

Flinders Emerging Companies Fund

Monthly Update: May 2019

FLINDERS
Investment Partners



Performance (after all fees and expenses)	1 Month (%)	3 Months (%)	1 Year (%)	2 Years (% pa)	Since Inception [^] (% pa)
Flinders Emerging Companies Fund	-1.8%	3.1%	3.5%	17.1%	13.0%
S&P/ASX Small Ords Accumulation Index	-1.3%	2.7%	2.1%	13.1%	13.6%
Net Value Added	-0.6%	0.4%	1.4%	4.0%	-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: Recommended
IRR: Recommended
Zenith: Approved

Platform Availability

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

Further Information

www.flindersinvest.com.au

+61 3 9909 2690



- **Election rally – then a bit of reality**
- **Another round of tariff jitters**
- **And now a rate cut to kick things along...**

Market

The Small Ords Accumulation index lost ground in May, easing 1.3%. This was despite a solid recovery after the surprising election result. Large caps managed to move into the black led by the bounce in bank stocks. Small resources slightly outperformed industrials with gold and iron ore companies doing well.

The federal election result wasn't expected and it certainly has implications for the second half of this year. Confidence has been low, property in the doldrums and business capital expenditure curbed. A majority Government with an agenda of tax cuts and infrastructure spending will make a difference – despite a tricky Senate. We would expect a positive impact on credit growth, consumer spending, property prices (particularly with APRA's proposal to remove the 7% serviceability rate on home loans), and business confidence as a result. And now the RBA has thrown in a 25bp rate cut as well. Unless Trump and Xi stomp further away from each other over trade, a second half recovery is on the way.

Global equity markets weren't as kind to investors; the S&P500 falling 6.6% and the Nasdaq 7.9% as tech stocks were under pressure all month. Asian markets were also very weak with most down between 7% and 9%. European markets also fell. Commodities were generally lower on trade issues; oil down 16% and copper 10% lower. The exceptions were gold that rose 2%, and iron ore up 9%, adding to gains post supply issues from Brazil. In good news for Australian cockies (about time), agricultural prices rose on the back of the poor start to the US growing season. High grain prices, low currency – now let's have some rain...

Portfolio

The Fund dropped -1.8%, versus the benchmark return of -1.3%.

Key Contributors: Payment system and gift card provider **EML Payments (+33.7%)** had a terrific month as it announced both a new salary packaging card contract with Smartgroup and the accretive acquisition of UK based gift card provider Flex-e-card. Aligned with recent opportunities in the US sports wagering card market, earnings have been upgraded and longer-term earnings prospects have clearly improved. Retirement village operator, **Lifestyle Communities (+17.3%)** had a solid bounce following the election and an informative investor tour of facilities. There was clearly some relief that the ALP's proposed changes in franking credit and capital gains tax proposals were not coming to fruition. And perhaps there was relief that negative gearing changes would not now impact the retirement property sector – either way, the stock reacted in a positive manner.

Gold miner, **Saracen Mineral Holdings (+14.7%)** was helped by some excellent drilling results and production forecasts, and a kick up in the gold price at the end of the month. While the stock is close to its all-time highs again, its growth profile continues to improve (unlike many of its listed peers which have disappointed in recent times). Gold, in Australian dollar terms (A\$1,882/oz), hitting all-time highs also helps. Waste management company, **Bingo Industries (+9.5%)** continued to recover from its profit downgrade earlier in the year.

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.

There was little stock specific news over the month, however the improving outlook for credit, which supports construction activity, together with a persistent valuation discount to peers provided positive sentiment for the stock.

Key Detractors: Profit warnings are always damaging for stock prices and impossible to avoid completely. While we've generally had a good record avoiding them, we copped three in May. First was tourism operator and campervan company, **Apollo Tourism & Leisure (-28.5%** based on average exit price). The company first downgraded FY19 NPAT guidance by ~20% on 2 May, citing difficulties in the sale of used campervans in the US market. Being a surprise to us and given our loss of confidence in earnings going forward, we promptly exited the stock at ~62c/s. Rather unbelievably, the company issued *another* earnings downgrade on 29 May (this time citing similar difficulties in Australia plus lower forward rental bookings for the second half of 2019. While disappointing, the stock ended the month at 39c/s given the second downgrade, thus our decisive action minimised further capital loss.

Global plumbing component manufacturer, **Reliance Worldwide Corp. (-24.8%)** was hit following the announcement that earnings would be 5-10% lower than previously anticipated. While the factors were largely one off (a warmer than expected winter in the South of the US and customers cutting inventory), investors lost some confidence in the speed of a recovery. And the third culprit was integrated fruit and vegetable producer, **Costa Group (-30.3%)**. Management downgraded profit expectations for the 2019 year by close to 20% following issues with its North African berry business (poor pricing in the key European market), higher water costs in the domestic market and an outbreak of fruit-fly sharply slowing down citrus sales. This was after a January downgrade largely due to slower than expected expansion of the mushroom division. Geographic and product diversity would normally help shelter earnings – sadly not this year.

Performance Attribution [^]		Top 5 Active Positions [^]
Top 5 Contributors	Top 5 Detractors	
Austral	Apollo Tourism & Leisure	Bravura Solutions
Bingo Industries	Corporate Travel Management	Corporate Travel Management
EML Payments	Costa Group	Service Stream
Lifestyle Communities	Lynas Corporation*	Smartgroup Corporation
Saracen Mineral Holdings	Reliance Worldwide Corporation	Webjet

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



Please be sure to 'Follow' us on LinkedIn to receive any intramonth commentary that we might put out:

www.linkedin.com/company/flinders-investment-partners

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.