Flinders Emerging Companies Fund

Quarterly Update: March 2017

FLINDERS
Investment Partners

Performance *(after all fees and expenses)*	1 Month (%)	3 Months (%)	1 Year (%)	Since Inception^ (% pa)
Flinders Emerging Companies Fund	1.3	-5.0	11.5	13.9
S&P/ASX Small Ords Accumulation Index	2.7	1.5	13.7	16.4
Net Value Added	**-1.4%**	**-6.5**	**-2.2**	**-2.5**

^ Inception date is 30 September 2015. Past performance is no indicator of future performance.

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

- **Interim reporting season volatility**
- **Growth stocks de-rate in the period**
- **Weakness provides unique valuation opportunity**

The Flinders Emerging Companies Fund ('Fund') lost ground in the March quarter returning negative -5.0% after expenses versus the Small Ords Index which rallied 1.5%. Industrials outperformed resource stocks as commodities gave back some of their December quarter gains. While the February reporting season was mixed, many high growth smaller companies were savagely de-rated – even after releasing promising results. This had a negative impact on our portfolio. However, we are seeing significant upside opportunity in many stocks and our overall portfolio has never seen as much valuation upside.

Performance Review

Global equity markets continued to rise over the quarter with the US S&P500 up 5.5%, the UK FTSE rising 2.5% and Asian markets generally strong (HK up 9.6%). Commodity markets firmed with copper up 6.0%, gold rebounding 8.7% and WTI oil being the exception, falling 5.3%%. The Australian Dollar bounced 6.2% to close the quarter at US$0.7630.

Positive Contributors: Our best performing stocks for the quarter came from a good spread of industries. **Pro Medicus (+21%)** confirmed it continued to make inroads to the US market with its medical imaging solutions. It also signed a local deal with Primary Healthcare for its practice management software. **Blackham Resources (+20%)** benefitted from the higher gold price. **Melbourne IT (+21%)** delivered a strong interim result driven by greater customer spend on key digital marketing services and new client signings. **G8 Education (+14%)** released a good full year result which included a strategic investor injecting equity into the business at a premium price. Impending positive legislative changes to childcare funding also helped investor sentiment.

Negative Contributors: Sundance Energy (-45%) fell following the release of a weak production quarterly impacted by mechanical issues. We view these issues as temporary and currently being addressed, so the investment thesis remains on track. **Eureka Group (-41%)** fell following lower than expected earnings from a number of its retirement villages. Occupancy and cost issues are being attended to by a new CEO and we expect a rebound in earnings and hence remain invested in the company. **Orocobre (-38%)** disappointed investors with a production downgrade at its lithium operations in Argentina. We expect management to overcome commissioning issues and so continue to own the stock. The media monitoring and advisory company **iSentia Group (-47%)** revealed that its problems with recently acquired King Content had in fact got worse. We exited the stock on the back of the sharp deterioration in valuation.

Portfolio Activity

Additions: Online comparison company **iSelect** was added to the portfolio during the quarter. The company is well priced and growing strongly on the back of a streamlined product offering, improved conversion rates and growing opportunities in telecommunications (NBN especially). Assisted Reproductive service company **Monash IVF** was also added over the period. We expect the market to move back to trend level growth of ~3% in 2017 after a weak 2016 year and expect MVF to leverage this underlying market growth. We used a discounted equity issue to establish a position in **Ruralco Holdings**. The funds raised are to be used to purchase a number of its rural supplies franchises, as well as to expand its rapidly growing irrigation/water services business. Both initiatives are attractive to the outlook for the business.

Exits: As mentioned earlier, we exited **iSentia** following its downgrade. Travel insurance operator **Cover-More Group** left the portfolio following its takeover by international insurer Zurich and gold miner, **Saracen Minerals** was sold from the portfolio on reaching valuation. We sold our position in **Adairs Holdings** during the quarter. This had been a troublesome company over the previous six months with issues including excess inventory, pricing, misjudging market trends and lacklustre store openings. We are of the view that some of these issues could persist and hold back its growth potential. Consequently we made the decision to exit the stock.

At the end of the quarter we had 44 stocks in the portfolio and were holding 3.4% cash.

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	**Top 5 Detractors**	**Top 5 Active Holdings**
Blackham Resources	Ellex Medical Lasers	G8 Education
Fletcher Building*	Eureka Group Holdings	Mayne Pharma Group
G8 Education	iSentia Group	Sealink Travel Group
Melbourne IT	Orocobre	Speedcast International
Pro Medicus	Sundance Energy Australia	Webjet

^ Alphabetical order. * Denotes stock not held. Attribution is for the 3 months ending 31 March 2017. Top 5 positions are effective 31 March 2017.

Stock in Focus: iSelect (ISU)

iSelect is an online-driven comparison service provider for private health insurance, household utilities and financial products. Along with online comparisons, telephone based advice is provided. In FY16, the company's various websites (iselect, infochoice and energywatch) saw 9m unique visitors, with 4m customer leads provided to their partners.

Investment Case Key Questions

1. **Growth Opportunity:** ISU has and continues to invest heavily in their technology and platform capability, as well as marketing, with the aim of progressively increasing visitation and leads to their websites, as well as improving the conversion of customers who ultimately purchase products with the help of iSelect's advice. Following a disappointing FY15/FY16 period, the company has demonstrated strong top line growth as well as improving margins.
2. **Management:** Since his appointment as CEO in October 2015, Scott Wilson has executed on turning the company's previous poor performance around, while implementing growth initiatives which sets the company up well for strong growth over the medium term.
3. **Financial Strength:** The company has $73m in cash, providing optionality to continue to selectively buy-back stock on-market, as well as potentially make acquisitions. The cash flow conversion has improved greatly over recent years as the company shifts a majority of its receipts to upfront commission payments, from longer dated trailing revenues.
4. **Risks:** The company has a large exposure to the private health insurance industry, so any changes in related regulation may impact. ISU is also making investment into new verticals which may not meet return objectives.
5. **Valuation:** Our Assessed Company Valuation is currently $2.45/s, reflecting upside of 24% from the current price.