

Flinders Emerging Companies Fund

Monthly Update: October 2018



Performance (after all fees and expenses)	1 Month (%)	3 Months (%)	CYTD (%)	1 Year (%)	Since Inception [^] (% pa)
Flinders Emerging Companies Fund	-9.6%	-6.3%	-0.5%	6.4%	12.1%
S&P/ASX Small Ords Accumulation Index	-9.6%	-7.7%	-4.3%	2.6%	12.7%
Net Value Added	0.0%	1.4%	3.8%	3.8%	-0.6%

[^] Inception date is 30 September 2015. Past performance is no indicator of future performance. Information relates to the Flinders Emerging Companies Trust Class B.

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: Investment Grade
IRR: Recommended
Zenith: Approved

Platform Availability

MLC Wrap IDPS,
Netwealth, Powerwrap,
HUB24, Macquarie Wrap,
uXchange, WealthO2

Further Information

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

- **Equity markets under pressure**
- **Global tech stocks suffer significant declines**
- **M&A activity picks up**

Market

The Small Ords Accumulation index lost a hefty 9.6% in October with industrials dropping 10.6% and resources (helped by the gold sector) down a more modest 6.1%.

The sell-off mirrored the declines in the US where the S&P500 was off 6.9% and the Nasdaq down 9.2% as tech stocks came back to earth. Global markets followed suit with Asian markets down 6-10% and Europe a little more resilient, seeing declines of 4-6%. The same trends were evident in all markets; technology and China exposed stocks the hardest hit.

Weaker markets did not dampen enthusiasm for corporate activity with Worley Parsons announcing a massive \$4.6bn acquisition of Jacobs ECR in the US and a large equity issue (\$2.9bn). MYOB received a bid by private equity fund KKR and education company Navitas also received a private equity consortium bid. Healthscope received a revised bid and at the time of writing, Webjet announced a \$240m bid for global accommodation company, Destinations of the World. We'd expect more activity this month as acquirers move before the end of the year.

Portfolio

The Fund was down 9.6%, in line with the benchmark.

Key Contributors: Gold miner, **Saracen Mineral Holdings (+31%)** was a stand-out performer over the month. With a record quarterly production report and resilient gold price, the stock continued to do better than both the market and its gold mining peers. It's worth noting that Saracen is one of the few listed gold stocks with an enviable profile of meaningful and growing production, lowering costs, and building cash over the coming years. As is often the case in volatile markets, it's the stocks not held in the portfolio that impacts relative performance. With tech stocks under pressure, not having either **Wisetech Global (-27.3%)** and **Afterpay Touch Group (-30.4%)** in the portfolio certainly added to our result relative to the index.

Emerging East coast gas producer **Cooper Energy (+2.2%)** held up despite energy prices being under the pump. Tourism operator, **Apollo Tourism & Leisure (+0.5%)** benefitted from the weakening Australian dollar as its business is helped by increased inbound tourism numbers and the translation benefit of having operations in both the US and Canada.

Key Detractors: Having a holding in **Corporate Travel Management (-34.3%)** when it was subject to a very public negative report by a short seller impacted performance in the last few days of the month. Despite selling a proportion of our holding prior to the report at close to \$30.00 (on valuation), we still held a position, and still do. While we got the benefit of good performance from our two gold company holdings (**Gold Road Resources, +2.2%** being the other holding), not owning larger stocks in the sector, **St Barbara (+19.2%)** and **Regis Resources (+13.4%)** cost us relative performance.

Disclaimer and Disclosure

Equity Trustees Limited (EQT) (ABN 46 004 031 298 AFSL 240975) is the Responsible Entity for the Flinders Emerging Companies Fund. The material contained in this communication (and all its attachments) is general information only and has been prepared by Flinders Investment Partners Pty Ltd ("Flinders"), a Corporate Authorised Representative of Prodigy Investment Partners Limited ("Prodigy"), AFSL 466173. It is not intended to take the place of professional advice and you should not act on any recommendation (if any) made in this communication without first consulting your investment advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this communication shall be construed as a solicitation to buy or sell a security or to engage in or refrain from engaging in any transaction. Flinders and Prodigy believe that the information and advice (if any) contained herein is correct at the time of compilation. However, Flinders Prodigy and EQT provide no representation or warranty that it is accurate, complete, reliable or up to date, nor does Flinders, Prodigy or EQT accept any obligation to correct or update the opinions (if any) in it. The opinions (if any) expressed are subject to change without notice. Flinders, Prodigy and EQT do not accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of the material contained in this communication. This communication may refer to the past performance of a person, entity or financial product. Past performance is not a reliable indicator of future performance. Investors should obtain the relevant product disclosure statement and consider it before making any decision to invest.

Manchester retailer, **Adairs (-32.7%)** seemed to get caught in the negative perception of housing related stocks and some patches of weak consumer spending. This is despite re-confirming their 2019 earnings guidance, gaining market share from competitors and growing their high margin online business. Also having a difficult month was waste recycler **Bingo Industries (-23.9%)**. Again, it was sold down on fears that a quieter construction cycle would reduce volumes through its operations – despite clearly making efficiency and market share gains.

We usually note the Fund's cash level in our quarterly reports, yet it's worth mentioning this month (given the volatility in markets) that our Fund remains fully invested, having had a cash weighting of ~3% since inception. Our view is that our investors are after an exposure to well-priced, growing small companies, which in combination delivers outperformance against the benchmark over the medium to long term. That is exactly what we endeavour to deliver. Cash was 2.5% at the end of the month.

Performance Attribution [^]		Top 5 Active Positions [^]
Top 5 Contributors	Top 5 Detractors	
Afterpay Touch*	Adairs	Helloworld Travel
Cooper Energy	Bingo Industries	Mineral Resources
Saracen Mineral Holdings	Corporate Travel Management	Redbubble
Wisetech Global*	St Barbara*	Reliance Worldwide
WorleyParsons*	Washington H Soul*	Service Stream

[^] Alphabetical order. * Denotes stock not held.

Disclaimer and Disclosure

Equity Trustees Limited (EQT) (ABN 46 004 031 298 AFSL 240975) is the Responsible Entity for the Flinders Emerging Companies Fund. The material contained in this communication (and all its attachments) is general information only and has been prepared by Flinders Investment Partners Pty Ltd ("Flinders"), a Corporate Authorised Representative of Prodigy Investment Partners Limited ("Prodigy"), AFSL 466173. It is not intended to take the place of professional advice and you should not act on any recommendation (if any) made in this communication without first consulting your investment advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this communication shall be construed as a solicitation to buy or sell a security or to engage in or refrain from engaging in any transaction. Flinders and Prodigy believe that the information and advice (if any) contained herein is correct at the time of compilation. However, Flinders Prodigy and EQT provide no representation or warranty that it is accurate, complete, reliable or up to date, nor does Flinders, Prodigy or EQT accept any obligation to correct or update the opinions (if any) in it. The opinions (if any) expressed are subject to change without notice. Flinders, Prodigy and EQT do not accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of the material contained in this communication. This communication may refer to the past performance of a person, entity or financial product. Past performance is not a reliable indicator of future performance. Investors should obtain the relevant product disclosure statement and consider it before making any decision to invest.