



Performance (after all fees and expenses)	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	Since Inception <sup>^</sup> (% pa)
Flinders Emerging Companies Fund	5.2	14.3	24.1	12.4	17.2
S&P/ASX Small Ords Accumulation Index	3.2	13.7	18.7	20.0	20.1
<b>Net Value Added</b>	<b>2.0</b>	<b>0.6</b>	<b>5.4</b>	<b>-7.6</b>	<b>-2.9</b>

<sup>^</sup> 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 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: Recommended  
IRR: Recommended  
Zenith: Approved

### Platform Availability

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

### Further Information

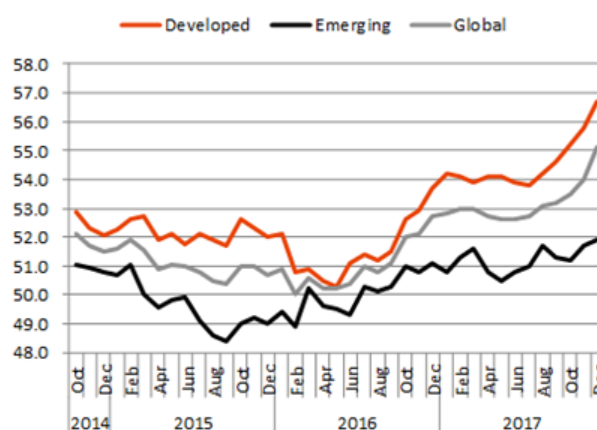
[www.flindersinvest.com.au](http://www.flindersinvest.com.au)  
or +61 3 9909 2690

- **Small caps leading the Australian share market higher**
- **Global growth supporting continued outperformance of resources**
- **Corporate activity and capital expenditure rising**

The Flinders Emerging Companies Fund ('Fund') performed solidly in the December quarter returning 14.3% after expenses versus the Small Ords Index which gained 13.7%. Resource stocks had another great quarter and led the market with a 25.4% rise. Small Industrials gained 10.6%. While the ASX100 gained 7.1% in the period, it badly lagged the Small Ords which has now outperformed by over 11% in the past six months.

Global markets remained buoyant with the S&P500 up 6.1%, the UK FTSE 4.3% higher but continental markets flat. Asian markets rose, with Japan's Nikkei posting an 11.8% gain and the Hang Seng up 8.6%. Commodities were strong with WTI oil up 16.9% for the quarter, copper up 11.8% and nickel up 21.5%. The Australian dollar was flat at US\$0.78 and gold up modestly to US\$1303oz (although up 13% for the year). Supporting the outlook for resources is the improvement in global growth – as illustrated by the strength in PMI indices as shown in figure 1 below.

Figure 1: Purchasing Manager Indices



Source: Shaw and Partners, Factset

Corporate activity picked up sharply in the December quarter. Notable M&A activity in small caps included Cleanaway's \$830m bid for Tox Free Solutions, Oracle agreeing to buy Aconex for \$1.6bn and Mineral Resources unexpected \$540m bid for energy company AWE. IPO activity rose with companies such as Wagners, Netwealth, Propel Funerals and many smaller companies joining the boards. Capital raisings for new projects, acquisitions and business expansion were also on the rise – a good sign.

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## Performance Review

**Positive Contributors:** **Beach Energy (+53%)** continued to see investor support following the purchase of the Lattice Energy assets from Origin but was clearly helped by the recovery in the oil price as well. Despite the rise, we still valuation upside in the company. **Speedcast (+35%)** had another good quarter as demand for the company's satellite broadband services continues to grow. While data demand from the shipping industry has been very strong, the energy division is only just starting to see better revenue growth. The higher oil price is likely to help expenditure from those customers. **Boom Logistics (+48%)** is a relatively new addition to the portfolio. The company specialises in crane hire for the construction and infrastructure industries. Its profits are recovering strongly with better utilisation and management of their equipment. Despite the share price rise, we still see considerable upside from here. **NRW Holdings (+31%)** is a contractor to the mining and infrastructure industries. It has broadened its earnings base, has an excellent contract profile and a strong balance sheet. With improving returns over the next two years, it is still an attractive investment proposition.

**Negative Contributors:** **G8 Education (-17%)** fell following a downgraded outlook statement for profitability in CY17. A combination of lower occupancy rates in many facilities, higher labour costs and more expenditure on staff training all impacting current business conditions. Given that these issues may impact the company's growth profile for some time, we chose to exit the stock. **McPherson's (-24%)** was another company that provided a cautious outlook statement at their AGM. Sales of their health and beauty products into the major domestic pharmacy chains had been disappointing in the December quarter. The company subsequently announced the sale of some non-core business assets which helps its balance sheet, providing capital for the further development of its higher growth health and beauty businesses. Telco and utility service provider **Service Stream (-9%)** was weak during the quarter despite confirming earnings guidance given earlier in the year. One of its largest customers is NBN, and there seems to be concern that the delayed rollout of the HFC cable to some customers will slow the level of connections which Service Stream activates. Recent figures suggest that new connections are still averaging over 30,000 per week. We see the stock as undervalued at these levels, with its strong growth profile intact.

## Portfolio Activity

**Additions:** Among the stocks added during the quarter was waste recycling and disposal company, **Bingo Industries**. We feel that with its focus on recycling plus the rising cost of landfill, the company is ideally placed in an industry that is consolidating and regulation is increasing barriers to entry. It has an excellent growth profile, higher than industry average returns and remains at an attractive valuation. Also added was **Sino Gas & Energy**. The company has onshore gas operations in China where gas prices are rising and their fields are in the process of ramping up production to multiples of current output. A more tidy corporate structure and partnership agreements plus a solid funding position make us more confident that they can now fully exploit their growth potential.

Agricultural crop-care manufacturer and distributor **Nufarm** was added when we took part in a placement to fund the \$500m acquisition of European assets from Adama and Syngenta. The business acquired fit neatly into Nufarm's current European portfolio of products and production and operational synergies will help drive further earnings growth over the next three years. We saw the placement price of \$7.50 as providing an attractive entry point to the stock. **Corporate Travel International** was added to the portfolio during the quarter. The company continues to grow impressively in its markets globally and has successfully bedded down a number of recent acquisitions. The market is growing and their technology and service proposition is seeing them gain share. The stock fell sharply following the CEO (also the largest shareholder) selling some of his position (for the first time; he still holds 19%) which provided an attractive entry point.

**Exits:** As mentioned above, we exited **G8 Education** during the quarter. We also sold out of engineering software company, **Altium** and medical imaging software company, **Pro Medicus**. Both stocks have terrific growth attributes but their recent strong performance saw them reach our valuation so we exited both. Also sold was mining services company **MACA Limited** due to valuation being reached. **Mantra** left the portfolio following the takeover by Accor Group and **iSelect** following a deterioration in its growth outlook – especially in their core health insurance comparator division.

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At the end of the quarter we had 40 stocks in the portfolio and were holding 3.3% cash.

Performance Attribution <sup>^</sup>		Key Portfolio Positions <sup>^</sup>
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Beach Energy	EML Payments	Mineral Resources
Boom Logistics	G8 Education	Sandfire Resources
NRW Holdings	McPherson's	Service Stream
Sino Gas & Energy	Service Stream	Smartgroup Corporation
Speedcast International	Webjet	Webjet

<sup>^</sup> Alphabetical order. \* Denotes stock not held. Attribution is for the 3 months ending 31 December 2017. Top 5 positions are effective 31 December 2017.

## Stock in Focus: Bingo Industries (BIN)

Bingo is a vertically integrated waste management business with particular expertise in recycling. The company has a leading market position in the building and demolition segment and is growing strongly into the commercial and industrial waste market. It has a strong position in its home market of Sydney and regional NSW and is investing to grow its footprint in Victoria and to a smaller extent Queensland.

### Investment Case Key Questions

- Growth Opportunity:** We expect ~25% earnings growth p.a. from the business over the next 3 years generated from a combination of both organic and acquisitive growth (already made). The company has demonstrated that despite a competitive industry, it is winning a high level of contracts that it bids. The basis for this relates to the investment Bingo has made in operational systems which has improved both performance and transparency for their customers.
- Management:** Bingo was a family business that listed in May 2017. Managing Director, Daniel Tartak, as a member of the founding family, has been with the business since inception and has experience in senior operational roles. From this perspective, he has exceptional market knowledge and together with his operational experience makes him a strong figure to lead the business. Importantly, the executive is backed by an independent board led by experienced company director Michael Coleman.
- Financial Strength:** Bingo recently completed a rights issue in support of a funding package to acquire two strategic businesses in Victoria and NSW. This raising ensures that the company remains well capitalised to fund future growth – we expect the net debt to EBITDA to reach 1.3x in FY19 before falling to 1x in FY20 on the back of operations commencing at (recent acquisition) Patons Lane.
- Risks:** Key risks for the business include the regulatory environment for which the waste industry is closely monitored; together with competitive activity. We feel that Bingo is able to differentiate its offering and as such maintain and grow its market share. Regarding any changes to regulation, state EPA departments undertake an element of consultation ahead of policy implementation and so, the business is capable of managing these changes. Ultimately, this is a user pays industry and the company is able to pass through increased costs to their customers.
- Valuation:** Our Assessed Company Valuation is currently \$3.11/s, reflecting upside of over 20% from the current price.

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