Flinders Emerging Companies Fund

Monthly Update: April 2023

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 *	2.67%	0.52%	-11.18%	8.70%	5.16%	8.58%
S&P/ASX Small Ords Accumulation Index	2.78%	-1.74%	-9.43%	9.22%	3.89%	8.28%
Net Value Added *	**-0.11%**	**2.26%**	**-1.76%**	**-0.52%**	**1.26%**	**0.30%**

^ 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: Citigroup

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

Fund Size
$171.8m

APIR Code
ETL0449AU

M-Funds Availability
Code FEC01

Responsible Entity
Warakirri Asset Management Ltd

Research Ratings
Lonsec: Recommended
Zenith: Recommended

Platform Availability
Macquarie Wrap, HUB24, Netwealth, uXchange, BT Wrap, BT Panorama, AMP, North, Xplore, MLC Wrap, CFS FirstWrap, Powerwrap, Navigator, IOOF, Praemium

Further Information
www.flindersinvest.com.au

- **Grinding higher**
- **Macro Tango**
- **Confession Season**

The Small Ords Accumulation Index edged its way to a 2.78% gain in April, outperforming large caps by over 1.0%. Industrials performed better than resources, not surprising given the weakness in a number of commodity prices over the month. Sector returns were mixed with REITs making a comeback, technology continuing to improve but consumer discretionary and energy once again lagging the market.

Global equity markets had a solid month despite mixed economic news and greater volatility in bond and commodity markets. In the US the Nasdaq took a breather and finished square while the Dow Jones added 2.5% and the S&P500 up 1.5%. European markets continued to move higher with the UK FTSE up 3.1%. Germany and France added 1.9% and 2.3% respectively, and outside the Nasdaq have been the two best performing major markets over the past year - who picked that? Asian markets also had a solid month with Japan up 2.9%, China 1.5%, Korea 1.0% but Hong Kong slipping 2.5%.

Commodities were mixed but the prominent feature was the 17.3% fall in the iron ore price which was driven by easing steel prices and demand both in the US and China. Gold was steady, as was oil after dipping toward the end of the month. Soft commodities were also particularly weak, with wheat and cotton now losing over 40% each in the past year. In an interesting development in global energy markets, US gas prices hit a 30 year low late in the month and European gas prices are now lower than the wholesale spot price in Australia. Again, who would have picked that?

Despite investment markets still changing direction suddenly on economic releases, there has been more underlying consistency. Bond yields came back on the US bank issues and interest rate rises are clearly biting in most OECD countries but not enough to cause unemployment to rise significantly. While every economy has its nuances, Australia would seem little different. Credit is tighter, the consumer is watchful with spending but still has an income. The budget with its 'cost of living' allowances will be slightly stimulatory again.

Most of this was reiterated with corporate commentary at the recent Macquarie Australia conference (free plug) and other investor conferences in May. Often referred to as confession season as companies ratchet back profit expectations for the financial year, this one was decidedly tame (as a team, we've been to many). Two sectors saw downgrades, media and, to a lesser extent, discretionary retail. And another, residential building has its own well-known issues despite a shortage of housing. Media is suffering as corporates rein back costs to protect margin along with retailers as we see some belt tightening from the consumer. No surprise.

For the vast majority of companies, profitability is on track and in many cases, the 2024 financial year doesn't seem as daunting as many have thought. There continue to be terrific investment opportunities in de-rated smaller companies.

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Performance Review

The Fund returned 2.7% in April, 0.1% slightly below the benchmark return of 2.8%.

Key Contributors: Insurance broker **AUB Holdings (+7.7%)** continues to perform well, mostly due to the strength and visibility of its earnings trajectory over the medium term. The only news of note was a slight delay in fellow insurance broker PSC Insurance acquiring a 50% stake in Tysers' UK Retail division from AUB; the delay incrementally benefits AUB's earnings in FY23. Property fund manager **Centuria Capital Group (+13.6%)** benefited in a month where property names in general outperformed the market, particularly the fund managers and developers. Invoice financing firm **Earlypay (+28.6%)** started to bounce from depressed levels. As described in previous reports, the company's largest customer, RevRoof entered receivership, which resulted in Earlypay withdrawing FY23 guidance. Since then, the company has been busy de-risking the business to ensure that margins are commensurate with the risk exposures in their lending. There is also some restructuring taking place to ensure more consistency in their operations and assessment of risk taken.

Childcare operator **Embark Education Group (+13.0%)** didn't have any news flow in April, however improving occupancy levels early this calendar year seems to have continued. Indeed, an update to the market on 2 May suggested that occupancy is tracking a meaningful 4-5% ahead of the same period last year. Since divesting their troublesome New Zealand childcare operations in 2022, the company now has exposure to 24 centres in Australia that are run well, with a balance sheet to acquire several centres this year and beyond. Further childcare funding is due to commence in mid-2023, which should support the sector further. We also expect dividend payments to resume this year.

Fund manager **Perpetual (+11.7%)** benefited from a bounce in equity markets in April, while the company confirmed in a quarterly update late in the month that assets under management benefited from positive markets as well as improved net flows. Importantly, integration of the recently acquired Pendal Group seems to be tracking well, with Perpetual announcing an increased estimate of net synergies over two years of $80m, vs the previous guidance of $60m.

Key Detractors: Iron ore producer **Champion Iron (-9.4%)** sold off in sympathy with the commodity price which ended the month at US$105/tonne (-17.3%). Graphite miner **Syrah Resources (-37.1%)** delivered a very disappointing quarterly result on several fronts. While the amount of graphite produced was higher than previous quarters, it was not up to the levels expected as production was constrained by higher than expected finished product anode inventory (which necessitated operational stoppages). The higher levels of anode inventory are due to slower electric vehicle (EV) sales in recent months, which has in turn negatively impacted the sales price of graphite over the quarter. Furthermore, Syrah has issued new convertible notes to long-time shareholder AustralianSuper, to replace older convertible notes which are to convert to equity, causing a dilution in the share count. While the company is capitalised well to ride out weaker short-term markets, we expect further capital calls at some stage as the company also announced viability in the expansion of their anode facility in Vidalia, US. Medical devices and consumables company **Trajan Group Holdings (-14.9%)** didn't make any announcements, however several of their customers in the US recently reported on slower growth.

Two key detractors in the month were companies not held in the portfolio: 1. Vitamin maker **Blackmores (+35.0%)** was bid for by Japanese conglomerate Kirin Holdings; and 2. Radiopharmaceutical company **Telix Pharmaceuticals (+47.1%)** which released a quarterly report showing strong sales of its key Illuccix product, demonstrating better than expected market share gains.

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
AUB Group	Blackmores *	AUB Group
Centuria Capital Group	Champion Iron	Credit Corp Group
Earlypay	Syrah Resources	Johns Lyng Group
Embark Education Group	Telix Pharmaceuticals *	Kelsian Group
Perpetual	Trajan Group	Pinnacle Investment Management Group

^ Alphabetical order. * Denotes stock not held. Attribution is for the 1 month ending 30th April 2023. Top 5 positions are effective 30th April 2023.