Flinders Emerging Companies Fund Report

Quarter Ending: 30 September 2015

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Period to 30 September 2015	1 Month (%)
Flinders Emerging Companies Fund*	1.61
S+P/ASX Small Ord Accumulation Index	-0.53
Value Add	**2.14**
Net Performance	1.50

* Performance is gross (before fees). Past performance is not an indicator of future performance.

Objective	
Construct a portfolio of high quality, strongly growing small listed companies. The goal is to outperform the 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 Richard Macdougall	
Risk Profile	
High	
Distribution Frequency	
Half Yearly	
Minimum Investment	
$25,000	
Inception Date	
1 September 2015	
APIR Code	
ETL0449AU	
Responsible Entity	
Equity Trustees Ltd	
Further Information	
www.flindersinvest.com.au or +61 3 9909 2690	

- **Volatility dominated global equity markets**
- **Commodity prices significantly decline**
- **Smaller companies outperform large cap**
- **Flinders opens for business**

Welcome to the first quarterly report from Flinders Investment Partners. We are excited to now be up and running and managing assets for our clients. Special thanks to those who have worked with us in getting the business established.

Performance Review

Volatility dominated equity markets in September. The VIX Index of volatility reached a four year high, and on 7 occasions the market had intra-day moves of over 2%.

Despite all that energy and angst, the S&P/ASX Small Ords Accumulation Index (the Index) only slipped a modest 0.53% for the month, significantly outperforming the large cap index (by 2.5%). Pleasingly, the Flinders Emerging Companies Trust had a strong month with a positive return of 1.61% before fees.

Energy and mining stocks led the market lower with another terrible month for underlying commodities (oil, copper, cotton and wheat all down close to 10%). IT, telecommunications and consumer stocks held up comparatively well.

Poor Chinese growth figures, a perceived slowing in the US recovery and soggy economic figures in the domestic market (second quarter Australian GDP all led to undermine investor confidence.

Positive Contributors: Our best performing stock was intellectual property services company, **IPH Limited**. It moved higher after announcing the acquisition of rapidly growing patent and trademark law firm, Pizzeys. **Vocus** performed well this month. After the take-over of Amcom, a merger was announced this month with retail telecommunications provider M2 (Dodo, Primus and Commander brands). This move gives it scale and growth with a national fibre network for the corporate data market. Our attraction to tourism based companies also was positive accommodation operator, **Mantra** and online booking service, **Webjet** doing well.

Negative Contributors: Whilst we have limited exposure to resource companies, our holdings in **Drillsearch** and **Western Areas** fell in line with commodity prices for oil and nickel. **McMillan Shakespeare** had a poor month in September. We saw some profit taking in the month, after the stock hit a 2 year high in August and perhaps some investor concern that the auto lease market could be included in the government tax review.

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Portfolio Activity

We purchased **Sealink Travel Group (SLK)**. Sealink is well run coastal shipping operator specialising in ferries for public transport and tourism. We were attracted to the mixture of long term Government contracts and upside from tourist traffic in their core markets.

Most people remember **Yowie (YOW)** as a chocolate encased toy sold at supermarkets. The traditional Yowie product (like Kinder Surprise) have been banned in the US due to health reasons but Yowie's re-designed product has finally got the green light to be sold in the US – nationally from the end of this year through a deal with Walmart. We see tremendous scope for growth with Walmart and other large US retailers.

We exited **Cedar Woods Properties (CWP)** early in the month due to our expectation that its core residential development markets of WA and Victoria would not provide the growth we previously expected as our research indicates realisation rates may be lower.

At month end, we had 42 stocks in the portfolio and were holding 4% cash.

Top 5 Portfolio Holdings (end of quarter)	Active Portfolio Weight (%)
Webjet Limited	2.8
IPH limited	2.3
McMillan Shakespeare	2.3
HFA Holdings	2.3
Isentia Group	2.2

Stock in Focus: Estia Health ('EHE')

To illustrate our bottom up stock analysis, each quarter we will highlight a stock that is in the Portfolio. The analysis revolves around answering our 5 key investment case questions. This quarter we look at Estia.

Estia owns and operates a portfolio of 49 modern, high quality aged care facilities, primarily located in metropolitan areas. It is ranked 4th in Australia in terms of number of places. The company's strategy is to grow its portfolio further using a combination of brown and green field developments as well as acquisitions.

Investment Case Key Questions

1. **Growth Opportunity**
   The company is targeting 10,000 places by 2020 from current levels of 4,010. We forecast the number of places to grow to 4850 in FY16 and 5750 by FY17 and *earnings growth of ~30% in FY16.*
2. **Management**
   Estia's management team is experienced in growing and successfully managing expansion of residential aged care businesses; The CEO and CFO were both formerly with the industry leader BUPA through a period where places grew 40% to ~10,000.
3. **Financial Strength**
   The company raised ~$700m as part of the recent IPO, resulting in a *debt free* position and with $150m of undrawn facilities, ensuring the company is well placed to fund its growth strategy.
4. **Risks**
   Regulatory change; Failure to comply with legislation, regulation and other professional standards; falling occupancy levels; and failure of due diligence process
5. **Valuation**
   Our valuation target price is $8.25 which results in our *Assessed Company Valuation return of 26.7%.* We hold a *portfolio weight of 2.7%.*