

# Flinders Emerging Companies Fund

Monthly Update: October 2020



Performance (after all fees and expenses)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Since Inception <sup>^</sup> (% pa)
Flinders Emerging Companies Fund	0.34%	6.45%	3.84%	9.49%	10.38%	11.71%
S&P/ASX Small Ords Accumulation Index	0.46%	4.69%	-2.40%	4.63%	8.55%	9.88%
<b>Net Value Added</b>	<b>-0.11%</b>	<b>1.76%</b>	<b>6.24%</b>	<b>4.86%</b>	<b>1.82%</b>	<b>1.83%</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)



- **Australia outperforms global markets**
- **Domestic economic recovery gathering pace**
- **China trade rumblings increase**

## Market & Outlook

The Small Ords Accumulation Index edged 0.5% higher in October having been up close to 7% mid-month. The broader market fared a little better, not giving back quite as much in the past fortnight as the technology and gold sectors weakened. Industrials were stronger than resources but by less than 1%.

Compared with other global equity markets, Australia performed well in October. The US S&P500 Index was down 2.8%, the Nasdaq down 2.3% and the Dow Jones lost 4.6%. European markets were very soft on new lockdowns with the UK FTSE100 down 4.9% and the German DAX tumbling 9.4%. Asian markets marked time over the month. With the exception of oil, which fell close to 10% in October, commodities hung on to their gains of the past few months. One sector that gets scant mention in equity market reports are soft commodities. The reason we bring this up is that the price of oil seeds, grains (including barley), beef, cotton, milk powder and a number of others have had very significant gains in recent months. Add a modest AUD and excellent rains and we expect the rural economy will be a major driver of economic growth over the next year.

At the time of writing, the US election has not been completely settled but it looks like Joe Biden will be moving into the White House and the Republicans will retain control of the Senate. Add constitutional lawyers at 20 paces over the next few months and it's not an ideal scenario for the planned stimulus packages and infrastructure initiatives to be passed – not to mention an acceleration of Covid19 cases. Not an ideal outcome for US economic growth. Equity valuations can be supported with exceptionally low bond yields – but if corporate earnings begin to fade, one of the two supports disappear.

Perversely, Australia finds itself in an almost opposite position. The politics seem stable (despite the States still playing independence games), the Covid19 threat dramatically reduced and the domestic economy on an upward path with the stimulus packages well understood. It is a solid backdrop for smaller companies to do well. We are never fully sheltered from the impact of events offshore and with Europe and the US struggling with Covid19, and China with their recent stunts on trade, this can all seem threatening, but the reality is that well run smaller companies can, and will continue to grow in what is a supportive domestic environment.

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## Portfolio

The Fund returned **0.34%** in October, marginally behind the benchmark return of **0.46%**.

**Key Contributors:** We mentioned in our September quarterly report that we had added medical imaging technology company, **4DMedical (+35.9%)** into the portfolio. Late in September, the Australian Therapeutic Goods Administration (TGA) announced that they had granted the company approval for their analysis software to be added to the products register. This significant announcement follows the approval granted by the US FDA in May and puts the company well on the way to revenue generation. Our position in wealth management software provider, **HUB24 (+24.2%)** also added to performance during the month. In mid-October the company released its quarterly update which revealed record inflows and a 32% rise in funds under administration on their platforms YoY to \$19bn. Late in the month they also announced the acquisition of competitor, Xplore Wealth and a strategic stake in listed company Easton Investments which owns rapidly growing wealth business GPS Wealth, all funded by an equity capital raising.

Benefitting from the gradual opening up of the Victorian economy and continued industry support from the Federal Government was **Think Childcare (+13.5%)**. While there were no trading announcements from the company, listed competitor Mayfield Childcare did release a positive report to investors during October. Subsequent to the end of the month, Think did provide a very positive update to the market, noting that both enrolments and attendances had reached pre-Covid levels and upgraded earning guidance for this financial year by 40%. Building services and insurance repairs company, **Johns Lyng Group (+11.6%)** added to performance in the month. The company announced two new service agreements in October, firstly with Chubb Insurance and secondly with Westpac General Insurance. Being added to those two panels further increases their baseload of work over the next few years. And lastly, not owning biotech company, **Mesoblast (-39.8%)** added to relative performance, pleasing as it had detracted in previous months.

**Key Detractors:** Beauty products and household consumables company, **McPherson's (-25.3%)** struggled following a trading update during the month. While the underlying performance of most of their brands is good, the company took a \$5.7m writedown on a hand sanitiser supply agreement that failed. Then later in the month, they announced the acquisition of Global Therapeutics, a subsidiary of Blackmores that manufactures supplements and traditional Chinese medicines. The \$27m deal was funded by a \$36.5m placement and a \$10m SPP and while the deal is accretive, the issue has put pressure on the stock price.

International ferry and ship builder, **Austal (-17.4%)** weakened following press reports that payments made to the company by the Australian Border Force (ABF) for the Cape Class vessel program in 2015, was under investigation by the Australian Commission for Law Enforcement Integrity (ACLEI). While there is nothing to suggest any wrong-doing, it had an adverse impact on investor sentiment. Emerging telecommunications infrastructure company, **Uniti Group (-16.8%)** came under pressure as they were outbid for takeover target OptiComm by superannuation fund, Aware Super, and then matched that bid. The impact was to reduce the financial upside from the deal. We remain confident that Uniti will consummate the merger and it will ultimately be very beneficial to the valuation of the company.

Performance Attribution <sup>^</sup>		Key Portfolio Positions <sup>^</sup>
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
4DMedical	Austal	EQT Holdings
HUB24	Baby Bunting	NRW Holdings
Johns Lyng Group	Lynas Corporation *	Redbubble
Mesoblast *	McPherson's	Service Stream
Think Childcare	Uniti Group	Shine Justice

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



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