Flinders Emerging Companies Fund

Monthly Update: April 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	5.3%	12.0%	9.9%	11.8%	13.9%
S&P/ASX Small Ords Accumulation Index	4.1%	11.0%	7.2%	11.8%	14.4%
Net Value Added	**1.2%**	**0.9%**	**2.7%**	**0.0%**	**-0.5%**

^ 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: Recommended
IRR: Recommended
Zenith: Approved

Platform Availability

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

Further Information

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- **Market strength continues, small caps hit record high**
- **Want growth from equities? Only in small caps…**
- **Election relief coming?**

Market

The Small Ords Accumulation index continued to rise, with a 4.1% return in April. Small Industrials rose a healthy 6.3% but Resources retreated 4.2%, a significant divergence in performance. Importantly, this takes the small cap return to 20.9% since the market troughed on 21 December 2018 and on the way, taking the index to its highest level in history. The growth gap between large and small caps could not be more stark at the moment and we still feel there are excellent opportunities in small caps at attractive valuations. On page two we dissect the local equity market to highlight the differences and opportunity.

Global equity markets were largely better over the month with the S&P500 rising 2.7%, European markets (even the UK) strong and Asian markets (with the exception of Hong Kong and China) generally up 3-5%.

Local economic softness was reflected in our 10 year bond rate dropping sharply to 1.78%, a contrast to the US which held at 2.50%. The Australian Dollar was under pressure and finished the month at US$0.7005. The stronger US Dollar manifested in falls in almost every commodity with the exception of oil. Base metals, coal, gold and especially agricultural commodities were under pressure and clearly reflected in share prices.

With an election looming, one outcome is certain, more spending. Both parties have promised more expenditure in health, education, infrastructure, regional development, small business support and plenty more. There may be specific beneficiaries from this (such as our holding in Integral Diagnostics – mentioned below), but we feel there will be a stimulatory impact on the broader economy. Especially after the current half year that has been negatively impacted by the Federal election, another one in NSW, Queensland floods, stasis in lending by banks courtesy of the Royal Commission and softer house prices. We are coming off a low base.

Portfolio

The Fund rose +5.3%, versus the benchmark return of +4.1%.

Key Contributors: Pleasingly, our best performing stocks over the month came from a broad range of industries and an even spread of solid contributors. Mining and infrastructure contractor **NRW Holdings (+24.4%)** rose on the back of new contract wins and greater confidence that margins can improve in its drill and blast business and the newly acquired RCR mining fabrication division. Radiology and imaging provider, **Integral Diagnostics (+22.9%)** had a strong month helped in part by the Government suggesting it would provide greater funding for various medical scans and the ALP responding by adding an even wider range services to be covered by increased funding.

Travel and accommodation provider **Webjet (+15.9%)** had another strong month after confirming profit guidance and presenting some new strategic initiatives to investors. Ship and ferry builder**, Austal (+18.7%**) found support following an investor tour to its Philippines and Vietnam shipyards. With increasing new vessel orders and a growing maintenance and refurbishment business, we expect excellent growth from Austal over the next five years despite a conspicuous lack of support from the Australian Government.

Key Detractors: Financial advice IT platforms are a rapidly growing part of the industry. However, they take time and money to develop. Our holding in **Praemium (-24.6%)** was an example. While having a profitable core Separately Managed Account (SMA) business, developing a UK business and new products for the Australian market has been costly – then to lose a significant local SMA contract as they did during the month – is even more costly. Consequently, we exited the stock. Not owning a $5bn market cap small company that rises 22% will always negatively impact relative performance and **Afterpay Touch Group (+22.1%)** did just that. Online design marketplace retailer **Redbubble (-13.0%)** suffered during the month with sales continuing to lag from a major Google algorithm change a few months ago. Its unclear how the company will be able to negate the poor organic growth from this channel and the business generally and as such we have exited this holding.

Performance Attribution^		Top 5 Active Positions^
Top 5 Contributors	Top 5 Detractors	
Austal	Afterpay Touch Group*	Bingo Industries
Integral Diagnostics	Gold Road Resources	Corporate Travel Management
NRW Holdings	Lifestyle Communities	Service Stream
Service Stream	Praemium	Smartgroup Corporation
Webjet	Redbubble	Webjet

^ Alphabetical order. * Denotes stock not held.

Portfolio and Market Statistics

Based on FY20 Factset consensus numbers, it's striking how mediocre the EPS growth for large caps currently is, with only 2.3% growth (table below). Small caps on the other hand are currently set to deliver 13.5%, without an excessive premium to access that exposure. The Fund continues to demonstrate favourable metrics with regards to growth and valuation.

	Portfolio	Small Ords	ASX 100
EPS GROWTH	26.2%	13.5%	2.3%
PE	13.5	16.9	15.3
EV / EBITDA	6.9	9.0	9.0
ROE	13.8%	10.5%	12.9%

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