Flinders Emerging Companies Fund

Monthly Update: July 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 *	3.61%	0.31%	0.81%	4.31%	4.27%	8.34%
S&P/ASX Small Ords Accumulation Index	3.54%	0.20%	0.77%	5.89%	3.18%	8.03%
Net Value Added *	**0.07%**	**0.11%**	**0.04%**	**-1.58%**	**1.09%**	**0.31%**

^ 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

$155.9m

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

- **Goldilocks or The Big Bad Wolf?**
- **Yippee! Another annual results reporting season**
- **Looking for growth? Check out some small caps (on sale as well…)**

Equity markets were particularly strong in July, bond markets weren't; then were; then weren't again. While commodities generally had a strong month, Australian industrials outperformed resources and small-caps outperformed large-caps (as they are beginning to do globally).

The Small Ords Accumulation Index added 3.5% in July; the ASX100 2.8%. Global equity markets were similarly firm with the US S&P500 gaining 3.1%, Nasdaq 4.0%, while the US Russell 2000 small-cap index was up 6.1%. European markets were up 1-2% and Asian markets generally better. The exception was Japan which was off 0.1% - taking a breather after a 27% gain so far this year.

Bond markets were jumpy. Encouraging (falling) inflation figures were met with stronger than expected growth and employment figures both in the US and here. Throw in some US corporate earnings figures that in aggregate have surprised to the upside and equity markets responded with gains, but bond yields rose. It is a supportive balance but will become somewhat uncomfortable if inflation heats up or growth cools down.

The Australian data is possibly less supportive, especially in certain sectors. Inflation is certainly coming down and has more to go. However, certain components will be sticky, such as rentals, utilities and fuel. State and local Government charges, insurance and the lower AUD also hinder getting inflation down and add to business costs. The forthcoming reporting season will be important to get a window on how business is coping with these rising costs and patchy demand.

We have already seen a number of discretionary retailers reduce profit expectations over the past month and we'd expect that to be an ongoing area of weakness, The housing sector is also experiencing stress while services and goods suppliers to the resources industry are doing very well. So, the spread of good news to bad news will be wide as will the outlook statements. As usual, there will be savage share price movements on disappointments and maybe the same with companies exceeding expectations.

The good news is that in amongst the small-cap market, there are plenty of stocks that are growing their earnings over the next few years – and many have been discounted to very attractive levels. The market remains inefficient and we believe there are very good opportunities to exploit these inefficiencies. Reporting season is also a good insight into the management quality of companies and in the current challenging environment how they have managed costs, taken on competitors and dealt with their staff and customers.

There is very little growth to be found in Australian large and mid-caps at the moment, but we strongly feel there is good opportunity in small caps and in many cases, with compelling valuations. August might just show that more clearly.

Performance Review

The Fund returned 3.61% in July, marginally above the benchmark return of 3.54%.

Key Contributors: Debt collector and consumer finance company, **Credit Corp (+19.2%)** had a solid run through the month as conditions in its US collection business improved and the local consumer finance division continues to post strong profits and maintain low delinquencies. While the Australian collection business remains subdued with low credit card balances and good credit quality restricting volumes, the other divisions will continue to underpin the company's growth prospects. Childcare operator, **Embark Early Education (+16.7%)** provided a positive trading update during the month which pointed to better occupancy levels in its centres compared with last year. While staff costs are higher, this has been offset by both increased Government payments and the higher occupancy. The company also announced an unexpected, fully franked dividend that related to the period to December 2022 while domiciled in New Zealand.

Travel agency, **Corporate Travel Management (+16.9%)** performed strongly in July along with a number of other travel companies. The sector was sold off in June on fears that the discretionary spend that has seen the tourism sector recover was about to come to an end with rising interest rates. Positive trading updates from both Corporate Travel and Flight Centre saw that reverse and most travel related stocks rebounded. We feel that the corporate sector still has greater scope for recovery than the private/holiday sector as it is still comparatively well behind pre-Covid levels. It will take some years for full normalisation but it gives the company a healthy growth boost during that time.

Copper Producer **Sandfire Resources (+14.2%)** continues to perform for the Fund. While helped by a supportive copper price during the month, the company released its quarterly report late in July. While largely in line with expectation, the fact that the commissioning of the Motheo project in Botswana is going well provided confidence that cashflows will not be delayed. Also outlined were further growth initiatives at its Spanish MATSA project which is also encouraging.

Key Detractors: Unlike the Sandfire experience mentioned above, emerging mineral sands producer, **Strandline Resources (-20.0%)** is behind schedule on its flagship Coburn project in Geraldton WA. Equipment availability and water/tailings complications have led to delays of 2-3 months in getting to planned production levels. Most of these issues have now been addressed but the company had to raise equity funding to bridge the working capital gap. Very frustrating on the cusp of good cashflows from its operations but at least it is now funded to get to full production.

Insurance broker, **PSC Insurance (-14.5%)** was actually flat on the month when adjusted for the rather bizarre stock move on the last day of June when a small number of shares were traded at the close of trade 15% above the last sale price. The business is going well. International campervan and RV rental company, **Tourism Holdings (-8.2%)** slipped despite most tourism related companies doing well. The business is strong in most jurisdictions (NZ is lagging a little following the floods and cyclone damage in the North Island) but lower prices for used, ex-rental vehicles in the US may temper the forthcoming result. We see very strong growth coming through over the next 2-3 years as the merger benefits between Apollo and Tourism Holdings are realised and inbound tourism to Australia, NZ and Canada recovers.

Radiology provider, **Integral Diagnostics (-7.6%)** came back as the strength of the post Covid recovery in medical visitations may not be as expected. GP visits are recovering but are still some way below pre-Covid levels. Consequently, referrals for imaging and scans are still catching up. While this is only a matter of time, the current half is likely to be subdued but the profit leverage to a normalisation over the next couple of years is particularly high.

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Core Lithium *	Flight Centre Travel Group *	AUB Group
Corporate Travel Management	Integral Diagnostics	Credit Corp Group
Credit Corp Group	PSC Insurance Group	Johns Lyng Group
Embark Early Education	Strandline Resources	Kelsian Group
Sandfire Resources	Tourism Holdings	Pinnacle Investment Management

^ Alphabetical order. * Denotes stock not held. Attribution is for the 1 month ending 31st July 2023. Top 5 positions are effective 31st July 2023.