# Flinders Emerging Companies Fund

Monthly Update: January 2024

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 | 0.25% | 11.95% | 1.98% | -1.18% | 5.86% | 7.96% |
| S&P/ASX Small Ords Accumulation Index | 0.90% | 15.80% | 2.10% | 1.33% | 5.44% | 8.00% |
| **Net Value Added** | **-0.65%** | **-3.86%** | **-0.11%** | **-2.52%** | **0.42%** | **-0.04%** |

^ 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**

$155.0m

**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

- **Just make up your mind!**
- **Interim reporting season upon us**
- **Increased liquidity and earnings support in smaller companies**

The S&P/ASX Small Ordinaries Accumulation Index (The Index) finished up 0.9% in January with a strong recovery after being down 3.3% early in the month. Industrials outpaced resources by 3.9% and the S&P/ASX 100 closed marginally ahead of smalls, rising 1.1%. Best performing sectors were healthcare, financials and consumer discretionary stocks, with materials and industrials lagging. Notably, there seemed to be increased levels of liquidity in the small-cap end of the market in January. Unlike the burst of activity in early November, the past month was more selective. If we get a solid interim reporting period over the next few weeks, we expect small caps to perform very strongly.

Global markets were mixed but marked by weakness and bearish sentiment early in the month then a complete reversal toward the end. US markets were up between 1-2% with large tech stocks continuing to push higher; the UK continued to underperform its Continental peers which posted positive returns; and in Asia, China and HK markets continued to slide badly (Shanghai down 6.3%, Hong Kong down 9.2%). Japan was a highlight, rising 8.4% and over the past quarter has outperformed the Chinese market by over 25%.

Bond yields moved up off their late December lows – largely on solid economic releases out of the US, and our currency weakened back toward US$0.65 after starting the month a touch over US$0.68. Commodities were a mixed bag. Oil recovered some ground with WTI rising 6.3%, Gold was down 1.2% (but up in AUD), Iron Ore came off recent highs falling 6.7%, Thermal coal was clobbered 20.4% and copper was flat. Economic news out of China remains poor.

Locally, the early February decision by the RBA to hold rates is indicative of the economy; inflation coming down but sticky in key areas, full employment, a cautious consumer, house prices holding up and business profitability tracking a little better than expectations. We would expect those trends to be reflected in this month's interim reporting period – especially in smaller companies that are generally more domestically focused and span a much broader industry set than the ASX100. Expectations are low, and with that, many companies are trading at attractive valuations. Early signs are that good results will result in a swift re-rating and with increased levels of liquidity coming into the smaller end of the market, the sector can perform strongly.

We have been saying for a while that the Flinders portfolio is well placed to benefit from a re-rating of the small cap sector. If the companies in our portfolio only meet their profit expectations in aggregate, investors will have the benefit of considerably more earnings growth at a large valuation discount to the market. That will lead to a period of alpha generation. Those metrics become even more compelling as we move into the 2025 financial year.

## Performance Review

**The Fund returned 0.25% in January, 0.65% below the benchmark return of 0.90%.**

**Key Contributors:** As mentioned above, resources performed poorly in January. The exception was another jump in the price of uranium. We won't go into detail, but for a number of supply and demand reasons, a fifteen-year oversupply in the industry has come to an end. This has led to a squeeze in price with the positive dynamics unlikely to change for some time. This helped uranium miner, **Paladin Energy (+31.5%)** perform strongly in January. The other reason it gained support is that in this quarter, the company will restart production of uranium oxide (U3O8 – or Yellowcake) from its Langer Heinrich project in Namibia, after over five years on care and maintenance due to poor prices. The company has done a good job at getting the re-start close to time and budget and has improved many of the processes and upgraded most of the plant. With 70% of production exposed to the higher U3O8 spot price, we expect cashflow to build quickly.

Insurance building and restoration services provider, **Johns Lyng Group (+11.3%)** recovered strongly after drifting over the previous quarter. The company continues to perform well with solid growth in the Australian market and opportunities in the US. Given its strong market position in the local 'catastrophe' market where it can act rapidly to help victims of floods or storms, the recent flooding in Queensland and Victoria will result in elevated work (again) for the company in the current half. This has re-kindled investor interest, and while it is positive for short term revenue, it is the core insurance work and newer businesses such as body-corporate maintenance contracts that will underpin growth and valuation. Diagnostic and therapeutic radiopharmaceutical developer, **Telix Pharmaceuticals (+14.1%**) had a strong month following its presentation to the JP Morgan global healthcare conference in San Francisco early in the month. It also released a Q4 revenue update that pointed to a 12% sequential sales growth, largely due to strong sales of its Illuccix prostate cancer tracer compound in the US market.

Insurance broker **AUB Group (+10.5%)** performed well after drifting for a few months. It refinanced an existing $675m debt facility with an $850 facility which has greater currency flexibility and better tenor, but realistically, the company continues to perform well, the insurance industry remains strong and AUB will have a solid interim result. Mining equipment manufacturer, **Austin Engineering (+19.7%)** on the other hand, had good reason to rise. The company upgraded revenue and profit guidance for the forthcoming interim result. Better demand from the iron ore industry for its products and good cost management both helping margins expand.

**Key Detractors**: While the gold price was off slightly during the month, two of our gold producer holdings were very weak, one for good reason, the other not so. **Gold Road Resources (-22.6%)** was hit after a poor production report toward the end of the month. Not only was production behind expectations for the quarter, management also pointed to lower figures going forward. Lower forecast production also meant higher forecast unit costs – both crimping future cashflows and valuation. Emerging producer, **Bellevue Gold (-20.6%)** released a largely expected quarterly later in the month but the stock was already down at that stage. We would point out that the share price was very strong in November and December, so profit taking, and a lacklustre gold price were key factors.

Another holding in the 'nothing to see here' category was infrastructure remediation and protection company, **Duratec Holdings (-12.3%)**. The company has been trading well and upgraded profit guidance in November and like Bellevue, saw a strong share price toward the end of the year. On the 1st of February management confirmed FY24 guidance and the stock has recovered most of what it lost in January. Two stocks that we don't hold in the portfolio that held back relative performance due to their size and sharp price rises were data centre connection company, **Megaport (+38.1%)** and uranium developer, **Boss Energy (+38.2%)**.

| Performance Attribution^ | | Key Portfolio Positions^ |
|---|---|---|
| Top 5 Contributors | Top 5 Detractors | Top 5 Active Holdings |
| AUB Group | Bellevue Gold | AUB Group |
| Austin Engineering | Duratec | Credit Corp Group |
| Johns Lyng Group | Gold Road Resources | EQT Holdings |
| Paladin Energy | NRW Holdings | Johns Lyng Group |
| Telix Pharmaceuticals | Perenti | Sandfire Resources |

^ Alphabetical order. * Denotes stock not held. Attribution is for the 1 month ending 31st January 2024. Top 5 positions are effective 31st January 2024.