Flinders Emerging Companies Fund

Monthly Update: August 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	7.4%	10.2%	8.2%	13.6%	12.3%
S&P/ASX Small Ords Accumulation Index	7.2%	6.6%	2.1%	8.0%	10.8%
Net Value Added	**0.1%**	**3.6%**	**6.1%**	**5.6%**	**1.6%**

^ 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

- **Small caps put on another big gain**
- **Reporting season throws up surprises**
- **Domestic economic activity picks up (one day Victoria, one day…)**

Market

The Small Ords Accumulation index rose a hefty 7.2% in August led by industrials, and particularly technology stocks again. This represents a 55% gain since the market low of March 23rd and is only 7% shy of its all-time high reached in late February.

Abundant liquidity with low rates, Government stimulus and the hope of a vaccine all helped charge the US equity markets higher again; both the Nasdaq (up 9.6%) and the S&P500 (up 7.0%) reaching all-time highs during the month. Other global equity markets followed suit, but none to the same degree.

Economic indicators continued to improve – although one wonders if by enough to justify the market exuberance. Base metal prices continued to rise, as did the iron ore price which saw a gain of 14% in August. Gold stalled, as did gold equities but given the recent run in that sector, a breather wasn't a surprise.

August also brought a fascinating profit reporting season. The impact of COVID-19; the lockdowns, supply chain issues, JobKeeper and State Government support packages, lower interest rates and changed consumer behaviour all had a noticeable impact on both company results and (sometimes lack of) outlook statements.

The reality of the downturn was seen in the 16% fall in net earnings across the broader market for the 2020 financial year, although this was driven by a 38% decline in the June half – needless to say, the sharpest half year decline in ASX history. More than a third of companies in the ASX 200 posted a loss in the half.

There were, however, areas of strength and resilience including food and agricultural products, select IT companies, resource stocks (anything exposed to gold, iron-ore and base metals), and in some of the most surprising releases, the strength in discretionary retail. That sector shone as consumers embraced online offerings in consumer electronics, homewares, food delivery, furniture and of course, beverages.

In other interesting developments, highlighting the uncertain outlook, the number of companies providing earnings guidance dropped by half – the Victorian debacle not helping. Abnormal losses surged as companies wrote down asset valuations and intangibles, also taking restructuring and redundancy charges. This will likely help profitability and returns on a recovery (not to mention lower tax paid).

The stocks in our portfolio reported largely as expected, which in such a volatile environment was pleasing. We still feel that having a good spread of companies that provide solid earnings and are well managed is paramount for the returns we expect to provide for our investors.

Portfolio

The Fund returned 7.4% in August, ahead of the benchmark return of 7.2%.

Key Contributors: Another terrific month from online design and fulfilment provider **Redbubble (+49.2%)** saw it as our largest contributor. The company released its FY 2020 results and despite releasing strong sales data in late June and early August, the actual profit results were even more impressive. EBITDA up 141% and free cashflow reaching $38m, while FY21 was off to a strong start with July revenues up 132% – all justifying the recent re-rating of the stock. Importantly for the future growth of the company, revenue from repeat customers is now rising faster than that from new customers. Electronics manufacturer, **Codan (+32.1**%) continued to perform well with a strong full year 2020 profit result, which was in fact a better result than the guidance provided in June when adjusting for a significant item, indicating that the underlying operations were performing much better than expected.

Infant merchandise retailer, **Baby Bunting (+30.0%)** performed well on the back of a result that exceeded expectations. As well as being the only national retailer of its type, the company's online offering helped drive revenue and margin. In addition, the consistency of BBN's growth ensured that the company did not apply nor receive government support in the period. We also feel that the company has some defensive attributes that will cushion it from any discretionary spending drop as COVID-19 stimulus is withdrawn later this year and early next year. Civil and mining engineer, **NRW Holdings (+19.9%)** also released a strong profit report. The recovery in the Western Australian capital expenditure cycle (largely driven by the mining industry) and a solid performance from the East Coast infrastructure businesses helped revenue climb 83% to just over $2bn and EBITDA rise 74% to $250m. We expect more growth in 2021 as infrastructure margins improve, new contract wins get going and a full year's contribution from the BGC business that was acquired late in 2019.

Key Detractors: In a volatile market during reporting season, sometimes it's what you don't own that can detract value. That was the case this month. Not holding **IDP Education (+50.9), Zip Co (+53.9%)** and **Pointsbet Holdings (+117.9%)** was costly in a relative sense. However, none of the three companies stack up on our assessed valuations. Profitability is too long dated for Zip and Pointsbet (although we admire their business models) and IDP Education is way too expensive in our view. Also detracting was **Gold Road Resources (-15.0%)**, which struggled with the gold price losing momentum and the Australian dollar appreciating. Financial services software company, **Bravura Solutions (-12.2%)** eased following its 2020 profit release. While largely in line with expectations, the 2021 guidance for a flat outcome in the absence of new contract wins, seemed to un-nerve some holders. The company is involved in a number of tenders, has a quality product and we expect positive announcements toward the end of this year or early next.

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
AUB Group	Bravura Solutions	Austal
Baby Bunting	Gold Road Resources	Baby Bunting
Codan	IDP Education*	NRW Holdings
NRW Holdings	Pointsbet Holdings*	Redbubble
Redbubble	Zip Co*	Service Stream

^ Alphabetical order. * Denotes stock not held.

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