Flinders Emerging Companies Fund

Monthly Update: August 2018

Performance ***(after all fees and expenses)***	**1 Month** (%)	**3 Months** (%)	**CYTD** (%)	**1 Year** (%)	**Since Inception^** (% pa)
Flinders Emerging Companies Fund	3.8%	4.2%	10.2%	30.5%	16.9%
S&P/ASX Small Ords Accumulation Index	2.5%	2.5%	6.2%	22.3%	17.6%
Net Value Added	**1.3%**	**1.6%**	**4.0%**	**8.1%**	**-0.7%**

^ 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, Netwealth, Powerwrap, HUB24, Macquarie Wrap

Further Information

www.flindersinvest.com.au
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- **Reporting season was better than expected!**
- **Significant upgrades to growth in small caps**
- **Resources fall on trade and tariff worries**

Market

The Small Ords Accumulation index gained 2.5% in August with industrials rising 4.4%, sharply outperforming their small resources peers that fell 4.1%. The top 100 lagged, with a more modest rise of 1.3%.

Reporting season defied the gloomy headlines with upgrades to profit growth forecasts across most sectors. While the upgrades to large caps (S&P ASX100), was a small 1.8%, the upgrades to small caps (ASX Small Ordinaries) were substantially higher at 7.8%. This gives us confidence that the sector can continue to perform. Encouragingly, the average upgrade to the 41 stocks in the Flinders portfolio was 10.3% for the 2019 year.

Global markets were very mixed with US equity markets strong (S&P500 up 3.0%), European markets down 2-4%, Japan up 1.4% and Singapore and HK both losing over 2%. With the exception of oil that was up 1.5% (WTI), commodities had an awful month. Copper, nickel and zinc were down 5-9%, gold down 2% and iron-ore off 3%. With interest rate differentials and weak commodities, the Aussie dollar slipped to US$0.719.

Portfolio

The Fund was up 3.8%, outperforming the benchmark by +1.3%.

Navigating a reporting season in small companies is always a challenge – there is always the unexpected. This season was no different. Pleasingly for the Fund, positive outcomes exceeded negative ones, hence the solid performance of the Fund through the month.

Key Contributors: We've had a good position in **Webjet (+27.3%)** since the inception of the Fund three years ago and it had continued to perform well. The company exceeded their guidance as well as analyst expectations, with strong growth in both their consumer and business divisions. Excellent cash generation was also a highlight and we continue to see strong growth in the company over the next few years. The valuation of the stock remains attractive, particularly when compared to other technology related names. Waste recycling company, **Bingo Industries (+19.5%)** had a good month following both a solid profit result and more importantly, a strategic and accretive acquisition of NSW waste operator Dial a Dump Industries. An accompanying capital raising and upgrades to earnings were taken well by investors and our valuation lifted by close to 10% as a consequence.

Language technology developer **Appen (+41.1%)** had a terrific month with an upgrade to guidance for their December full year result. A tailwind of strongly performing technology stocks globally also helped sentiment generally in the Australian market for these names. We were taking profits on the back of these gains later in the month. Engineering contractor **NRW Holdings (+23.9%)** continued its recovery from the share price weakness 3-4 months ago, posting a healthy profit result and confirming significant new contract wins and an improvement in margins from its drill & blast division.

Key Detractors: There's always something during reporting season that bites you in the bum – and this time round it was satellite data provider, **Speedcast (-31.6%).** The company lowered guidance for the full year (December year-end) by close to 10% but also announced an acquisition that took it's gearing level considerably above its target range. This double surprise spooked investors. The company still has excellent growth prospects and valuation upside but the risk profile has clearly risen. **Sims Metal Management (-26.7%)** fell over the month despite a solid profit result. US tariff increases on steel from Turkey hurt investor perception as Turkey is a significant importer of scrap metal from Sims. Local nickel producer **Western Areas (-22.1%)** suffered from a lower nickel price during the month plus a result that pointed to flat production and slightly higher costs for the next quarter – not a great combination. Despite that, the lower currency and longer term expansion plans still provides considerable price upside ahead. Performance of the latter two names above was also exacerbated by the general weakness in the resources sector during the month.

Performance Attribution^		Top 5 Active Positions^
Top 5 Contributors	Top 5 Detractors	
Appen	Altium*	Bingo Industries
Bingo Industries	Red River Resources	Ooh! Media
NRW Holdings	Sims Metal Management	Service Stream
Service Stream	Speedcast	Smartgroup Corporation
Webjet	Western Areas	Webjet

^ Alphabetical order. * Denotes stock not held.