Flinders Emerging Companies Fund

Monthly Update: July 2018

FLINDERS
Investment Partners

Performance *(after all fees and expenses)*	1 Month (%)	3 Months (%)	CYTD (%)	1 Year (%)	Since Inception^ (% pa)
Flinders Emerging Companies Fund	-0.6%	4.6%	6.2%	31.7%	15.9%
S&P/ASX Small Ords Accumulation Index	-1.0%	3.7%	3.6%	22.6%	17.2%
Net Value Added	**0.4%**	**0.9%**	**2.6%**	**9.1%**	**-1.3%**

^ 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: Investment Grade
IRR: Recommended
Zenith: Approved

Platform Availability

MLC, Netwealth, Powerwrap, HUB24, Macquarie Wrap

Further Information

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

- **Modest pull back in small caps following a strong FY18**
- **Reporting season about to get underway – opportunities expected**
- **Uber growth (and expensive) names starting to show some cracks**

Market

The Small Ords Accumulation index lost 1.0% in July, slightly reversing a period of strong gains and underperforming the large cap index by 2.6%. Industrials fared better than resources as metal prices and gold had a weak month.

The Australian market was anaemic compared with offshore equities during the month with the US continuing to motor along; the Dow rising 4.7%, and even the Nasdaq that had a few big names (Facebook & Twitter in particular) tumble, still managed a gain of 2.2%. European markets were strong with Germany's DAX standing out, up 4.1%. Bond markets were a little weaker with US 10 year yields nudging 3.0% again and commodities very weak. WTI oil was down 7.9%, gold down 2.3% and base metals down between 2% and 10%.

August brings the fiscal year end reporting season, often volatile for small companies and always a good pointer to how broader corporate Australia is faring. We work hard to avoid risk to our portfolio and this period is no exception. There are still excellent and undervalued growth opportunities in the market and we feel that many will be highlighted in August.

Portfolio

The Fund was down 0.6%, outperforming the benchmark by +0.4%.

Notably in the recent period, strongly growing yet excessively priced stocks (momentum in many cases) have been starting to falter. We have been wary of this for some time, ensuring that the Fund has limited exposure to 'expensive' names; the Fund currently trades at a FY19 PE of 14.4x, vs the Index at 17.6x, while the FY19 EPS growth profile is 23.5% vs 11.6% respectively.

Key Contributors: Emerging east coast gas supplier, **Cooper Energy (+23.4%)** had an excellent month following positive results from production well drilling at its Sole gas field in Bass Strait. The company looks likely to be producing gas and supplying into the domestic market within a year, thus taking advantage of high contract pricing. **EML Payments (+17.7%)** bounced back after formally announcing a contract to supply gift and loyalty cards to German retail mall operator ECE Projektmanagement's 87 shopping centres across Germany. This brings EML's total in Europe to 310 centres. Remote power generation operator **Zenith Energy (+18.0%)** was up on little newsflow, albeit the company's strong growth profile and compelling valuation is starting to get recognised. Performance was also helped by our larger holdings in **Service Stream (+4.6%)** and **Corporate Travel Management (+5.1%)**. Contract mining operator **Macmahon Holdings (+10.5%)** also contributed as its steadily growing contracts and volumes are appreciated.

Key Detractors: We hold two veterinary related stocks in the portfolio and both got clobbered in July. **Apiam Animal Health (-20.0%)** and **National Veterinary (-20.8%)** issued soft profit guidance for the current financial year citing lower activity in the past quarter. We feel that both stocks will rebound with their excellent growth opportunities and solid underlying markets. While Apiam has much greater agricultural exposure, National Vet is exposed to growing urban pet expenditure. Search and voice technology company, **Appen (-18.8%)** had a difficult month as many US exposed technology stocks sold off with their Nasdaq listed counterparts. We remain confident in the growth outlook for its services which are currently experiencing structural tailwinds. Also having a poor month was agchem company, **Nufarm (-19.3%)**. It warned investors that the drought impact on inventories was worse that they warned the market about in the previous month.

Performance Attribution^		Top 5 Active Positions^
Top 5 Contributors	Top 5 Detractors	
Bellamy's Australia*	Afterpay Touch Group*	Mineral Resources
Cooper Energy	Apiam Animal Health	Service Stream
EML Payments	Appen	Shine Corporate
Service Stream	National Veterinary Care	Smartgroup Corporation
Zenith Energy	Nufarm	Webjet

^ Alphabetical order. * Denotes stock not held.