Flinders Emerging Companies Fund

Monthly Update: April 2020

FLINDERS
Investment Partners

Performance ***(after all fees and expenses)***	**1 Month** (%)	**3 Months** (%)	**1 Year** (%)	**3 Years** (% pa)	**Since Inception^** (% pa)
Flinders Emerging Companies Fund	17.3%	-20.2%	-8.9%	7.1%	8.5%
S&P/ASX Small Ords Accumulation Index	14.3%	-19.0%	-13.3%	3.2%	7.7%
Net Value Added	**3.1%**	**-1.2%**	**4.4%**	**3.9%**	**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. Source: RBC Investors Services

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: Fund Watch
Zenith: Under Review

Platform Availability

MLC Wrap, Navigator, Netwealth, Powerwrap, HUB24, Macquarie Wrap, IOOF Pursuit/Expand, CFS FirstWrap, Praemium

Further Information

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- **'Unprecedented' monetary and fiscal stimulus send markets higher**
- **Capital raisings abound to strengthen balance sheets**
- **Timing the market remains a fool's errand**

Market

The Small Ords Accumulation index appreciated 14.3% in April, reversing what has been one of the shortest bear markets on record. While markets are still evolving, they are well off the recent lows on 23rd March, with monetary stimulus measures globally providing comfort and liquidity. Fiscal stimulus has also been forthcoming globally (Australia for example has announced three economic stimulus packages worth $214bn, or 10.6% of GDP). There has also been evidence of 'the COVID-19 curve' flattening in many countries, with commentary in recent days moving to the easing of restrictions currently in place, something that would not have been contemplated even 2-3 weeks ago. The fast pace of developments continues to amaze.

With risk assets rallying, it's unsurprising that the price of most commodities was up, including copper +8.8% and nickel +8.0%. Gold increased 6.9% as the low/negative interest rate environment continues to be supportive, and the Australian dollar increased 6.1% against the US dollar. The dramatic exception was WTI crude oil, down 5.5%, as a supply glut and falling global demand conspired to wreak havoc on the commodity price. This was exacerbated by the May oil futures contract which entered negative territory for the first time and touched minus US$40.32/bbl as speculators and ETFs sold the expiring contract at any cost to avoid the situation of actually taking physical possession of barrels of oil…

Capital raisings in the local market were a notable feature in April, as more than 60 companies raised over $11bn to ensure that their balance sheets could see them through the foreseeable future. Companies from more adversely impacted sectors such as travel, retail and REITs have featured heavily. The dilution to earnings per share is unfortunate, yet the majority of stocks have traded above their raising price. Capital raisings are likely to continue over the coming months.

Portfolio

The Fund returned 17.3% in April, outperforming the benchmark return of 14.3%.

The market has certainly had a strong bounce from the low on 23rd March, and probably quicker than most people had anticipated. We've been surprised too. And such is the danger of making reactive asset allocation calls (like deciding to cash up in mid-to-late March when the market felt the most painful). As we mentioned in our March commentary, while the sell-off was extreme, we wanted to ensure that enough risk was in the portfolio to benefit from when markets normalise. It's probably too soon to call whether we've seen the market bottom (we don't profess to know; countries recovering from COVID-19 could see a relapse, how do economies perform once government support is removed in six months? etc), but we're happy with the balance in the portfolio, which continues to remain fully invested.

Key Contributors: Machine learning and AI dataset provider **Appen (+31%)** released a positive market update mid-month, reiterating guidance for CY20. Appen is in the fortunate position that its customer base (tech giants Google, Facebook et al) continue to spend voraciously on R&D. A company that remains in an earnings upgrade cycle with cash resources in excess of $100m is a very attractive proposition, particularly in this market.

Gold miner **Silver Lake Resources (+41.3%)** reported their March quarterly which highlighted several positive aspects including a record sales quarter, cash continuing to build by $41m to $227m (with no debt), and an upgrade to FY20 sales guidance. We've been pleased that while the gold price continues to be supportive (increasing again over the month), our three gold holdings (including **Saracen Mineral Holdings** and **Gold Road Resources**) all delivered quarterly reports which demonstrated great execution operationally, and a good handle on COVID-19 impacts on their operations.

Consumer fintech company **Wisr (+56.6%)** managed to bounce over the month, after it was sold off aggressively in the market panic. The company provided a couple of updates over the month, including passing a major milestone of $200m in loan originations, and their quarterly report which demonstrated they are well capitalised to see through the COVID-19 period. Growth in their loan book is expected to slow over the coming months given the prevailing economic environment, yet there should still be decent growth, and we like the value that the company is creating with their Wisr Ecosystem and the company's focus on prime (credit quality) customers.

Key Detractors: Most of the detractors in March were stocks that were around flat in a market that was up strongly. These included telco provider **Over the Wire Holdings (-0.7%)**, property fund manager **Centuria Capital Group (-3.9%)** and law firm **Shine Justice (+4.7%)**. The former two companies didn't have any meaningful developments over the month, while Shine updated the market on a major ongoing class action, where the opposing party decided to appeal the case which in March was ruled in favour of the applicants that Shine represented. Mediation is scheduled for early May, with an outcome over the coming weeks/months.

Serviced office provider **Victory Offices (-48.0%)** was the key disappointment. The company has been hit hard as many business clients have stopped using their serviced offices while the country has been in lockdown. While the company doesn't have any debt, it does have lease liabilities in place, and is working through rent relief negotiations with their landlords for their 19 locations. The Federal government released its COVID-19 Rent Relief Code of Conduct for commercial tenants, which provides Victory with a framework to work with. The company entered a trading halt during the month to work through these issues and also undertake a capital raising to strengthen their balance sheet.

Performance Attribution^		**Top 5 Active Positions^**
Top 5 Contributors	**Top 5 Detractors**	
Fisher & Paykel Healthcare *	Centuria Capital Group	Austal
Metcash *	Mesoblast *	Credit Corp Group
Silver Lake Resources	Over the Wire Holdings	EQT Holdings
Webjet	Shine Justice	Service Stream
Wisr	Victory Offices	Shine Corporate

^ Alphabetical order. * Denotes stock not held.

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