

Flinders Emerging Companies Fund

Monthly Update: January 2020

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	2.9%	7.6%	27.8%	12.5%	14.8%
S&P/ASX Small Ords Accumulation Index	3.4%	4.7%	18.8%	7.3%	13.5%
Net Value Added	-0.5%	3.0%	9.0%	5.1%	1.3%

[^] Inception date is 30 September 2015. Past performance is no indicator of future performance. Information relates to the Flinders Emerging Companies Trust Class B. Source: RBC Investors Services, values have been rounded to the nearest decimal point.

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, IOOF Pursuit/Expand, CFS FirstWrap, Praemium

Further Information

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- **New year opens with enthusiasm**
- **US growth picks up**
- **Reality; fire and disease**

Market

The Small Ords Accumulation index gained 3.4% in January. Industrials outpaced resources and large caps performed better than smalls.

Equity markets opened the month very strongly with US markets hitting all time highs toward the middle of January. Better economic releases from the US – employment and housing in particular – helped build confidence.

However, the emergence of Coronavirus in China put the brakes on the enthusiasm and markets began to retreat. The Australian market was notable for its continuing strength and while off its peak, it was close to the best performing global equity market for the month.

Industry sectors that had already been battered by the summer bushfires, such as tourism, were hit again once the seriousness of Coronavirus became evident. Consumer stocks also weakened, as did China exposed resources, transport and food companies plus anything exposed to the education industry. Given that most of these exposures lie predominantly amongst smaller companies, it wasn't surprising to see the dispersion in returns for the month relative to larger companies.

With the potential impact on Chinese growth this quarter, commodities eased. Oil in particular was very weak, with WTI falling 16.0%. Copper and Nickel both fell 9.5%, With the uncertainty, gold rose 4.7% (reaching an all-time high of \$2375/oz in Australian Dollars) driving gold stocks higher over January. The Australian dollar looking particularly weak at US\$0.6691 at month end.

The interim reporting season is upon us and while we don't expect too much negative surprise in the actual results – recent events are likely to result in very cautious outlook commentary. Given most of the impact of the bushfires and coronavirus will be confined to the short-term, there may be some excellent buying opportunities if certain stocks get de-rated too aggressively.

Portfolio

The Fund rose 2.9% in January, slightly below the benchmark that was up 3.4%.

Key Contributors: With the evidence rising about the scale of the Coronavirus, gold started to move up in the back half of the month lifting the sector. All of our three gold stocks rose, with **Silver Lake Resources (+21.3%)** and **Saracen Mineral Holdings (+19.3%)** being top five contributors. Importantly, all three gold stocks (including **Gold Road Resources (+6.0%)**) delivered good quarterly production and activities reports for the December quarter – much more important than a reaction to short-term moves in the commodity price. It is worth pointing out that many gold stocks fell in the month on poor quarterlies, despite record gold prices. Our preference has been for gold companies growing their production volumes with improving economics, and these three reports showed ongoing evidence of this.

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EML Payments (+15.9%) continues to find investor support. The company continues to win new contracts for its payment cards and re-loadable gift cards, further validating the future opportunities in both Europe and North America. We expect the company to release more detail on these contracts and its growth profile with its interim profit release this month. Debt collection agency and lender, **Credit Corp Group (+14.9%)** always releases its profit results earlier than the pack – and its 2020 interim was received well. The company is well capitalised to take advantage of a consolidating Australian market, has made excellent progress growing its US business and its lending book is also growing solidly.

Key Detractors: We have two travel related companies in the portfolio; both quite different, neither with heavy exposure to China or other Asian countries, but both have been caught up in the impact of the Coronavirus. **Corporate Travel Management (-13.1%)** and **Webjet (-9.8%)** both have global businesses that are growing strongly. Yes, the current issues are having an impact on travel expenditure to and from certain areas (obviously China) and will take the shine off short-term profits, but we now feel that the potential downside has been more than reflected in the share price falls.

While the weak oil price had an impact on the share price of **Cooper Energy (-6.6%)**, so did bushfires. Cooper is on the verge of producing gas from its Sole gas-field in the Gippsland Basin. However, completion of the onshore production facility for the gas has been delayed due to the impact of the East Gippsland bushfires. Workers have returned to the site and despite intermittent interruption of construction to poor air quality, we'd expect that completion will occur in March.

Performance Attribution [^]		Top 5 Active Positions [^]
Top 5 Contributors	Top 5 Detractors	
Appen	Cooper Energy	AUB Group
Credit Corp Group	Corporate Travel Management	EQT Holdings
EML Payments	Polynovo *	Johns Lyng Group
Saracen Mineral Holdings	Service Stream	Service Stream
Silver Lake Resources	Webjet	Shine Corporate

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



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