Flinders Emerging Companies Fund

Quarterly Update: December 2016

FLINDERS
Investment Partners

Performance *(after all fees and expenses)*	1 Month (%)	3 Months (%)	1 Year (%)	Since Inception^ (% pa)
Flinders Emerging Companies Fund	3.0	-4.9	12.7	21.2
S&P/ASX Small Ords Accumulation Index	3.6	-2.5	13.2	20.2
Net Value Added	**-0.6**	**-2.4**	**-0.5**	**1.0**

^ 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: Investment Grade
Zenith: Approved
IRR: Recommended

Platform Availability

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

Further Information

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

- **Trump elected**
- **AGM season commentary increases volatility**
- **Small company opportunities emerging**

The Flinders Emerging Companies Fund ('Fund') lost some ground in the December quarter returning negative 4.9% after expenses versus the Small Ords Index which fell 2.5%. Resources outperformed Industrials as metal prices strengthened and energy prices rose late in the quarter. There was some cautious commentary from some companies during the AGM season. Increased volatility in the quarter provided select opportunities. Importantly, the overall growth profile for emerging company profits remains robust.

Performance Review

Global equity markets continued to rise over the quarter with the US S&P500 up 5.3%, the UK FTSE rising 3.5% and Asian markets flat (after a very strong September quarter) with the exception of Japan that enjoyed a 16% gain. Commodity markets were mixed with base metals firm, gold falling 12.5% and oil up 12% over the quarter (and 10% in December alone). The Australian Dollar fell to its lowest level in over six months closing the year at US$0.7203.

Positive Contributors: Once again, our best performing stocks for the quarter came from a diverse group of industries. **Sundance Energy** (+33%) benefitted from a stronger oil price and an increasing production profile from its US based shale assets. Travel insurance provider, **Cover-More** (+33%) received a takeover bid from Zurich Insurance. The $1.95/s cash bid is ahead of our valuation and directors have recommended accepting the bid. Funds management company, **BT Investment Management** (+20%), continued to perform well, benefitting from stronger equity markets and a rise in the Sterling against the Australian Dollar. **Ellex Medical Lasers** (+18%) confirmed the acceleration in sales of its key iTrack glaucoma treatment device.

Negative Contributors: **Blackham Resources** (-49%) was a key detractor from performance in the December quarter. Despite excellent drilling results, first production of gold and being well capitalised, the company fell sharply with the drop in the gold price. We feel the sell-off has been overdone and still see significant upside to our valuation. **Shine Corporate** (-45%) warned the market that underlying activity in their core personal injury business was slowing and that 2017 profits would be impacted. While disappointing, valuation upside remains. Also impacting performance in the period was **Mayne Pharma** (-33%). This was due to the company being named in a US anti-trust case involving price collusion with competitors. Management has been vocal in defending their position and highlighting that prices for the drugs in fact fell once Mayne entered the market. We remain positive on the growth opportunities for the business.

Flinders Investment Partners Pty Ltd ABN 19 604 121 271
Level 15, 385 Bourke Street, Melbourne, Victoria 3000
www.flindersinvest.com.au

Portfolio Activity

Additions: Medical device company **AirXpanders** was added to the portfolio in December. The company has a unique technology that assists breast cancer patients prepare for restorative surgery. We have been following the company for some time and the recent granting of FDA approval for product sales in the US was the catalyst for us to purchase the stock. Also added to the portfolio was **Apollo Tourism & Leisure**. This was an IPO of a long standing company that builds and rents campervans and other recreational vehicles. It has a large percentage of the Australian and New Zealand markets, is growing the US and now has exclusive rights to manufacture and sell Winnebago products in Australia. Growing tourism numbers and better pricing following industry consolidation are both helping profitability.

Exits: **PWR Holdings** and **Lovisa Holdings** were both sold form the portfolio after reaching valuation. While both companies retain good growth prospects over the next few years, in both cases we assessed that those prospects were fully reflected in their share prices and we moved on to more attractive opportunities. **Ainsworth Game Technology** was sold after a disappointing update on domestic sales. High development costs and expansion of manufacturing facilities in the US means that the impact of the lower sales on profits will be significant. **IPH Limited** was sold on expectation of subdued growth in its intellectual property and patent business in Australia as well as a slowing pipeline for acquisitions.

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

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
BT Investment Management	Aconex	Amaysim Australia
Cover-More	Adairs	Eureka Group
Ellex Medical Lasers	Blackham Resources	Orocobre
G8 Education	Mayne Pharma	Sealink Travel
Sundance Energy	Shine Corporate	Webjet

^ Alphabetical order. * Denotes stock not held. Attribution is for the 3 months ending 31 December 2016. Top 5 positions are effective 31 December 2016.

Stock in Focus: Speedcast International (SDA)

Speedcast is a provider of integrated satellite based telecommunications services. The company specialises in broadband and voice services to the maritime industry, offshore and remote oil & gas and resources sites and for government and NGO's that operate in areas without established fixed line or mobile telecommunication services.

Investment Case Key Questions

1. **Growth Opportunity:** Speedcast is well positioned to generate strong revenue and earnings growth from the rapidly growing use of broadband data and its recent acquisitions giving it greater scale and synergies in the key maritime and energy markets. Improved utilisation of teleports and satellite capacity will enhance profitability on the back of stronger operating margins.
2. **Management:** The management team led by Pierre-Jean Beylier has proven adept at winning contracts, new customers and maximising financial returns from their existing businesses. Further, acquisitions have also been consolidated quickly, which has added value early.
3. **Financial Strength:** Debt has increased toward the top end of the company's desired target range, primarily due to recent acquisitions. However, we expect gearing will reduce rapidly on the back of strong underlying cashflow that the business traditionally generates.
4. **Risks:** The main risk to our view is poor execution of the company's acquisition strategy which together with higher levels of debt, may lead to an adverse working capital positon.
5. **Valuation:** Our Assessed Company Valuation is currently $5.21, reflecting upside of 49% from the current price.