Flinders Emerging Companies Fund

Monthly Update: November 2019

Performance *(after all fees and expenses)*	1 Month (%)	3 Months (%)	1 Year (%)	2 Years (% pa)	Since Inception^ (% pa)
Flinders Emerging Companies Fund	2.3%	5.7%	23.6%	12.8%	14.1%
S&P/ASX Small Ords Accumulation Index	1.6%	3.7%	16.6%	7.1%	13.3%
Net Value Added	**0.7%**	**2.0%**	**7.0%**	**5.7%**	**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: Recommended
Zenith: Approved

Platform Availability

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

Further Information

www.flindersinvest.com.au
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- **What a difference a year makes**
- **Cautious commentary at the AGMs**
- **Will house price rises help the consumer?**

Market

The Small Ords Accumulation index gained 1.6% in November, taking the calendar year to date performance to 21.7%.

This was a far cry from last November when the market was experiencing a sharp downturn based on lack of progress on China/US trade talks, tariffs, Brexit and below average domestic growth. Well, none of that's really changed but equity markets have spent this year consistently rising – but who expected US 10-year bond yields to halve and ours to drop even further? Finding growth and returns continues to be the key focus for investors.

Having said that, it has been interesting to see many of the expensive growth stocks in this market underperform over the past few months. As readers would know, we've been wary of the valuations many reached, and we continue to be so. While we are always attracted to growth, our adherence to a valuation process meant either we didn't hold many of these names, or we sold a number of those stocks out of the portfolio (yes, maybe one or two a little early) but have been able to reinvest in good quality growing companies at more attractive valuations. And that, has been at the nub of our solid returns this year.

Wading through the recent AGM season commentaries, we would summarise the mood as still cautious. The September quarter didn't really show the expected post-election bounce but early signs are for a better December quarter, and into next year. While credit remains tight, house prices are rising, employment high and disposable income increasing. No reason to get too bearish despite the consumer remaining tight with the household purse…

Portfolio

The Fund rose 2.3% over the month, comfortably above the benchmark that was 1.6% higher.

Key Contributors: A number of good contributors this month, of which engineering and mining services company **NRW Holdings (+33.3%)** was the best. The company confirmed its pipeline of forward work at its AGM but more importantly, announced the acquisition of BGC Contracting. The deal adds considerable value to the group and we have confidence that they can manage the acquisition successfully given their recent integrations of both RCR and Golding – both of which were very accretive to shareholders. Financial services software company **Bravura Solutions (+20.7%)** effectively upgraded their earnings guidance for FY20 at their AGM, with their two recent acquisitions now expected to deliver higher earnings than originally expected. A large part of Bravura's operations is based in the UK, and despite the market's concern on Brexit implications on the group, the core business has continued to perform well.

Global card and payments firm **EML Payments (+19.7%)** announced a significantly earnings accretive acquisition and capital raising during the month. The purchase of Prepaid Financial Services (PFS) based in Ireland for $423m is by far the largest acquisition in the company's history and introduces EML into eight new European markets and will see PFS products sold into the US through the large EML customer base. We regard it as an excellent fit. Also, the company announced late in the month a multi-year contract with Simon Mall Group for the distribution of multiple payment card products. Waste management company **Bingo Industries (+20.0%)** provided inaugural FY20 guidance at their AGM which was better than market expectations, so the stock consequently performed well. The acquisition of DADI and associated cost synergies, price rises, and strength in the broader construction market are contributing to growth.

We've been a patient shareholder of personal injury law firm, **Shine Corporate (+11.3%)**. One of the reasons we've been happy to hold the stock was the prospect of a successful outcome in the large class action against Johnson & Johnson over their damaging pelvic mesh product. Pleasingly, the action has been ruled in the plaintiff's favour, but with a settlement amount yet to be determined in early 2020. We feel there may be another leg up in the stock at that stage when those details are announced.

Key Detractors:

Salary packaging and novated leasing company, **Smartgroup Corporation (-20.7%)** surprised the market by announcing the retirement of long time CEO Deven Billimoria. While his replacement is the current well-regarded CFO, the market seemed concerned – especially as the announcement came with a note that this year's earnings are likely to be a little softer than consensus expectations (within 2% NPAT). We remain attracted by the growth prospects for the company despite the setback and expect that any lift in domestic vehicle sales will help investor sentiment. Infant products retailer, **Baby Bunting Group (-15.4%)** had risen almost 80% in the three months since announcing its full year profit result. The company remains in great shape but not surprisingly, some shareholders took the opportunity to take some profits.

Childcare centre operator, **Think Childcare (-10.1%)** fell on limited news, but was perhaps adversely impacted by negative sentiment due to larger competitor G8 Education issuing a profit downgrade (the stock ended down 23.5% for the month). Think Childcare subsequently reaffirmed its own EBITDA guidance at a broker conference a few days later, pointing to +30% EBITDA growth on pcp.

Performance Attribution^		Top 5 Active Positions^
Top 5 Contributors	Top 5 Detractors	
Bingo Industries	Baby Bunting	EML Payments
Bravura Solutions	Fisher & Paykel Healthcare *	NRW Holdings
EML Payments	Smartgroup Corporation	Service Stream
NRW Holdings	Technology One *	Shine Corporate
Shine Corporate	Think Childcare	Smartgroup Corporation

^ Alphabetical order. * Denotes stock not held.

Quickstep Holdings (QHL)

Portfolio manager and co-founder of Flinders Investment Partners Andrew Mouchacca sat down with Chris Judd as a guest on his Talk Ya Book series to discuss an exciting investment in the Fund, Quickstep Holdings (QHL). You can watch the interview here, or visit our website (under News & Reports → News and Announcements).

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