

# Flinders Emerging Companies Fund

Monthly Update: July 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	3.0%	13.5%	-1.3%	12.7%	10.9%
S&P/ASX Small Ords Accumulation Index	1.4%	9.9%	-8.5%	6.5%	9.4%
<b>Net Value Added</b>	<b>1.6%</b>	<b>3.6%</b>	<b>7.2%</b>	<b>6.2%</b>	<b>1.5%</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: Recommended  
Zenith: Recommended

## 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)



- **Markets rise again, so do Covid cases...**
- **Victoria – locked down again and this time even harder**
- **Gold and tech stocks hit record levels**

## Market

The Small Ords Accumulation index appreciated 1.4% in July, once again led by resource stocks and to a lesser degree, technology companies. Pleasingly, the Fund performed well over the month with a good spread of stocks contributing. Small companies once again eclipsed the top 100 stocks, reflecting better growth characteristics and a far greater diversity of revenues.

US equity markets performed exceptionally well with the Nasdaq reaching record levels and the Dow Jones and S&P500 not far behind. European markets experienced falls as did the Japanese equity market. However, China was a standout with a gain of just over 10%. But it was the odd couple of gold and tech stocks that took centre stage in July. Historically low government bond rates and a weakening US Dollar saw a flight to the “safety” of gold as a store of wealth and good earnings releases from the big US tech stocks fuelled that sector in virtually all equity markets.

Australia got a Covid-19 reality check in July as there was a sharp acceleration in cases reported in Victoria. This happened just as the States were about to reopen borders and restrictions on businesses were being lifted. Economic releases for June were encouraging with a rise in credit demand, household spending and confidence. Sadly that is likely to reverse as Victoria goes into Stage 4 lockdown in August and travel restrictions between NSW and Queensland tighten.

With Victoria representing 25% of the national economy and a manufacturing centre, there will be a negative ripple effect throughout the national economy. Hopefully, it is only for six weeks and infection rates go down although, there remains considerable uncertainty. On the positive side, commodity prices remain high (notably iron ore, gold and copper), agricultural conditions on both the East and West coasts have dramatically improved, JobKeeper will run into 2021 (albeit at tapered levels), low interest rates will remain and importantly, the Chinese economy is recovering.

And finally, company reporting season has just kicked off. As usual there will be surprises, both good and bad (hopefully very few of the latter for the Flinders portfolio) but the focus will be on the outlook commentary and business trends in the June quarter giving some indication as to how companies are managing the current situation, which ones have adapted well and those that look like coming into next year stronger and better positioned. An interesting month ahead!

## 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 EQT Responsible Entity Services Limited (“EQT RES”), AFSL 223271. 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 believe that the information and advice (if any) contained herein is correct at the time of compilation. However, Flinders, EQT and EQT RES provide no representation or warranty that it is accurate, complete, reliable or up to date, nor does Flinders, EQT or EQT RES accept any obligation to correct or update the opinions (if any) expressed are subject to change without notice. Flinders, EQT and EQT RES 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.

## Portfolio

The Fund returned 3.0% in July, well in front of the benchmark return of 1.4%.

**Key Contributors:** Online design and fulfilment provider **Redbubble (+27.2%)** had another very strong month. In late June the company released a trading update that provided evidence of a company with excellent revenue and profit momentum. Highlights included quarter to date revenue up 107%, and year to date EBITDA up 101%. Importantly, expense growth was surprisingly modest showing the company's focus on costs as well as increasing operational leverage of the company. It finished the period with \$56m of cash on its balance sheet and the stock continues to trade at a significant discount to its online peers.

Funds management group, **Pinnacle Investment Management (+28.8%)** performed strongly in July after a period of lagging other listed fund managers. Most of its affiliate funds are performing well and inflows began to pick up in May and June following the weak retail markets of March and April. With new funds getting traction in offshore markets and opportunities in the domestic market, we expect to see solid growth in 2021 and beyond. The strength of the iron ore price was reflected in the performance of diversified miner and engineer, **Mineral Resources (+21.6%)**. As well as the direct benefit of its own ore production, the company's crushing services division will also be performing strongly.

Electronics developer and manufacturer, **Codan (+16.4%)** often performs well when the gold price is strong. With its world leading metal detector business selling to artisan miners, demand does increase when the gold price is high. However, the other major division of communication products continues to perform well. In June, the company commented that their constrained manufacturing capacity in Malaysia had significantly improved and they are still on track to release a record profit for the 2020 financial year.

**Key Detractors:** Insurance broker **AUB Group (-11.3%)** has been a solid performer in the portfolio over the past few months but it was subject to some profit taking in July. We remain of the view that brokers will continue to take share from the small to medium sized business insurance market and while premium growth may be under short term pressure, the business has an excellent outlook. Compensation lawyers, **Shine Justice (-9.1%)** underperformed during the month with no news releases or change to the industry dynamics. There may be a view that less people working in traditional workplaces means lower claims, but we feel the long tail of work in hand and significant cases supports a good 2021.

Online currency dealer **OFX Group (-11.4%)** came back as volatility came out of the AUD and various cross rates in June. However, the recent weakness of the USD in July and early August should see activity pick up in both personal and business transactions. Utility service provider, **Service Stream (-5.8%)** continued to lag the market in July. While the company has guided to a flat earnings outlook for this year, an increase in spending from mobile telecommunication companies on 5G over the next year should provide scope for some growth in 2021.

Performance Attribution <sup>^</sup>		Key Portfolio Positions <sup>^</sup>
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Codan	AUB Group	Austal
Credit Corp	Bingo Industries	Codan
Mineral Resources	OFX Group	EQT Holdings
Pinnacle Investment Management	Service Stream	Redbubble
Redbubble	Shine Justice	Shine Corporate

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



Please be sure to 'Follow' us on LinkedIn to receive any intramonth commentary that we might put out:

[www.linkedin.com/company/flinders-investment-partners](https://www.linkedin.com/company/flinders-investment-partners)

#### 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 EQT Responsible Entity Services Limited ("EQT RES"), AFSL 223271. 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 believe that the information and advice (if any) contained herein is correct at the time of compilation. However, Flinders, EQT and EQT RES provide no representation or warranty that it is accurate, complete, reliable or up to date, nor does Flinders, EQT or EQT RES 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, EQT and EQT RES 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.