

# Flinders Emerging Companies Fund

Monthly Update: May 2020

FLINDERS  
Investment Partners



Performance (after all fees and expenses)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% pa)	Since Inception <sup>^</sup> (% pa)
Flinders Emerging Companies Fund	10.6%	-1.8%	2.7%	12.1%	10.7%
S&P/ASX Small Ords Accumulation Index	10.6%	-1.9%	-2.9%	7.5%	9.9%
<b>Net Value Added</b>	<b>0.0%</b>	<b>0.1%</b>	<b>5.6%</b>	<b>4.6%</b>	<b>0.8%</b>

<sup>^</sup> 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

[www.flindersinvest.com.au](http://www.flindersinvest.com.au)



- **And the band played on...**
- **Markets focus on the recovery – and not much else**
- **Small companies lead the market again**

## Market

The Small Ords Accumulation index appreciated 10.6% in May, continuing its stellar run since the lows of March. Again, it greatly eclipsed returns from the top 100 (up 3.8%). Resources did better than industrials helped by the 85% bounce in the oil price (off absurd lows), a 20% rise in the iron ore price and gold continuing to move higher.

May was characterised by investors looking through the current dire economic data to how the economy emerges beyond COVID-19. With health-based restrictions easing toward the end of the month, consumer exposed sectors such as discretionary retail, advertising and even travel performed strongly. Property related stocks – especially housing, also found support and technology companies continued their rise.

We now come to an interesting point. Corporate earnings forecasts have been revised back sharply and stocks have recovered to a greater degree than most had expected. Consequently, the market price to earnings ratio looks lofty. But with interest rates where they are (negative anybody?) and Australia's impact from COVID-19 less than anticipated on both health and potentially on the economy, sidelined cash has been hitting the market. Fear of missing out? Perhaps. But with the stimulus just starting to impact both business and individuals, there may be more to come.

The flip side is that while we are an island, our economy hardly is. Much will depend on the recovery in China and with the US suffering on multiple fronts, and trade threats toward China again emerging, the market mood could quickly sour. It is also worth noting that with social unrest rising in Hong Kong again, both the Chinese and HK equity markets were lower in May.

In the meantime we continue to focus on companies that have some level of protection to their profitability and balance sheets but, will also benefit from a recovery. We haven't made significant changes to the portfolio over the past month and our stocks have performed well. We still believe we have a good balance of quality companies and industry exposures to provide solid returns despite short term volatility.

## Portfolio

**The Fund returned 10.6% in May, in line with the benchmark return of 10.6%.**

**Key Contributors:** We often point out that our performance (both good and bad) can come from a range of stocks and industries. May was no exception. In fact, looking at the top five and bottom five, it's hard to see anything in common between the ten of them.

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Online design and fulfilment provider **Redbubble (+57.0%)** had a solid rise on the back of a trading update late in April. The company pointed to March quarter sales growth of 20% with a strong finish and momentum continuing into April. The company has been a net beneficiary of increased online retail spending by customers due to COVID-19 impacting buyer habits. We expect this trend to continue over the near-term. Aerospace component fabricator, **Quickstep Holdings (+42.9%)** was another company to stage a strong recovery. The stock had lagged the market badly in April which was odd given its locked in contracts for US Air Force fighter jet components for the foreseeable future. Two brokers initiated research coverage on the stock helping identify a solid valuation gap that had emerged.

Gift card and digital payments company, **EML Payments (+29.5%)** had another good month following its recovery in April. The company provided a trading update during the month that contained few negative surprises (the market already aware that mall gift card sales would have vanished in April). But with easing COVID-19 restrictions in Europe and the US, sales would be expected to pick up over the next few months, plus with better than expected growth from wagering products and salary packaging cards, the company is looking to a bright 2021 financial year. A similar theme emerged with online travel service provider, **Webjet (+35.3%)**. Post the company's capital raising in April, it is in a good position to weather the current downturn. With easing travel restrictions in Europe and Australia (Queensland notwithstanding), the market has focussed on the recovery in earnings and the operational leverage it will have off a lower cost base.

A quick mention of retirement living developer **Lifestyle Communities (+26.0%)** is also worthwhile. At the time of writing, the stock was almost back to its February record highs – after falling 50% in March. An astonishing V shaped recovery. And that is without any trading update of significance that might upgrade the earnings profile of the stock.

**Key Detractors:** Business telecommunications provider, **Over the Wire Holdings (+11.4%)** was sold from the portfolio in May, and in hindsight, too early. The past twelve months has seen the company struggle to maximise returns from some recent acquisitions and lag its expected growth profile. Our decision was based on the company's exposure to small to medium businesses and a potential drop in revenue or rise in bad debts. Perhaps our fears were overdone. Ship and ferry builder, **Austal (-0.6%)** suffered early in May as the US Navy chose not to appoint the company to build its future guided missile frigate program. While disappointing, the work was long dated and their current pipeline of orders throughout their global business is still expanding. The stock recovered well toward the end of the month, as the company increased its FY20 earnings guidance.

Telco and utilities service provider, **Service Stream (+3.8%)** lagged the market after providing a business update mid-month. Slightly higher costs and a lower spend from mobile telco operators the main issue behind issuing earnings guidance 5-8% behind analysts forecasts for this financial year. And emerging gas producer, **Cooper Energy (-3.5%)** slipped back due to delays to APA's Orbost gas plant commissioning holding up revenues to Coopers Sole gas project. This is a short-term issue and we expect production to begin within the month.

Performance Attribution <sup>^</sup>		Key Portfolio Positions <sup>^</sup>
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
EML Payments	Austal	Austal
Lifestyle Communities	Cooper Energy	Elders
Quickstep Holdings	Johns Lyng Holdings	EQT Holdings
Redbubble	Over the Wire Holdings	Service Stream
Webjet	Service Stream	Shine Corporate

<sup>^</sup> Alphabetical order. \* Denotes stock not held.



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