

Flinders Emerging Companies Fund

Monthly Update: July 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	5.9%	4.8%	10.1%	20.4%	14.4%
S&P/ASX Small Ords Accumulation Index	4.5%	4.1%	7.6%	14.8%	14.6%
Net Value Added	1.4%	0.7%	2.5%	5.6%	-0.2%

[^] 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
Zenith: Approved

Platform Availability

MLC Wrap IDPS, Netwealth, Powerwrap, HUB24, Macquarie Wrap, uXchange, WealthO2, CFS FirstWrap, Xplore

Further Information

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- **A very good month for small companies**
- **RBA cuts rates, currency follows...**
- **Gold glitters – another all-time high in AUD**

Market

The Small Ords Accumulation index surged in July, rising 4.5% and outperforming the large companies ASX 100 Index (2.8%) by 1.7%. This was driven by a recovery in resource companies and lower rates driving increased equity valuations more generally. Small resources were up 7.9% (largely driven by gold stocks) while industrials rose a more modest 3.7% - technology stocks providing the lead.

With interest rates being cut in various parts of the world, equities were boosted on relative valuation and higher risk premium (as well as positive US earnings season providing some support). The Dow Jones rose a modest 1.0% and the Nasdaq 2.1% given its tech bias. A dash of political certainty saw the UK FTSE up 3.0% but Asian markets were mixed with the Nikkei up 2.0%. Hong Kong, with its demonstrations, eased 1.6% and Chinese equities down close to 3%. While gold was marginally higher, our lower currency meant the received price for our mining companies reached record levels – and their share prices reacted accordingly. Other metals and commodities were reasonably flat on the month.

The AUD move over the month is significant. It finished the month at its lowest point against the US Dollar since the depth of the GFC over a decade ago. This is terrific for our agricultural, tourism and mining sectors, perhaps not so good perhaps for retailers or other industries that import goods from offshore that will see prices rise.

With the RBA cutting the cash rate another 0.25% to 1.00%, we would expect an impact in this half. Housing will benefit, as will business. The banks now have little excuse not to grow their lending books. The August reporting season will reflect the poor first half due to credit being tight (exacerbated by the Hayne Royal Commission), elections and trade issues. Those headwinds are largely behind us. We are cautiously optimistic about improving conditions in the final quarter this year.

Portfolio

The Fund was up 5.9% over the month, versus the benchmark return of 4.5%.

Key Contributors: In a market that was driven by gold and tech stocks, it was pleasing to see the portfolio contributors coming from a spread of sectors and industries. Given the strong gold price it wasn't surprising that emerging producer, **Gold Road Resources (+39.4%)** was a key contributor during the month. We hold the company in the portfolio due to its excellent growth profile as they ramp up production from their Gruyere project in WA. The higher gold price and lower AUD has been an added bonus. Diversified ship and ferry builder, **Austal (+18.8%)** performed strongly again (the stock is up over 100% this year) as management announced that profit margins will be above prior expectation in the 2019 financial year and that next year's revenues and profits would also be higher than anticipated on better US Navy orders and good orders in their Australasian shipyards.

Growing veterinary services company, **National Veterinary Care (+15.6%)** was a solid contributor to performance over the month. It announced the acquisition of clinics in

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Australia and New Zealand plus a significant business that will add to its services division. These were all made at attractive multiples and are accretive for shareholders. Management continues to execute well on integrating these businesses and also organically growing the company. Diversified technology and manufacturing company, **Codan (+16.4%)** also had a strong month. While not directly sensitive to the gold price, the fact that it has a highly profitable division developing and making metal detectors, means that sentiment toward the stock is sometimes influenced by gold. However, we think that winning a \$15m contract to supply communications equipment into Africa during the month probably helped as well.

Key Detractors: In a market that is exceptionally strong such as July, it doesn't take much price weakness to impact the portfolio. Debt collection and finance company, **Credit Corp (-5.2%)** sold off after it released its 2019 full year profit numbers, which delivered within expectation, yet provided a more cautious outlook for 2020 – not unusual from a conservative management team. Given its position as the best operator in a consolidating and growing sector, we remain comfortable with our holding. **NRW Holdings (-2.4%)** has been a good contributor over the year but eased over the month. The mining services and infrastructure industries continue to grow and NRW is lifting its market share within those industries and hence we remain invested in this attractively valued growing business.

Not owning technology company, Wisetech (+15.1%) and gold miner St Barbara (+25.8%) detracted from relative performance but in both industries we hold stocks with better growth and valuation characteristics.

Performance Attribution [^]		Top 5 Active Positions [^]
Top 5 Contributors	Top 5 Detractors	
Austal	Credit Corp Group	Codan
Codan	NRW Holdings	Mineral Resources
Gold Road Resources	Seven Group	Service Stream
National Veterinary Care	St Barbara *	Shine Corporate
Smartgroup	WiseTech Global *	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 2.9% growth (table below). Small caps on the other hand are currently set to deliver 13.2%, 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	27.3%	13.2%	2.9%
PE	13.6	18.0	16.4
EV / EBITDA	6.7	9.6	9.3
ROE	14.0%	9.9%	13.0%



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