

# Flinders Emerging Companies Fund

Monthly Update: February 2021



Performance <i>(after all fees and expenses)</i>	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Since Inception <sup>^</sup> (% pa)
Flinders Emerging Companies Fund	3.43%	5.92%	24.04%	11.66%	14.51%	13.97%
S&P/ASX Small Ords Accumulation Index	1.55%	4.08%	17.18%	7.21%	11.69%	12.07%
<b>Net Value Added</b>	<b>1.89%</b>	<b>1.84%</b>	<b>6.86%</b>	<b>4.45%</b>	<b>2.82%</b>	<b>1.90%</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

Warakirri Asset Management 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 up – meaning what?**
- **Reporting season: very positive**
- **A review of December quarter 2020 IPO performance – page 3**

## Market & Outlook

The Small Ords Accumulation Index rose 1.55% in January, with resources slightly outperforming industrials. While a modest move in of itself, there was more volatility between sectors as reporting season and rising bond yields both had their impact.

The upward move in global bond yields in the back half of February was as abrupt as any over the past few years and saw equity markets weaken. To put the local move into context, the Australian bond yield curve is pricing in a rise in the cash rate to 2.0% over the next 30 months while the RBA has stated that the cash rate is expected to be on hold at 0.1% over that time frame – quite some difference. A steep yield curve would normally mean earnings growth and an expanding economy, but inflation has negative implications for valuations and the equity risk premium. So, the current rotation away from long duration growth stocks to more economically sensitive cyclicals is not surprising. The questions are how long and how far.

This is adjustment. Inflation will rise – but unlikely to an alarming level, perhaps back to target levels in major economies, a function of the vaccine and stimulus. Overvalued sectors will continue to retrace, and some cyclicals will keep rising. However, this brings the likelihood of mispricing, and the recent reporting season is a good example. Overall, it was as positive as we have seen for many years. Upgrades trounced downgrades, cash generation was impressive and margins surprisingly strong amongst virtually all sectors with the obvious exception of hospitality and tourism.

Consumer discretionary stocks such as retail and media generally reported outstanding profit results, but the retail sector underperformed. The sector had been a strong performer for a few months and valuations, in many cases had become stretched. It becomes harder over the next two quarters to continue the profit growth figures given the strength of last year. Tech stocks were also weak as mentioned above and some showed declining earnings momentum – trouble for a high P/E stock. But others continue to perform well and have come back in price. In essence, it is not enough to just play a macro theme or industry thematic. Sure, they have changed, but understanding the real growth drivers of a company and following a valuation discipline remains vital.

A last comment relates to a poor result from one of our portfolio stocks, NRW Holdings. The contractor and engineer struck cost pressures on a number of projects in the Pilbara – mainly a lack of skilled labour. Welcome to the downside of Covid 'state-ism'. If we can't transition from the current eradication policies to living with a less damaging but prevalent Covid due to the vaccines, cost pressures will remain and a recovery in hospitality, tourism, CBD activity and other related sectors will all be pushed out. Food for thought.

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## Portfolio

The Fund returned 3.43% in February, 1.89% ahead of the benchmark which returned 1.55%

**Key Contributors:** The most pleasing part of the performance in February was that it came from such a diverse range of companies and industries. In fact, the top 10 contributors have virtually nothing in common outside good growth prospects, attractive investment fundamentals and are undervalued. Electronic device developer and manufacturer, **Codan (+25.9%)** was once again a solid performer after releasing an interim profit result above expectations and with its metal detection division performing exceptionally well and improved profits from both communications and tracking devices in this half, the stock still looks attractive. Ferry and commuter bus operator, **Sealink (+32.6)** showed the strength of its underlying business and little negative impact from its tourism operations with a very strong interim result. Its regional tourism business of Kangaroo and Fraser Islands offset the Sydney and Perth Captain Cook Cruises division. Meanwhile the company's bus transit franchises performed strongly. With significant new contracts to be awarded this year, there is an exciting growth path for the company.

Funds management stable, **Pinnacle Investment Management (+24.3%)** released a solid profit result for the six months ended 31 December but it highlighted the solid growth in FUM in its key affiliates and importantly, improved investment performance that led to increased performance fees, with more to come in the current half year. It has also seen a lift in retail flows and made solid progress accessing international investors for many of their funds. Meal kit company **Marley Spoon (+23.5%)** released its fully year 2020 result that was in line with earlier guidance but a number of important indicators have been improving, suggesting that the company is growing strongly even adjusting for the tailwind of Covid lockdowns. Active customer growth remains high in all jurisdictions and pleasingly, Australia grew 40% in the second half with most of the country out of lockdown. Orders per subscriber were up and customer retention remains high. All positive for the current year.

**Key Detractors:** Infrastructure and mining contractor, **NRW Holdings (-29.7%)** released an interim profit report materially below expectations. Revenue was strong – reflecting demand in the mining industry but operating margins were hurt by cost increases relating to Covid-19 specifically driven by skilled labour shortages in WA linked to the State's rigid border restriction. We expect some of these pressures to reduce in the current half as a number of projects wind down, freeing up resources. This should also coincide with the pick-up in infrastructure activity on the East Coast, especially in QLD where there have been delays. Online marketplace, **Redbubble (-23.7%)** fell despite sales continuing to be very strong. The company spent more on marketing and promotion in the December quarter, thereby impacting profit margins. Increasing scale is likely to see margins expand over the next few years. The sell-off in tech stocks during the month not helping sentiment either.

Our two gold holdings in **Ramelius Resources (-16.7%)** and **Silver Lake Resources (-18.5%)** both detracted from performance. The sector was dragged lower by the fall in the gold price (-6.2%) but both continue to perform well at an operational level and have excellent growth prospects. Not owning unsecured personal lender, **Zip Co (+43.0%)** or rare earth processor, **Lynas Corp. (+25.1%)** also detracted from relative performance during the month.

Performance Attribution <sup>^</sup>		Key Portfolio Positions <sup>^</sup>
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Codan	4D Medical	AUB Holdings
Marley Spoon	Lynas Rare Earths*	Baby Bunting
Pinnacle Investment Mgt	NRW Holdings	Codan
Sandfire Resources	Redbubble	Sealink Travel Group
Sealink Travel Group	Zip Co *	Unity Group

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



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### 2020 saw a flood of IPO activity, particularly in 4Q. Sadly, the returns are not what they initially appear.

In the December quarter of 2020, 58 IPOs listed, out of 76 IPOs in total for the year. A busy quarter for new issues. A few observations on the performance of companies listing in the December quarter (referencing the table below):

- 44 of the 58 IPOs, or 81%, delivered a positive return on Day 1 vs the issue price. A strong start to listed life.
- This faded however, with only 34 of the 58 listings, or 62%, above issue currently.
- Interestingly, only 19 of the 58 listings, or 33%, are currently above the Day 1 closing price.

This last point is worth focusing on, as Funds usually don't get their desired allocation during the IPO process, and often need to buy stock on market to establish their position. The day of listing and soon after is usually the best time to buy to get set as liquidity is typically higher. So, while Day 1 returns have been good, in practice, the large number of recent IPOs have been disappointing, when looking at the day of listing and when we consider that the market continued to rally over that period.

Flinders have been very selective in participating in IPOs, mostly due to the quality of companies coming to market, and the valuations that they have been listed at – we only participate and hold those companies that we believe to have the best growth characteristics and provide adequate upside to our investors over the medium to longer term.

Company	IPO Price	Current Price*	Day 1 Price	Day 1 Return	Return since Day 1	Return from IPO	MarketCap (\$)
Liberty Fin Group	6.00	8.02	7.00	17%	15%	34%	2,434,872,000
Nuix Limited	5.31	5.75	8.01	51%	-28%	8%	1,824,502,566
Dalrymple Bay	2.57	2.00	2.16	-16%	-8%	-22%	998,054,478
Maas Group Holdings	2.00	2.70	2.71	36%	0%	35%	715,353,520
Homeco Daily Needs	1.33	1.27	1.34	1%	-6%	-5%	610,885,278
Aussie Broadband	1.00	2.76	1.91	91%	45%	176%	525,338,472
Adore Beauty	6.75	5.30	6.92	3%	-23%	-21%	498,859,834
Universal Store	3.80	6.69	4.50	18%	49%	76%	489,680,143
Cleanspace Holdings	4.41	5.20	7.42	68%	-30%	18%	400,501,520
Cettire	0.50	1.00	0.50	0%	100%	100%	381,238,220
Booktopia Group	2.30	2.54	2.72	18%	-7%	10%	348,892,619
Hipages Group	2.45	2.29	2.46	0%	-7%	-7%	297,700,000
Mydeal.Com.Au	1.00	1.07	1.75	75%	-39%	7%	276,945,217
Laybuy Group Holding	1.41	1.32	2.05	45%	-36%	-7%	229,417,830
Doctor Care Anywhere	3.45	4.74	3.58	4%	32%	37%	223,327,214
Silk Laser Australia	0.80	1.22	0.93	16%	31%	53%	218,427,176
Harmony Corp Ltd	3.50	2.10	3.45	-1%	-39%	-40%	211,916,720
Dusk Group	2.00	3.00	1.69	-16%	78%	50%	186,803,595
Plenti Group Limited	1.66	1.05	1.30	-22%	-19%	-37%	177,369,708
Genusplus Group Ltd	0.96	0.99	0.99	3%	0%	3%	152,429,614
Access Innovation	1.23	0.90	1.29	5%	-30%	-27%	130,319,773
Youfoodz	0.35	0.78	0.46	31%	70%	123%	123,534,817
Duratec	0.50	0.52	0.61	21%	-14%	4%	123,471,297
Credit Clear	1.73	1.50	1.75	1%	-14%	-13%	118,225,932
Cashrewards	1.50	0.86	1.05	-30%	-19%	-43%	114,945,150
Zebit Inc.	1.58	1.16	1.04	-34%	11%	-27%	109,134,164
Cluey Ltd	1.20	1.30	1.23	3%	5%	8%	106,411,615
Top Shelf	2.21	2.15	2.14	-3%	1%	-3%	91,629,840
Sovereign Cloud Hldg	0.75	0.90	1.10	47%	-18%	20%	47,235,914
Playside Studios	0.20	0.41	0.31	55%	32%	105%	42,962,343
Caspin Resources	0.20	0.65	0.46	130%	40%	223%	38,746,390
Montem Resources	0.60	0.65	1.18	97%	-45%	8%	32,577,142
Control Bionics	0.25	0.17	0.25	0%	-34%	-34%	32,218,797
Wakaolin	0.20	0.18	0.25	23%	-29%	-13%	27,865,939
Coda Minerals Ltd	0.30	0.39	0.44	47%	-13%	28%	26,835,933
Siren Gold	0.25	0.38	0.45	80%	-16%	52%	23,006,980
SRJ Technologies	0.50	0.30	0.80	60%	-63%	-41%	21,829,752
Desert Metals	0.25	0.35	0.27	6%	30%	38%	20,816,269
Duke Exploration	0.25	0.39	0.39	56%	-1%	54%	19,446,290
Akora Resources	0.20	0.55	0.52	160%	6%	175%	19,250,000
Hexima	0.50	0.45	0.49	-2%	-8%	-10%	18,000,000
Northstaw	0.20	0.14	0.20	-3%	-28%	-30%	16,852,137
Aurumin	0.20	0.34	0.59	193%	-43%	68%	11,435,469
Dctwo	0.20	0.25	0.30	50%	-17%	25%	11,214,297
Pathfinder Resources	0.20	0.24	0.31	53%	-23%	18%	10,326,430
NGS Ltd	0.20	0.20	0.19	-8%	8%	0%	9,944,838
Miramar	0.20	0.23	0.42	108%	-45%	15%	9,712,330
Prospect Limited	0.20	0.14	0.22	10%	-36%	-30%	9,102,882
Live Verdure Ltd	0.20	0.27	0.22	10%	23%	35%	9,101,863
Rincon	0.20	0.24	0.31	53%	-21%	20%	8,992,820
Errawarra Resources	0.20	0.31	0.20	0%	55%	55%	8,932,185
Native Mineral Res	0.20	0.16	0.20	0%	-20%	-20%	8,412,737
Kingfisher Mining	0.20	0.25	0.30	48%	-15%	25%	8,236,250
Pan Asia Metals	0.20	0.20	0.23	15%	-13%	0%	8,005,450
Megado	0.20	0.18	0.26	28%	-31%	-13%	7,139,790
BPM Minerals	0.20	0.27	0.25	25%	8%	35%	6,682,500
Metalhawk	0.20	0.20	0.24	18%	-15%	0%	6,177,117
Westar Resources	0.20	0.18	0.26	30%	-31%	-10%	6,130,200
<b>Negative</b>				10	39	21	
<b>Positive</b>				44	19	34	
<b>Total</b>				58	58	58	
<b>Negative</b>				17%	67%	36%	
<b>Positive</b>				76%	33%	59%	

\* Prices as at COB 3 March 2021

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