

Flinders Emerging Companies Fund

Monthly Update: April 2021



Performance (after all fees and expenses)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Since Inception [^] (% pa)
Flinders Emerging Companies Fund	5.94%	9.79%	48.24%	14.06%	13.55%	14.74%
S&P/ASX Small Ords Accumulation Index	4.98%	7.44%	39.78%	9.10%	11.10%	12.82%
Net Value Added	0.96%	2.34%	8.47%	4.97%	2.46%	1.92%

[^] 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, CFS FirstWrap, Praemium, uXchange

Further Information

www.flindersinvest.com.au



- **Commodity boom**
- **Domestic economy continues to surprise**
- **Equity markets march on...**

Market & Outlook

The Small Ords Accumulation Index rose 4.98% in April, significantly outperforming the top 100 with resources particularly strong.

Global equity markets continued to rise in April with many exchanges reaching new highs (Japan still has a bit to go to surpass its bubble of 30 years ago). Developed markets all saw the benefits of low interest rates, massive fiscal stimulus, and the declining impact of Covid-19. Australia was no exception and with the budget due this week, there seems to be little appetite for fiscal restraint despite strong employment growth, a buoyant housing market and both business and consumer sentiment at elevated levels. Play on...

And on the topic of elevated levels, commodities. There is not much point listing them as virtually all commodities from base metals to bulks, and energy to agricultural were stronger in April. Gold which had lagged for several months edged higher and even the price of fish (salmon) is up 50% in a quarter! Importantly, equities responded with the small resources index up 9.5% for the month versus small industrials that added 3.9%.

While resources stole the limelight, there were a couple of industrial sectors that stood out as well. IT stocks rallied 10.1% after being under pressure for most of the year (bond yields settling down over the month helped). Also, financials rose 7.3%, helped by investment firms and insurance stocks.

Feedback from most corporates we speak to is that business conditions continue to improve. In virtually all sectors demand is improving as consumers respond and investment spending rises. Profit estimates also continue to be upgraded as margins improve. And as most of us would have experienced in the past few months, where companies have had a level of pricing power, they are tending to use it.

Which comes to an important issue: costs. Cost growth can be absorbed for a period if revenue remains strong but eventually it will impact margins – and we are already seeing it in several sectors despite the recovery still being at an early stage. Everything has happened quickly and consequently, supply chains, normal inventory and capacity management has, in some industries become stressed. This has become evident in housing & construction, transport, mining, infrastructure and even in some parts of hospitality. Labour shortages are also not uncommon in some areas (WA in particular), adding further to costs, as well as impacting productivity. Ultimately, these issues will manifest in inflationary pressures – over time. We will be watching this closely, despite the strengthening economy, to ensure we stay ahead of the earnings downgrade cycle.

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Portfolio

The Fund returned 5.94% in April, 0.96% ahead of the benchmark which returned 4.98%.

Key Contributors: Think Childcare (+33.8%) received what looks like a final (recommended by the TNK board) bid from UK based childcare operator, Busy Bees. The \$3.20 per share offer is 52% above their previous bid of \$2.10 and 300% above the level the stock was trading in the middle of 2020. A good result for our investors. Also helping performance was copper producer, **Sandfire Resources (+25.8%)**. While the copper price has been strong, Sandfire had badly lagged its peer producers. This has largely been due to the short mine life at its DeGrussa project in WA. With the recent announcement that the company's Botswanan Motheo copper project had reached FID, plus the exceptional cash generation from DeGrussa to fund it, we see the company in a significantly improved longer term position.

Emerging telecommunications infrastructure company, **Uniti Group (+20.4%)** performed well as it confirmed that the integration of the recent acquisitions of OptiComm and Telstra Velocity were going as planned and had provided much improved market exposure for them to win new projects. Given their focus on rolling out fibre cable in new housing developments and the strength of that sector, we expect the opportunity to win new infrastructure build contracts to rise sharply. Iron ore and lithium processor and miner, **Mineral Resources (+25.6%)** continues to go from strength to strength with its exposure to both iron ore volumes in its processing business and price through its producing assets. Added to that is the rising price of lithium and what we would expect to be the re-start of production from its significant Pilbara Wodgina project in the not-too-distant future.

Also worth mentioning, was the continued solid performance of electronics developer and manufacturer, **Codan (+15.7%)**. Early in the month the company announced the acquisition of US based communications company, Zetron for US\$45m. Zetron specialises in high quality critical communications systems for public safety and healthcare authorities, utilities, and natural resource industries. The business compliments Codan's existing field communications division that currently sells to Governments, NGOs and other remote location users. This is the company's second earnings accretive acquisition this year, using the significant cash that has been building on the balance sheet in recent times.

Key Detractors: Debt collection and credit company, **Credit Corp (-11.2%)** came back over the month on some concern that the robust economy and consumer would mean lower volumes of debt ledgers being available. While true to some extent, banks and other financial institutions have been holding back on selling ledgers due to concerns that stepping up collections during Covid may impact corporate image. We are of the view that this will reverse, and activity will step up in the second half of this year. **Redbubble (-18.2%)** has been a terrific performer for the Fund over a number of years, but an earnings downgrade during April saw the company de-rate. While the company's revenue growth is expected to remain robust, greater expenditure on marketing and operations to accelerate growth will crimp margins over the next couple of years. This has clearly reduced valuation and the underperformance of tech/growth companies also put pressure on the stock.

Travel company, **Webjet (-10.4%)** weakened over the month after performing very strongly earlier in the year. Pressure on high growth companies and the likelihood of international travel being curtailed for longer than expected both saw investor confidence wane. This is despite the rapid improvement in domestic travel and improved outlook for European summer travel. We still see solid valuation upside in the stock, and an enormous opportunity for the company to gain market share over the medium term.

Performance Attribution [^]		Key Portfolio Positions [^]
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Codan	4DMedical	AUB Group
Mineral Resources	Credit Corp	Codan
Sandfire Resources	Redbubble	Pinnacle Investment Management
Think Childcare	Seven Group	Shine Justice
Uniti Group	Webjet	Uniti Group

[^] Alphabetical order. * Denotes stock not held.



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