Flinders Emerging Companies Fund Report

Quarter Ending: 31 December 2015

FLINDERS
Investment Partners

Period to 31 December 2015	3 Month (%)	Since Inception* (%)
Flinders Emerging Companies Fund*	13.5	15.4
S&P/ASX Small Ord Accumulation Index	11.3	10.7
Value Add	**2.2**	**4.6**
Net Performance#	12.9	14.6

* Performance is gross (before fees). Inception date is 31 August 2015. Past performance is not an indicator of future performance.
\# Net performance (after fees) for units in class A fund (APIR Code: ETL0444AU)

Objective
Construct a portfolio of high quality, strongly growing small listed companies 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
31 August 2015
APIR Codes
ETL0444AU, ETL0449AU
Responsible Entity
Equity Trustees Ltd
Further Information
www.flindersinvest.com.au or +61 3 9909 2690

- **US Federal Reserve raises rates – first time in a decade**
- **Equity markets take Fed news in its stride and rise**
- **Commodity prices slump (again)**
- **Small companies continue to outperform large caps**

The Flinders Emerging Companies Fund (FEC) performed well in the December quarter, returning 13.5% gross, and outperforming the index by 2.2%. Smaller companies continued to romp ahead of their top 100 peers, with their indices rising 11.3% and 6.1% respectively.

Performance Review

Global equity markets performed well in the quarter - US S&P500 index up 6.5%, European markets performed strongly, as did Japan and Hong Kong. The strong market returns were delivered despite a backdrop of modest economic data in the US, continued deterioration in growth forecasts for China, and the US Federal Reserve raising its federal funds rate to 0.25-0.50% (up 25bp). This is the Fed's first move since the GFC.

In Australia, softer commodities ensured industrials performed significantly better than resources. This was especially pronounced in the top 100 where industrials outperformed resources by a massive 18.8% over the quarter. Within small companies, the gap was a more modest 4.8%.

In the small companies sector, there was a wide divergence of performance during the quarter. Key gainers included food and nutrition stocks Bellamy's (+73.2%), Bega (+56.8%) and outdoor media names APN Outdoor (+58.4%), oOh!media (+51.8%). Key underperformers included Dick Smith (-72.5%, consequently entered voluntary administration in January), legal firm Slater and Gordon (-71.9%) and diagnostic imaging operator Capital Health (-50.9%).

Positive Contributors: Pleasingly, our strong performers were stocks from a broad range of industries and diverse size, but all had the attribute of a strong growth profile**. Webjet** had another strong quarter with domestic travel figures remaining strong and its overseas businesses showing exceptional growth. **BT Investment Management** was another solid contributor, helped by rising equity markets, which led to strong inflows and good cost control. **Polynovo** rallied after it received US FDA approval for their polymer based burns treatment technology. This is a terrific validation of the Australian product that can now benefit from global scale.

Negative Contributors: Ainsworth Game Technology was weaker over the quarter following AGM commentary which highlighted increasing costs associated with new product development. We view these costs as one-off in nature and remain confident about the outlook for the business. Retirement village developer and operator **Lifestyle Communities** also underperformed over the period after recent strong performance – we believe its growth profile remains intact so we retain our conviction on the company. **GUD Holdings** detracted from performance as earnings expectations were wound back due to difficult conditions in its Sunbeam consumer products division and Dexion racking systems business. We have since exited this position.

Portfolio Activity

Key stocks added over the quarter include: **oOh!media** due to its exposure to the rapidly growing outdoor digital media sector and attractive valuation; financial technology company **GBST Holdings** where we saw a price opportunity to add to the portfolio; sports technology company **Catapult Group International** was added due to its rising growth profile and continued demonstration of growing market share; and finally biotech company **Polynovo** on the back of its compelling burns and wounds treatment technology which has received FDA approval.

Key stocks exiting the portfolio included: **Automotive Holdings** and **GUD Holdings** due to their deteriorating growth outlook and consequent lack of valuation support; and veterinary and pet retailer **Greencross** was also taken out of the portfolio on the basis of falling growth and rising financial risk.

At the end of the quarter we had 44 stocks in the portfolio and were holding 2.7% cash.

Top 5 Portfolio Holdings (end of quarter)	Active Portfolio Weight (%)
G8 Education	3.1
McMillan Shakespeare	2.9
Steadfast Group	2.5
Webjet	2.4
Mayne Pharma Group	2.3

Stock in Focus: Webjet ('WEB')

Our stock analysis revolves around answering 5 key investment case questions. This quarter we look at Webjet.

Webjet is a well-established online travel agent (OTA) with operations in Australia, NZ, Europe, the Middle East, Africa and North America. The company has two segments: B2C Travel where airline and hotel sales are made online directly to consumers, and B2B Travel where hotel rooms are sourced and then supplied to other businesses for sale.

Investment Case Key Questions

1. **Growth Opportunity**
   Multiple divisions in the group are all growing their top line at double digit levels as they continue to take share from competitors, and expand their operations geographically. Furthermore, a lower AUD is providing the tailwind of increased domestic holidays. We forecast earnings growth at +25% p.a. over the next three years.
2. **Management**
   A highly experienced management team led by John Guscic. The right investment has been made to ensure that the business continues to grow strongly while diversifying the operations at the same time.
3. **Financial Strength**
   The company has always run a strong net cash position. Advanced payment of client funds helps the working capital position of the company.
4. **Risks**
   Competition from other OTAs and airlines directly; integration risks as WEB has made some acquisitions in recent years; and risk to the business model which centres around booking fees being charged.
5. **Valuation**
   Our valuation target price is $6.33 which results in our *Assessed Company Valuation return of 18.5%.*