

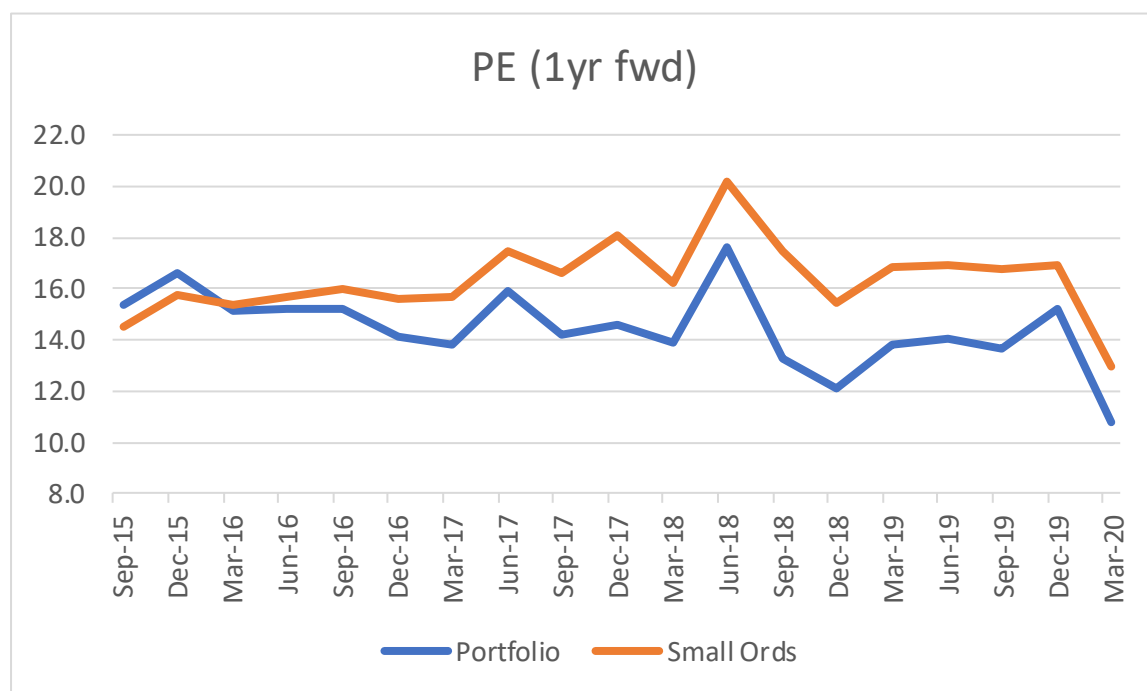
COVID-19 Update

What a remarkable several weeks in markets. We've seen the quickest market meltdown in history, with COVID-19 resulting in economies globally grinding to a halt, and the market moving quickly to price that in. From recent highs to lows, the market was down ~36% in only 22 days, compared to the ~16 months it took for the market to drop ~50% during the GFC.

Inevitably, this has resulted in a fall in returns for our investors. Whilst disappointing, it's important to note that now is not the time to panic, and as with every other major shock throughout history (world wars, 9/11, the GFC, other pandemics etc), this episode too will pass. The trick is obviously timing which is unknown. The one thing we did learn from the GFC, was that while timing the bottom is difficult, valuations mattered. When valuation signals were at extremes, and the feeling was most uncomfortable, it was the best time to be making an investment and increasing exposure to higher returning assets like equities.

What we'd like to stress in this note is that valuations are arguably as cheap as they've ever been since the inception of the Fund. And it's certainly feeling uncomfortable right now. Again, timing of the current market bottom is difficult, but we'd argue that we're closer to the bottom than not.

The chart below is based on consensus data for the end of March 2020 for the Flinders Emerging Companies Fund PE against the Small Ords PE (1 year forward). The caveat here is that while consensus earnings estimates have already begun to be revised downwards, there is likely more to go on this front. As a margin of safety for the chart below, to be conservative, you could apply a further 10-20% decrease to earnings. However, taking current consensus estimates, the Fund is trading at <11x PE (and EPS growth is currently ~15%)



Source: Factset, Flinders Investment Partners

The next few months (at least) are likely to see dramatically slower global growth with unemployment levels increasing substantially. However, markets have always been forward looking, and given the extreme amounts of liquidity, fiscal stimulus and supportive monetary policy globally, a plateauing of infection rates and/or a vaccine for COVID-19 could perhaps see markets move quickly to price in a recovery.

So, we remain cautious, yet given the fall in markets we are not set to maximum bearishness. Our paramount focus in recent weeks as developments have occurred at breakneck speed, has been on ensuring that the Fund is invested in companies that are well capitalised with good cashflows that will see them through this period. Assessing companies has to be coupled (as always) with their earnings delivery and their valuation. Equally as important, we've tried to ensure that enough risk is in the portfolio to participate (and hopefully outperform) when some semblance of normality returns to markets.

The Fund has been active over the last few weeks, specifically taking advantage of attractive pricing to add to some existing holdings, as well as initiating some new positions. We have also exited stocks being mindful that this pandemic has caused material disruption to economic growth and invariably the operating environment for some businesses. We'll release our quarterly next week with more expansive commentary.

Flinders Investment Partners

3 April 2020

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.