the Fund's largest detractor following a bid for the company by Varian Medical Systems at \$28/s, a 49% premium to the last price. **TopBeta Holdings (-17.5%)** provided a strong quarterly update and signed a deal with International Racing Data, however advised of that its submission to the Northern Territory Racing Commission had not been approved in its current format; whilst disappointing and a delay, we anticipate that a revised submission will eventually lead to an approval. Despite releasing quarterly results in line with expectations, **Saracen Minerals (-11.8%)** fell on the back of profit taking following a strong run up in the share price. We look forward to the company updating the market of its 5-year plan this quarter. **Mineral Resources (-11.0%)** also saw some profit taking following strong share price performance. The company also remained in a three-way bid tussle for gas company AWE (which Mineral Resources subsequently decided not to pursue in early February).

Disclaimer and Disclosure

Equity Trustees Limited (EQT) (ABN 46 004 031 298 AFSL 240975) is the Responsible Entity for the Flinders Emerging Companies Fund. The material contained in this communication (and all its attachments) is general information only and has been prepared by Flinders Investment Partners Pty Ltd ("Flinders"), a Corporate Authorised Representative of Prodigy Investment Partners Limited ("Prodigy"), AFSL 466173. It is not intended to take the place of professional advice and you should not act on any recommendation (if any) made in this communication without first consulting your investment advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this communication shall be construed as a solicitation to buy or sell a security or to engage in or refrain from engaging in any transaction. Flinders and Prodigy believe that the information and advice (if any) contained herein is correct at the time of compilation. However, Flinders Prodigy and EQT provide no representation or warranty that it is accurate, complete, reliable or up to date, nor does Flinders, Prodigy or EQT accept any liability to correct or update the opinions (if any) in it. The opinions (if any) expressed are subject to change without notice. Flinders, Prodigy and EQT do not accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of the material contained in this communication. This communication may refer to the past performance of a person, entity or financial product. Past performance is not a reliable indicator of future performance. Investors should obtain the relevant product disclosure statement and consider it before making any decision to invest.

Performance Attribution [^]		Top 5 Active Positions [^]
Top 5 Contributors	Top 5 Detractors	
Catapult Group International	Bellamy's Australia*	Sandfire Resources
Cooper Energy	Mineral Resources	Service Stream
HUB24	Saracen Mineral Holdings	SG Fleet Group
Red River Resources	Sirtex Medical*	Smartgroup Corporation
Sino Gas & Energy Holdings	TopBeta Holdings	Webjet

[^] Alphabetical order. * Denotes stock not held.

Market Musings

We've produced a number of research pieces in recent weeks. Please follow the links below or visit our website (flindersinvest.com.au) for further detail:

1. [Growth vs Value in Australian Small Caps – January 2018 Update](#) – Growth stocks have had a solid comeback in recent months vs their Value peers.
2. [You don't have to pay up for Growth](#) – reasonably priced growth opportunities abound, with the Fund continuing to trade at a discount to market despite a vastly superior earnings growth profile.
3. [Why resource stocks haven't run their race](#) – notwithstanding strong performance from resource companies in recent months, the backdrop continues to warrant a significant exposure to the sector.

A thought provoking chart from this article is provided below. It is the relationship between the GS Commodities Index and the S&P 500 in the US. **It is now at a 50 year low!** It is one of a number of indicators we have looked at in the commentary to outline our view.



Disclaimer and Disclosure

Equity Trustees Limited (EQT) (ABN 46 004 031 298 AFSL 240975) is the Responsible Entity for the Flinders Emerging Companies Fund. The material contained in this communication (and all its attachments) is general information only and has been prepared by Flinders Investment Partners Pty Ltd ("Flinders"), a Corporate Authorised Representative of Prodigy Investment Partners Limited ("Prodigy"), AFSL 466173. It is not intended to take the place of professional advice and you should not act on any recommendation (if any) made in this communication without first consulting your investment advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this communication shall be construed as a solicitation to buy or sell a security or to engage in or refrain from engaging in any transaction. Flinders and Prodigy believe that the information and advice (if any) contained herein is correct at the time of compilation. However, Flinders Prodigy and EQT provide no representation or warranty that it is accurate, complete, reliable or up to date, nor does Flinders, Prodigy or EQT accept any obligation to correct or update the opinions (if any) in it. The opinions (if any) expressed are subject to change without notice. Flinders, Prodigy and EQT do not accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of the material contained in this communication. This communication may refer to the past performance of a person, entity or financial product. Past performance is not a reliable indicator of future performance. Investors should obtain the relevant product disclosure statement and consider it before making any decision to invest.