

# Flinders Emerging Companies Fund

Monthly Update: November 2018

FLINDERS  
Investment Partners



Performance (after all fees and expenses)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% pa)	Since Inception <sup>^</sup> (% pa)
Flinders Emerging Companies Fund	-1.7%	-11.2%	2.9%	8.8%	11.2%
S&P/ASX Small Ords Accumulation Index	-0.4%	-10.3%	-1.6%	10.4%	12.2%
<b>Net Value Added</b>	<b>-1.3%</b>	<b>-1.0%</b>	<b>4.5%</b>	<b>-1.5%</b>	<b>-1.0%</b>

<sup>^</sup> 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](http://www.flindersinvest.com.au)  
or +61 3 9909 2690

- **Small caps get caught in November volatility**
- **Market derating presents buying opportunities for portfolio stocks**
- **Our portfolio now at its cheapest since inception – with plenty of growth!**

## Market

The Small Ords Accumulation index lost 0.4% in November with industrials rising 0.8% and resources down a more significant 4.1%. The ASX100 Index dropped 2.4% for the month.

US equity markets were generally flat over the month but day to day volatility has increased significantly – especially with the overlay of the political cycle on trade issues being such a focus. European markets were weaker, particularly the UK with its Brexit issues. Asian markets were a standout with HK and Japan both up over 3% for the month. Also worth noting were easing bond yields late in the month and the coincident weaker US Dollar.

The weakness in small caps over the past couple of months has seen some significant de-rating in individual stocks – and unusually, not necessarily associated with profit downgrades. This has provided opportunity. While Flinders carry little cash, we have recently increased positions in nine of our core holdings that have de-rated in the past couple of months and reduced positions in others that have held up. Our valuation process has highlighted these opportunities and we now have a portfolio that is at significant discount to the overall market – but without diminution of the growth attributes we look for.

## Portfolio

The Fund was down 1.7%, lagging the benchmark by 1.3%.

**Key Contributors:** Voice technology provider, **Appen (+30.6%)** had the benefit of a recovery in technology stocks, but more importantly upgraded their estimates for profit growth for this financial year by over 10%. We think the stock remains firmly in an upgrade cycle given strong demand for their services. Utilities engineer and service provider, **Service Stream (+11.9%)** confirmed at their AGM that the profit outlook for 2019 is comfortably within expectation. Solid connection and maintenance revenues from their NBN contracts and increasing revenues from power utilities are all contributing to the growth outlook.

We had a holding in **Corporate Travel Management (+14.8%)** in October which detracted from performance as the company was the subject to a very public short selling attack. Following a number of meetings with the company and competitors, and all members of the Flinders team carefully assessing the claims against the company's business model, accounting and communication, we concluded that we remained comfortable with the business as well as the original investment thesis, and took advantage of the sharp price decline and added to our position. It was a notable contributor to performance in November. Not owning **WorleyParsons (-9.5%)** and **Fletcher Building (-19.7%)** also added to relative performance.

**Key Detractors:** Online design retailer, **Redbubble (-25.1%)** announced that its sales during the key "Black Friday" and "Cyber Monday" trading periods had come in below expectation. This came closely on the back of a significant acquisition and equity raise, and consequently rattled investor confidence. While the issues seem to be technical and short term in nature, the Christmas trading period will also be important to judge their growth

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progress. Dental practice rollup company **Smiles Inclusive (-15.7%** based on average exit price) reported a weak quarterly cashflow statement at the end of October, citing some surprising issues and thus elevating risks around business execution. Consequently, we promptly decided to exit the position, with an average exit share price of 70c/s. While disappointing, the stock ended the month at 38c/s, thus our decisive action minimised further capital loss.

RV manufacturer and rental company, **Apollo Tourism & Leisure (-11.3%)** came back after a strong October despite no new news. Emerging East Coast gas producer, **Cooper Energy (-11.8%)** eased on a weaker global oil price and despite a resilient gold price, **Gold Road (-10.1%)** also lost ground.

Performance Attribution <sup>^</sup>		Top 5 Active Positions <sup>^</sup>
Top 5 Contributors	Top 5 Detractors	
Appen	Apollo Tourism & Leisure	Corporate Travel Management
Fletcher Building*	Cooper Energy	Helloworld Travel
Service Stream	Redbubble	Service Stream
Washington H Soul Pattinson*	SG Fleet	Smartgroup Corporation
WorleyParsons*	Smiles Inclusive	Webjet

<sup>^</sup> Alphabetical order. \* Denotes stock not held.

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