Flinders Emerging Companies Fund Report

Quarter Ending: 30 June 2016

FLINDERS
Investment Partners

Period to 30 June 2016	3 Months (%)	6 Months (%)	Since Inception^ (%)
Flinders Emerging Companies Fund*	11.3	7.3	21.8
S&P/ASX Small Ord Accumulation Index	5.8	6.9	19.0
Value Add	**5.5**	**0.4**	**2.8**
Net Performance#	11.0	6.7	20.5

* Performance is for the Flinders Emerging Companies Fund Class B units before fees. # Net performance shown is after deduction of fees. ^Performance inception date is 30 September 2015. Past performance is no indicator of future performance.

Investment Objective

Outperform S+P/ASX Small Ordinaries Accumulation Index by 5%pa (before fees) over rolling 3 year periods

Suggested 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

Responsible Entity

Equity Trustees Ltd

Research Ratings

Lonsec: Investment Grade
Zenith: Approved
IRR: Recommended

Further Information

www.flindersinvest.com.au or
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- **UK exit vote sours the market (for a moment)**
- **Resource stocks continue their recovery**
- **Small Caps outperform Large Caps…..again**

The Flinders Emerging Companies Fund ('Fund') performed strongly in the June quarter, gaining 11.3%. In this period the Index returned 5.8%, comprised of a surging resources sector (27.9%), and industrials posting a moderate gain (1.6%). While the Fund remained underweight resources, the stocks we held in in this sector performed particularly well.

The Smaller Companies market continued to perform better than their Top 100 peers – by 2.1% in this quarter and 14.1% for the 2015/16 financial year.

Performance Review

Global equity markets were mixed over the quarter - reasonably steady economic news from the US and China, jolted by the unexpected UK vote to leave the EU. Despite this surprise in late June, the UK FTSE Index was the best performer amongst major markets, rising 4.9% to a 10 month high - that didn't get a headline! The US market continued its climb, up 1.5% for the quarter and Japan was the weakest, falling 7.0%. The local economy held few surprises as we endured a two month election campaign (which may result in some weakness in the quarter's consumer sectors). However, the RBA did drop its cash rate to 1.75% in May.

The Fund's performance came from a broad range of stocks across a range of industries. Pleasingly a number of our strong contributors rebounded from a relatively poor March quarter.

Positive Contributors: Once again, our exposure to gold mining companies **Saracen Minerals** (+48%) and **Blackham Resources** (+68%) were among the top performers during the quarter. While a modest rise in the gold price helped, the market started to recognise the growth characteristics attracting us to these companies. Drug producer **Mayne Pharma** (+34%) was another contributor. It announced a transformational acquisition of a portfolio of generic drugs in the US from Teva International and Allergan PLC. Wearable athletic tracking system developer **Catapult** (+41%), Lithium producer **Orocobre** (+66%), and Australia's largest beef producer **Australian Agricultural Co**. (+38%) also added value.

Negative Contributors: The most significant detractors from relative performance were three gold companies we didn't hold - **Northern Star, Evolution Mining and Resolute Mining** all had gains of over 25%.

Speedcast (-23%) slipped on fears its emerging satellite services to the energy industry would be impacted by lower spending by oil and gas companies. **McGrath Holdings** (-31%) suffered on real estate market weakness, **Estia Health** (-18%) on fear that Government spending on aged care may be curtailed and **BT Investment Management** (-16%) on the potential impact of Brexit on its UK operations. We remain confident in the future and valuations of Estia and BT and they remain in the portfolio. However, the developments with McGrath have caused us to revise our growth expectations, so have exited our holding.

Portfolio Activity

Additions: Sino Gas & Energy which is in the early stages of ramping up gas production from its Chinese fields and **Eureka Group** a growing operator of retirement villages that currently manages 22 centres, largely in regional Australia. Also added was specialty homewares retailer **Adairs** on a compelling valuation basis and **Codan** that is a strongly growing electronics products developer.

Exits: Vocus that had been a terrific contributor for us but has reached our valuation target (and is about to enter the ASX100). **McGrath** was exited despite real estate prices remaining robust, as we believe volumes are expected to be subdued for some time. Both **Pact Group Holdings** and **Steadfast Group**, while still having good growth attributes had both reached our assessed valuation and were sold from the portfolio.

At the end of the quarter we had 43 stocks in the portfolio and were holding 2.7% cash.

Top 5 Portfolio Holdings (end of quarter)	Active Portfolio Weight (%)
Mayne Pharma Group	3.5
Webjet	3.4
Aconex	3.0
McMillan Shakespeare	2.7
G8 Education	2.4

Stock in Focus: Blackham Resources (BLK)

Blackham is an emerging gold producer, with its Matilda gold project in central Western Australia due to commence production in the September 2016 quarter. The company is set to become Australia's next +100k oz p.a. gold producer. We like the minimal cost that the plant was acquired for, the low All In Sustainable Cost (AISC) profile and the exploration opportunities which should lead to an extended mine life. As always, our research process addresses the five key investment questions to justify inclusion in the Portfolio.

Investment Case Key Questions

1. **Growth Opportunity:** BLK should deliver 25k oz of gold production in the December 2016 quarter, equating to annualised rate of production of 100k oz, with the potential to produce more on an annualised basis. A recent revised mine plan demonstrates a mine life of +8 yrs, which we can see increasing with additional exploration work.
2. **Management:** Management are highly experienced in the mining sector. It is led by Managing Director Bryan Dixon, whose skillset covers project acquisition, mine development and financing. He has built a very capable team, and to date has successfully executed the strategy to turn this project into an imminently profitable gold producer.
3. **Financial Strength:** BLK has used a combination of equity and debt financing to date, with $20m of equity raised in March 2016 to refurbish the plant and fast track production. While currently in a slight net debt position, the strong cashflow generated going forward should see the company with net cash in FY17 onwards.
4. **Risks:** Production risk – the company is on the cusp of production, which poses operational risks while ramping up production. Gold price and exchange rate risks – the cashflow achieved from selling the gold produced into the global gold market is clearly a function of the prevailing gold price and the Australian dollar.
5. **Valuation:** Our valuation target price is $1.12 which results in our *Assessed Company Valuation return of 64.1%.* BLK is currently one of the few ASX listed gold companies trading at a discount to its net present value (NPV).