Flinders Emerging Companies Fund

Monthly Update: January 2019

FLINDERS
Investment Partners

Performance *(after all fees and expenses)*	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% pa)	Since Inception^ (% pa)
Flinders Emerging Companies Fund	6.3%	0.1%	-1.1%	10.2%	11.2%
S&P/ASX Small Ords Accumulation Index	5.5%	0.8%	-3.1%	11.3%	12.0%
Net Value Added	**0.8%**	**-0.7%**	**2.0%**	**-1.1%**	**-0.8%**

^ 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
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- **New year bounce**
- **Growth and resources lead the recovery**
- **Interim profit results will reflect the soft domestic economy**

Market

The Small Ords Accumulation index rebounded 5.5% in January with industrials rising 4.9% and resources a very healthy 8.9%. The ASX100 Index rose 3.7% for the month.

US equity markets were exceptionally strong in January with the S&P500 rising 7.9% and the Nasdaq up a robust 9.7%. European and Asian markets also posted gains but not to the extent of the US. The UK was a notable laggard due to Brexit knots. Commodity markets staged a very strong reversal with iron ore (+19%), WTI crude oil (+19%), nickel (+17%), copper (6%) all posting material gains. Gold (+3%) continued its strong recent run, but the real strength was gold in Australian dollar terms which hit a record price of $1850/ounce intra month – a wonderful backdrop for Australian based producers. Bond markets were notably stronger, Australian 10 year yields falling to 2.21% and the currency steady around US$0.72.

Small companies generally reflect the real state of the domestic economy, more so than large ones in the Australian market. Given a subdued consumer, lower house prices and a recent dip in business conditions expectations and consumer sentiment, we expect some cautious commentary with the interim results this month. However, given the de-rating of certain parts of the market already, further weakness might provide excellent buying opportunities.

Portfolio

The Fund was up 6.3%, outperforming the benchmark by 0.8%.

Key Contributors: Beach Energy (+33.8%) was a standout performer during the month benefitting from a solid quarterly production report and a rising oil price. However, it was the faster than expected paydown of company debt that impressed us. An excellent cashflow profile plus production growth will continue to underpin performance this year.

We have always been wary of one commodity agricultural companies - picking the weather is hard enough, let alone the underlying product price. **Costa Group (-25.5%)** has an excellent spread of horticultural products, together with scale and excellent geographic spread. However, we have always found the valuation stretched. The company downgraded profit in January due to temporary supply issues and the stock fell sharply, so not holding the company added material value to the portfolio over the month – opportunistically, we used the price correction to add the company to the fund.

We've mentioned voice technology company**, Appen (+24.4%)** a number of times in reports as one of our favoured stocks with excellent growth prospects. The rebound in technology stocks in January certainly helped but we still feel that the market was underestimating the underlying demand for its services and the recent price appreciation has been warranted. Salary packaging and lease company, **Smartgroup (+17.8%)** is one of our largest holdings and it was pleasing to see recover following had de-rated in the previous quarter on perception that slipping new car sales would have an impact on its growth profile.

Key Detractors: Adairs (-2.4%) continued to slip as poor retail sales figures and housing price statistics were released. Also impacting the company is the low Australian dollar, since as an importer of product, a lower currency can squeeze margin. After performing strongly over the past six months, travel company **Helloworld (-5.8%)** took a breather. Perhaps it was simple profit taking, perhaps worries over consumer spending on travel. Whatever it was, we still see significant valuation upside. **National Veterinary (-6.7%)** completed its acquisition of the Pet Doctor chain of clinics in New Zealand during the month. Again, perhaps it was fear that lower consumer spending means less care for Felix and Lassie…

Performance Attribution^		Top 5 Active Positions^
Top 5 Contributors	**Top 5 Detractors**	
Appen	Adairs	Bingo Industries
Beach Energy	Afterpay Touch *	Reliance Worldwide Corp.
Costa Group	Helloworld Travel	Service Stream
Gold Road Resources	Integral Diagnostics	Smartgroup Corporation
Smartgroup Corp.	National Veterinary Care	Webjet

^ Alphabetical order. * Denotes stock not held.