

Flinders Emerging Companies Fund

Monthly Update: May 2017



Performance (after all fees and expenses)	1 Month (%)	3 Months (%)	1 Year (%)	Since Inception [^] (% pa)
Flinders Emerging Companies Fund	-3.5%	-4.2%	-5.6%	8.3%
S&P/ASX Small Ords Accumulation Index	-2.1%	0.3%	3.6%	14.3%
Net Value Added	-1.4%	-4.5%	-9.2%	-6.0%

[^] 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 5%pa (pre-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

CFS, MLC, Netwealth, Powerwrap, HUB24, Macquarie Wrap

Further Information

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

- **Despite global strength, Aussie market sells off in May**
- **Small caps outperform large caps – first time since Sep '16!**
- **Earnings downgrades headwind**

Market

The local market performed poorly over May, with large and small caps falling -2.8% and -2.1% respectively. Small caps outperformed large for the first time since September 2016. We have argued that the momentum towards large caps has been dramatic and also unprecedented in the last 20 years – rotation back to small caps is inevitable. The strength in small caps came primarily from resources (+1.6%) which followed the global trend higher, outperforming industrials (-2.8%). That is despite commodity prices being mostly lower. Not helping the industrials sector was a raft of downgrades over the month: 42 in total (versus 14 upgrades).

Portfolio

The Fund return this month was -3.5%, 1.4% below the Benchmark. The weaker performance was due to two of our investments lowering guidance (**AHX** and **BLK** – see details below), while **CAT**, **MYX** and **SEA** continued to suffer from weak sentiment despite not downgrading; it almost seems like a buyer's strike is in place. The investment thesis for these companies remains intact and we continue to see good growth prospects. Helping to an extent were earning upgrades in four companies: **SSM**, **ATL**, **CDA** and **LOV**. The sentiment of this market is such that upgrades are not currently being rewarded as much as downgrades are punished.

Key Contributors: Service Stream (+15%) trade higher after increasing their earnings expectations on better activity. **Orocobre** (+17%) also rallied following reaffirmed guidance and a strengthened capital position. The Fund also benefitted from softer trading in stocks not held including **Sigma** (-35% - contract disputes) and **Mesoblast** (-33% - delays in formalising relationship with a strategic partner).

Key Detractors: Apiam (-43%) sold off after management cited increased costs associated with investment in essential infrastructure would impact earnings. **Blackham** (-24%) fell on the back of downgraded production – the company is in the midst of ramping up production to name plate capacity and as such our focus is on the medium term outlook. Finally, **Mayne** (-19%) traded down after indicating that price deflation has impacted their generic products division. Offsetting this is improved margins in generics, and growth in their branded products which we feel will drive growth in the medium term.

Performance Attribution [^]		Top 5 Active Positions [^]
Top 5 Contributors	Top 5 Detractors	
Mesoblast*	Apiam Animal Health	Altium
Orocobre	Blackham Resources	G8 Education
Quintis*	Catapult Group	Service Stream
Service Stream	Mayne Pharma	Speedcast International
Sigma Healthcare*	Sundance Energy	Webjet

[^] Alphabetical order * Denotes stock not held

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