

Flinders Emerging Companies Fund

Monthly Update: October 2019

FLINDERS
Investment Partners



Performance (after all fees and expenses)	1 Month (%)	3 Months (%)	1 Year (%)	2 Years (% pa)	Since Inception [^] (%)
Flinders Emerging Companies Fund	1.7%	1.1%	18.8%	12.4%	13.7%
S&P/ASX Small Ords Accumulation Index	-0.5%	-1.8%	14.4%	8.3%	13.1%
Net Value Added	2.2%	3.0%	4.4%	4.1%	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
Zenith: Approved

Platform Availability

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

Further Information

www.flindersinvest.com.au

+61 3 9909 2690



- **Strong month for the Fund**
- **Avoiding the “bombs” continues to add value for our investors**
- **We keep saying it – there’s growth in small-caps without paying up...**

Market

The Small Ords Accumulation index eased a little in October, down 0.5%, while the portfolio performed strongly, rising 1.7%.

Again, gains for the Fund came from a broad range of stocks and industries. The most pleasing aspect was that the Fund didn't suffer from any holdings that delivered an earnings downgrade (and in a month where several earnings downgrades were delivered, including Southern Cross Media, Navigator Global, Bega Cheese, Costa Group, Nick Scali etc, resulting in steep drops in their share prices). The other notable observation was that a number of the high multiple 'darling' stocks started to show some cracks, of which the Fund has limited exposure.

Despite some large individual stock moves, the broader market exhibited little dispersion as industrial and resource stocks performed in tandem (both down 0.5%) and there was virtually no difference between the performance of the ASX100 and Small Ords index.

We've mentioned it on a number of occasions in reports this year but we remain firmly of the belief that there are still excellent investment opportunities across many industries that display both good growth characteristics and have attractive valuations. The stocks we hold in the portfolio are all growing, make profits, are well run and have price upside – exactly what we've always looked for and always will.

October was interesting in the distinct lack of volatility across almost all investment markets. In the US, the S&P500 was up 2.0% and the Nasdaq 3.6%. The UK FTSE was one of the few to fall – but only a modest 2.2%. Asian markets were a little firmer with China up 0.8%, HK up 3.1% and Korea 1.0%. Metals edged higher with gold up 2.5%, copper 1.6% better but nickel re-tracing 2.6%.

Oil (Brent) dropped 1.0% and iron ore was the largest move, dropping 10.7%. Our currency edged higher, finishing the month at US\$0.6893 which mirrored the upward move in bond yields, the 10-year rising from 1.02% to 1.14%. Wow...

Portfolio

The Fund rose 1.7% over the month but significantly better than the benchmark that fell 0.5%.

Key Contributors: We don't invest in companies on the basis of a potential takeover so it's a rare and positive surprise when one occurs. Outdoor advertising and sports media company, **QMS Media (+33.2%)** was subject to a bid from private equity group, Quadrant. The bid at \$1.22 per share (plus a 1.3c dividend) was a 36% premium to the 'undisturbed' (clearly word got out) share price prior to the bid. The acquisition has been recommended by directors (among them, substantial shareholders) in the absence of a higher bid. Adelaide electronics company, **Codan (+11.9%)** continued to perform exceptionally well for the Fund. At the company's AGM, the board provided guidance well above consensus expectations.

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.

The company has been in an earnings upgrade cycle since the Fund initiated a position in early 2016, and the growth outlook remains solid. The stock is now up over 100% for the 12 months, making it our largest contributor for the year.

Another holding that has been a terrific contributor is **Baby Bunting Group (+11.3%)**. The infant and child products retailer continues to impress with solid underlying revenue growth and improving margins despite a sluggish consumer backdrop. Pleasingly, **Silver Lake Resources (+24.1%)** had a good recovery after a poor September. A stable gold price and an improved production quarterly report (particularly in a quarter where several gold producer peers disappointed operationally) saw confidence re-emerge. We still see solid share price upside based on an attractive valuation.

Key Detractors: Even in a strong month there are disappointments. Fortunately, October didn't hold too many. **Smartgroup Corporation (6.6%)** gave back a little – but it's difficult to complain when the stock is up almost 24% for the quarter. The move was predominantly driven by the exit of their largest shareholder who had been there since 2012 before the company was listed; we remain entirely comfortable with the company's prospects going forward. Also weak was copper producer, **Sandfire Resources (-11.4%)**. While the copper price was stable over the month, the company released an underwhelming reserves statement from its majority owned Black Butte project in the US.

Outside those, the detractors from relative performance were a few stocks that we don't own but performed well – such as **IOOF Holdings (+15.5%)**, **IDP Education (+14.3%)** and **Fisher & Paykel Healthcare (+10.8%)**.

Performance Attribution [^]		Top 5 Active Positions [^]
Top 5 Contributors	Top 5 Detractors	
Baby Bunting Group	Gold Road Resources	AUB Group
Codan	IDP Education*	Codan
Integral Diagnostics	IOOF Holdings*	Service Stream
QMS Media	Sandfire Resources	Shine Corporate
Silver Lake Resources	Smartgroup Corporation	Smartgroup Corporation

[^] 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.