Flinders Emerging Companies Fund Report

Quarter Ending: 31 March 2016

FLINDERS
Investment Partners

Period to 31 March 2016	3 Month (%)	Since Inception^ (%)
Flinders Emerging Companies Fund*	-3.6	9.5
S&P/ASX Small Ord Accumulation Index	1.0	12.5
Value Add	**-4.7**	**-3.0**
Net Performance#	-3.9	8.6

* 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
Further Information
www.flindersinvest.com.au or +61 3 9909 2690

- **Equity markets recover their early year losses**
- **Resource stocks come back to life**
- **Company profits hold up well**
- **Early budget = early election?**

The Flinders Emerging Companies Fund (FEC) underperformed in the March quarter. The Small Resources index gained a hefty 17.3% compared with the Industrials index that lost 1.1% over the period. Our underweight position in resource stocks was a key factor in our relative performance this quarter.

Smaller companies continued to do better than their Top 100 peers – by over 4% in this quarter.

Performance Review

Global equity markets fell sharply in January on fears of deflation, negative interest rates, poor Chinese growth figures and a plummeting oil price. However, in mid-February commodities began to recover, economic data stabilised and markets finished March pretty close to where they finished at the end of 2015 – albeit with a little less confidence about the outlook.

The February company reporting season threw up some unexpected results leading to some exceptionally volatile share price movements. On balance it supported the view that the broader (non-resource) economy is in reasonable shape.

Resources dominated the performance of the Small companies' market as both precious and base metals began to rise. Fifteen stocks rose by over 33% in the quarter, eleven of which were resources companies. And of the ten that fell by over 33%, all were industrials.

Positive Contributors: Not surprisingly, our exposure to gold mining companies **Saracen Minerals** (+59%) **and Blackham Resources** (+76%) were among the top contributors during the quarter. While both companies benefitted from the higher gold price, they are also in a significant growth phase, driven by exploration success and production growth. **Aconex** (+21%) was a positive as the company finalised new enterprise agreements for its proprietary construction industry software and made a strategic acquisition. **Service Stream** (+40%) was driven by new NBN contracts in its telecommunications engineering division and **Altium** (+28%) performed well after a solid interim result and a new partnership agreement with French engineering software giant, Dassault Systèmes. **Webjet** continued its solid contribution with a 16% rise amid market upgrades to profit forecasts.

Negative Contributors: Most negative contributors were as a result of poor profit results. **Empired, LifeHealthcare Group** and **Shine Corporate** all had significant profit downgrades resulting in a disappointing impact on the portfolio. The first two companies have been sold from the portfolio as we see their growth profile severely compromised. As we still have conviction with the investment case for Shine, we aggressively added to our position (which has been positive). **BT Investment Management** fell 25% early in the quarter due to its sensitivity to global equity markets but failed to recover with them in March. Other detractors included **Village Roadshow** (disappointing result from its theme parks) and **IPH Ltd** which fell 25% from its highs of December.

Portfolio Activity

Key stocks added over the quarter included: We entered Lithium producer **Orocobre** via an attractively priced capital raising. **EQT Holdings** was added after a 30% fall in price (post a lower than expected profit result). We are attracted to the company primarily due to the potential growth in its corporate trustee business. High end optical device company, **Ellex Medical Lasers** was also added to the portfolio late in the quarter.

Key stocks exiting the portfolio included: We have already mentioned **Empired** and **LifeHealthcare Group. Tox Free Solutions** was sold on reaching valuation, as was engineer **RCR Tomlinson. Village Roadshow** was exited later in the period as we believe its growth profile has deteriorated meaningfully.

At the end of the quarter we had 40 stocks in the portfolio and were holding 3.7% cash.

Top 5 Portfolio Holdings (end of quarter)	Active Portfolio Weight (%)
McMillan Shakespeare	3.2
Aconex	2.8
Ainsworth Game Technology	2.8
Vocus Communications	2.7
Mayne Pharma Group	2.7

Stock in Focus: Aconex (ACX)

Aconex has been part of the FEC portfolio since inception. Aconex provides cloud-based software to the global construction industry. Large projects have many participants involved in the progression from planning to completion. The software allows users to electronically manage documents, processes, planning, compliance, audit trails and other aspects of the construction cycle between all parties involves in a project. As always, our research process addresses the five key investment questions to justify inclusion in the Portfolio.

Investment Case Key Questions

1. **Growth Opportunity:** Aconex is gaining acceptance with an increasing number of global construction firms. As the use of this type of software gains penetration in the industry, their leadership and market position gives them significant revenue growth opportunity. Profit margins in this industry are high.
2. **Management:** Experienced and highly qualified co-founders, Leigh Jasper and Rob Phillpot provide expertise and management drive, together with an incentive to grow given their substantial shareholdings. The board also has a good spread of relevant skills and importantly, the majority are independent.
3. **Financial Strength:** Following the recent acquisition of Conject as well as a capital raising, the company still has a strong net cash position of ~$35m. We expect this to continue to build in the absence of any further acquisitions. The company is an efficient user of working capital.
4. **Risks:** Technology and competition – ACX has to continually ensure a superior product. There is also the risk of a global slowdown in construction but market adoption of this type of software would offset all but a major downturn.
5. **Valuation:** Our valuation target price is $8.76 which results in our *Assessed Company Valuation return of 39%.*