Flinders Emerging Companies Fund

Monthly Update: November 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 *	4.27%	-4.51%	-5.43%	-2.73%	4.73%	7.20%
S&P/ASX Small Ords Accumulation Index	7.04%	-2.88%	-3.19%	-0.48%	4.03%	7.13%
Net Value Added *	**-2.77%**	**-1.63%**	**-2.24%**	**-2.25%**	**0.71%**	**0.06%**

^ 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

$149.9m

APIR Code

ETL0449AU

M-Funds Availability

Code FEC01

Responsible Entity

Warakirri Asset Management Ltd

Research Ratings

Lonsec: Recommended
Zenith: Recommended

Platform Availability

AMP North, BT Panorama, FirstWrap, HUB24, IOOF, Macquarie Wrap, Mason Stevens, MLC, Netwealth, Powerwrap, Praemium, uXchange, Xplore

Further Information

www.flindersinvest.com.au

- **Boy, that escalated quickly…**
- **Probably a little early to dance on inflation's grave**
- **Company earnings hanging in there**

Equity and bond markets took off with surprising vigour in November. Better than expected inflation figures in the US saw yields fall, as well as expectations in the US that several interest rate cuts would occur in 2024. Consequently, confidence returned to equity markets. Such was the pace of recovery, the Nasdaq index – led by the big tech stocks – recovered three months of losses to finish the period close to an eighteen-month high.

Small-caps outpaced the top 100 (especially later in the month) with a gain of 7.0%. Small Industrials were up 8.5% and Small Resources 3.1% higher. Sector returns were exceptionally diverse with S&P/ASX300 Pharma & Biotech up 13.7% and Real Estate up 10.8%. At the other end of the scale, Energy was down 7.3% and Utilities 6.0% lower.

As mentioned above, US stocks were strong and like Australia, US smaller companies performed well with the Russell 2000 index pacing the S&P500. European markets performed well with France and Germany up 6.2% and 9.5% respectively (UK still lagging). In Asia, Japan was up 8.5%, Korea 11.3% and Taiwan 9.0% - big moves - and in contrast, China and Hong Kong were effectively flat, by far the worst performers on the sheet.

Commodities were a dog's breakfast. Oil was down 6.3% (WTI) for the month and is down 18.9% from its late September peak. Gold kept marching upward and looks like reaching an all-time high. Iron ore defied the sceptics, rising 8.6%; thermal coal bounced 7.0%; and in base metals, Copper was up 3.7% and Nickel down 8.4%.

Worth mentioning the misery that is the battery materials sector. Various grades of lithium have lost between 65-85% on their levels this time last year. Nickel has lost 41% and cobalt 38%. High inventories due to lower than forecast EV sales and increased supply of lithium and other battery compounds in the Chinese manufacturing system aren't helping. Most lithium producers are still making money, but some will be getting close to their cost of production. The next few months will be very interesting for the industry.

We mentioned Goldilocks a couple of months ago in this note. The fall in inflation in the US plus an economy that is growing steadily and corporate profitability at a reasonable growth rate has clearly spurred investor confidence. However, given the fixation on macro releases, it won't take much for the market to declare too hot or too cold.

As for small-caps, November was the first time in many moons that they've outperformed the top 100. When examining the contributions to its performance it looks like there is a lack of quality, but as the month went on, there was a greater focus on stock fundamentals and even increased liquidity in the smaller end of the market that has been missing for over a year. Given the derating of the sector since December 2021 we can be forgiven for seeing green shoots from a long distance – but it certainly looks more promising than it has for some time. And there are plenty of good quality small caps that still haven't moved.

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Performance Review

The Fund returned 4.3% in October, 2.7% below the benchmark return of 7.0%.

Key Contributors: When the market moves as quickly as it did in November, it is the high beta names that appear at the top of the heap. Our contributors came from a variety of sectors and generally performed well on a fundamental basis. Utility software developer, **Gentrack (+24.4%)** was a case in point. The IT sector performed well over the month, but Gentrack also announced a full year profit result above expectations and an improved outlook for 2024. The company is winning new customers and along with a small number of new market entrants, is displacing legacy management and billing systems for electricity retailers. The market is very large globally and is rapidly changing, creating significant opportunity for Gentrack to lift revenues and earnings over the next five years and beyond.

After a poor October, diversified industrial, **Seven Group (+15.9%)** bounced back strongly, hitting an all-time high. The company slightly upgraded its profit guidance at their recent AGM with strong performances continuing from both their Westrac (Caterpillar dealerships) and Boral divisions. Westrac is benefitting from a combination of new equipment orders from major mining companies plus rebuilds and parts replacement on existing machinery. The industry fleet age is still higher than optimal, giving the business a number of years of growth. Boral is seeing the benefit of higher prices in cement and concrete as infrastructure projects continue to underpin demand. Any recovery in the housing market would also be a plus. Our two biotech holdings, **Telix Pharmaceutical (+14.0%)** and **Neuren Pharmaceutical (+44.6%)** both performed strongly in the month. Telix announced two small but complimentary acquisitions which helped market perception and Neuren surprised the market with a terrific sales outcome for its emerging DAYBUE (trofinetide) treatment for Rett Syndrome. The company is using its technologies to develop treatments for other neurological diseases, one of which is currently in phase two trials.

Emerging gold producer, **Bellevue Gold (+18.3%)** was helped by a stronger gold price but the progress in ramping up production at its Bellevue project continues to be impressive with its first gold pour late in October, solid drilling results and ore stockpiles in place for rising production over the next quarter. A rising market is good for companies exposed to them. **Pinnacle Investment Management (+14.1%)** put on a little more than it lost in October. Having affiliates in equities, fixed interest and REITs (as well as other asset classes) plus exposure to performance fees will certainly help the company over the remainder of the year.

Key Detractors: It is rare that we would call out a sector rather than stock specific factors, but the sharp rebound in the smaller REITs in November did negatively impact the relative performance of the fund. As readers would know, we rarely hold a property trust in the portfolio unless it has abnormally high growth prospects. Currently we have zero weighting to the sector (which represents 10% of the index) preferring asset managers or developers in the space if we find them fundamentally attractive. As for individual stocks, a very disappointing trading update from radiology and imaging group, **Integral Diagnostics (-33.5%)** was costly, especially in a rising market. A slower than expected recovery in imaging referrals and higher labour and other operating costs both conspiring to squeeze margins. Recovery is considerably further out than we had anticipated.

International oil producer, **Karoon Energy (-19.4%)** fell after announcing an equity issue to fund the acquisition of a quality production asset in the Gulf of Mexico. A combination of a falling oil price and the leaked details of the equity issue led to a more severe share price fall than the accretive deal would have otherwise occurred. We'd expect some recovery over coming months as some of the newly issued stock is bedded down. Building restoration services company, **Johns Lyng Group (-2.9%)** lagged the market despite positive commentary and confirmation of earnings prospects for 2024 at their November AGM. While a high P/E valuation stock, its growth opportunities in both the US and in the Australian domestic market remain very attractive and with a proven management team and high returns, the stock is looking more compelling.

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Bellevue Gold	Integral Diagnostics	Johns Lyng Group
Gentrack Group	Johns Lyng Group	Kelsian Group
Neuren Pharmaceuticals	Karoon Energy	NRW Holdings
New Hope Corp *	Pro Medicus	Pinnacle Investment Management
Seven Group Holdings	Silk Logistics	Seven Group Holdings

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