

Flinders Emerging Companies Fund

Monthly Update: May 2021

FLINDERS
Investment Partners



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	-0.05%	6.09%	33.95%	12.47%	12.22%	14.49%
S&P/ASX Small Ords Accumulation Index	0.27%	6.09%	26.73%	7.88%	10.27%	12.67%
Net Value Added	-0.31%	0.00%	7.22%	4.59%	1.95%	1.82%

[^] 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



- **And the room went quiet...**
- **Victoria blows it again**
- **Issues, M&A and IPOs continue apace**

Market & Outlook

The Small Ords Accumulation Index rose 0.27% in May, recovering late in the month after being down close to 4% mid-month. Small resources outperformed small industrials by almost 5% as gold and energy stocks recovered. Industrials struggled with the IT sector under pressure and consumer discretionary stocks weaker.

Globally, markets finished the month a little higher but conviction was hardly positive. The VIX measure of volatility finished the month close to a 12 month low. In the US, value/cyclical stocks still held the ascendancy over growth companies. European equity markets were stronger, and Asia Pac was also better – led by China that was up 4.9%. Interesting that New Zealand struggled again with a drop of 3.3%. It now stands out as one of the worst international equity markets over the past year, its 12.1% gain is less than half that of Australia and a third of US and European market gains. No answers yet, just an observation. Commodities finished the month strongly with iron ore and coal both standouts (up 7.8% and 19.0% respectively), gold staged a comeback to rise 8.0% and WTI oil was up 5.2%.

Given the amount written on inflation and bond yields over the past few months, US and domestic 10 year yields were virtually unchanged over May (US yield dropped 3 basis points from 1.61% to 1.58%). No lead there... So, have we had the perceived inflation adjustment or will there be another panic attack? There are many inflationary signals in major economies so we would expect yields to move a little higher from here but at the moment, the balance is good for equities – plenty of growth with no deterioration in the equity risk premium.

Domestically, the return to a snap lockdown in Victoria is likely to put a modest dent in national growth but not enough to derail the current momentum. In fact, it may give businesses a chance to replenish supply chains and stock – especially those exposed to the housing and construction industries. While an inconvenience and still an ongoing issue, it will at least accelerate vaccination and focus all Governments on the transition to a more open, less restrictive economy. Let's hope.

Within the small cap market we are certainly seeing more corporate activity and we expect it to continue. With a recovering economy and a buoyant equity market it is to be expected. We have noticed a greater number of more established and less speculative issues coming through which is good news. As always, pricing and quality is the key but there are certainly opportunities around. We would also expect another uptick in corporate activity post the August reporting season when companies have a fresh set of accounts to base forecasts on.

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Portfolio

The Fund returned **-0.05%** in May, marginally behind the benchmark which returned **0.27%**.

Key Contributors: Unsecured consumer lending company, **Wisir (+30.6%)** announced a positive quarterly update late in April. The company had grown its loan book by 26% in the March quarter over the December quarter to \$346m, and revenue was 27% higher over the three months and 275% higher than the same period last year. In a separate announcement in May, Wisir securitised \$225m of consumer personal loans (of which the top tranche was rated AAA by Moody's) which were offered to various fixed income institutional investors; this development provides strong validation to the quality of the business operations and underwriting performance, and effectively reduces the cost of funds to Wisir.

Two of our gold stocks, **Ramelius Resources (+15.9%)** and **Silver Lake Resources (+15.2%)** performed in lockstep as the gold price recovered over the month. Both released quarterly reports largely in line with expectations at the end of April, which was quite a good outcome given the disappointing quarterlies from many other gold producers. Telecommunications infrastructure operator, **Uniti Group (+7.9%)** continued to rerate (it is up 39.1% in the past quarter). Given that most of its business is fibre cable in new developments, the current housing industry strength is no doubt helping. Its increased scale following the acquisition of OptiComm and Telstra Velocity will be making a large difference in its ability to work with major developers and compete successfully with NBN. We also feel that NBN's current issues with systems and managing new connections, plus the new expansion program replacing the fibre to the node network, will provide opportunity for Uniti to push more aggressively into the new development market.

And lastly, domestic gas producer **Cooper Energy (+12.2%)** had a good month after a difficult previous quarter. The problematic production issues at APA's Orbost gas treatment plant (where all Cooper's Sole gas it treated) have not been solved but at least a more consistent (albeit lower) production rate has been reached. We also expect APA to keep working to lift throughput levels to the contract agreement in order to avoid continued compensation payments to Cooper.

Key Detractors: When a central bank informs a financial services company that they have major issues with their money laundering and terrorist financing regulation compliance, it will always send a shiver through investor's questionable spines. Gift, loyalty and reloadable card issuer and open banking aspirant, **EML Payments (-41.9%)** received just that letter from the Irish central bank. EML's purchase last year of UK based PFS had recently moved domicile to Ireland from the UK to provide regulatory supervision for all its EU operations following Brexit. While these issues are extremely important, the outcomes are not without precedents and the procedures are not unusual. We would expect an outcome within a quarter and a fine the most likely result. Loss of 40% of the company's value (over 50% at one stage) would look considerably overdone. We have been buyers of the stock at these levels.

Medical imaging technology developer **4DMedical (-19.0%)** was weaker over the month despite the good news that it had started trials of its second generation VQ lung imaging system ahead of schedule in the US. With the US medical system now freer after the winter Covid wave, there will be an acceleration of testing opportunity that will benefit companies like 4DMedical over the remainder of the year.

Graphite producer **Syrah Resources (-13.2%)** eased along with other companies exposed to battery materials over the month. Syrah has recently restarted production from its Balama mine due to improving demand and prices. While much focus has been on increasing demand from battery manufacturers as electric vehicle sales rise, graphite use in the steel industry has also been rising. We expect good news on both production and price from Syrah over the next quarter.

Performance Attribution [^]		Key Portfolio Positions [^]
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Integral Diagnostics	4DMedical	Codan
Ramelius Resources	Chalice Mining*	Pinnacle Investment Management
Silver Lake Resources	EML Payments	Seven Group Holdings
Uniti Group	Marley Spoon	Shine Justice
Wisir	Syrah Resources	Uniti Group

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



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