

# Flinders Emerging Companies Fund

Monthly Update: January 2021

FLINDERS  
Investment Partners



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	-0.15%	11.75%	7.80%	10.87%	13.02%	13.46%
S&P/ASX Small Ords Accumulation Index	-0.25%	13.03%	5.38%	6.67%	11.55%	11.93%
<b>Net Value Added</b>	<b>0.10%</b>	<b>-1.27%</b>	<b>2.43%</b>	<b>4.20%</b>	<b>1.47%</b>	<b>1.53%</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)



- **Bond yields on the march**
- **New US administration – noise level drops sharply**
- **RBA signals rates on hold for some time yet**
- **Reporting season on again**

## Market & Outlook

The Small Ords Accumulation Index eased a modest 0.25% in January, taking a breather after such a strong December quarter. Industrials outpaced resources. Positive vaccine and stimulus news in the US offset Covid reality, the rioting at the Washington Capitol and sluggish economic news. Sector rotation continued in January with cyclical stocks continuing to do better than technology and other growth sectors but generally, global equity markets finished the month close to square.

The most notable market moves during the month were the increase in bond yields around the world. While the rises really started in November with the election of Joe Biden and the announcement of the Pfizer vaccine, the trend has continued (Australian 10 year yields moved from 0.83% in early November to 1.11% at the end of January and is 1.25% at the time of writing). Rather than signalling inflationary pressures, we consider it a move from the Covid/recession/deflation risk mindset, to a more normal, modest recovery mode.

For equities, the reaction has clearly been a recovery in cyclical sectors at the relative expense of highly valued growth stocks. Now the test will be if the cyclicals can deliver the bounce in earnings to justify the re-rating. In Australia, we are ahead in our recovery – particularly the consumer. We expect the forthcoming interim fiscal profit period to exhibit that recovery. Already we have seen early results pointing to expanding margins and solid revenue growth, particularly in sectors such as retail, financial services (credit and wealth) and infrastructure. There has also been strong growth in technology. We'd expect the next few months to be more about picking the right companies rather than style. And as always, a reporting season is a great opportunity to gain those insights.

The recent buoyancy of the local market, and especially the ex-100, saw a rush of IPO activity before Christmas and now that we've moved into February, it seems to be on again (always helps having a fresh set of accounts). We think the offerings may be more challenging this year as we are further into the recovery as mentioned earlier – identifying sustainable growth will be the key to finding the good opportunities and avoiding trouble.

The recently announced Macquarie approach to purchase Vocus is a reminder that quality long term assets that can be funded cheaply will always attract interest – so we'd also expect the M&A activity to pick up over coming months – and with long rates creeping up, we are sure it will trigger some corporate FOMO...

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## Portfolio

The Fund returned **-0.15%** in January, a modest **0.10%** ahead of the benchmark which returned **-0.25%**

**Key Contributors:** The portfolio had another good contribution from takeover target, **Think Childcare (+23.2%)** during the month as UK based childcare operator, Busy Bees lifted their offer for the company by 20% to \$2.10 per share. There is clearly an expectation that current underbidder, Alceon Group will at least match the bid as for the first time in the battle for control in recent days, the share price has traded above the current bid price. Online design and print marketer, **Redbubble (+21.4%)** continues to perform well. Various data sources suggest that revenue growth has continued to exceed expectations in recent months, and operational leverage should remain impressive. While the stock has risen by 550% over the past year, its earnings growth and valuation still qualifies the company for a position in the portfolio.

The retail sector continues to surprise many that thought consumer spending growth may have run out of steam by now. Low rates, rising home prices (and equities) plus a lift in housing construction has seen **Harvey Norman (+13.9%)** continue to do well both in its electrical & digital products and furniture & bedding sections. Less cyclical but still performing well is infant products retailer, **Baby Bunting (+10.0%)**. While the national birth rate slipped last year, there is the expectation of a significant rise through 2021, and with the dominant market position in the sector, the company will clearly experience a lift in demand if that occurs. Outside shifting demographics, continued store rollout, more online sales, a higher Australian dollar, a focus on costs and good working capital management all underpin our supportive valuation (clearly the company has a lot going for it right now).

**Key Detractors:** It can be frustrating at times when stocks that are not in the portfolio negatively impact relative performance – but that’s the market – and probably why we don’t crow when it helps. It’s also worth remembering that if we honestly can’t justify a valuation on a stock, it won’t appear in the portfolio. **Lynas Rare Earths, Pointsbet Holdings** and **Zip Co** are all reasonably sized constituents of the index which performed very well over the month, and consequently detracted from performance.

It was this time last year when East Coast gas producer, **Cooper Energy (-16.7%)** was due to start production from its Sole gas deposit in Gippsland via the APA owned and built Orbost gas plant. Continued engineering problems at the plant have meant that production has never been close to nameplate and won’t be in the foreseeable future. While disappointing, the company’s other assets and the current production and sales through Orbost comfortably justify the current share price and any improvement will help that valuation further. Property fund manager, **Centuria Capital (-11.4%)** eased back with most of the listed property sector during the month. Higher bond yields and their potential impact on underlying cap-rates being the main reason. We feel this was more sentiment than reality. Yields would have to move more substantially before valuations really take a hit – not an underlying expectation. The company increased guidance recently in October 2020, and the balance sheet is well positioned to deploy capital into accretive opportunities.

Performance Attribution <sup>^</sup>		Key Portfolio Positions <sup>^</sup>
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Baby Bunting Group	Centuria Capital	Baby Bunting
Harvey Norman	Cooper Energy	Codan
Polynovo *	Lynas Rare Earths *	Integral Diagnostics
Redbubble	Pointsbet Holdings *	NRW Holdings
Think Childcare	Zip Co *	Shine Justice

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



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