Flinders Emerging Companies Fund

Monthly Update: February 2024

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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	-0.08%	7.28%	5.25%	-2.31%	4.50%	7.87%
S&P/ASX Small Ords Accumulation Index	1.72%	10.05%	7.84%	1.39%	4.42%	8.14%
Net Value Added	**-1.80%**	**-2.78%**	**-2.60%**	**-3.70%**	**0.08%**	**-0.27%**

^ 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

- **Git along you 'lil companies…**
- **Interim reporting season observations**
- **Encouraging signs**

The S&P/ASX Small Ordinaries Accumulation Index finished up 1.7% in February with industrials outperforming resource stocks. Smalls outperformed the S&P/ASX100, with large resource companies conspicuously weak in that index. Strong sectors included Consumer Discretionary, IT and Financials, with Healthcare, Energy and Materials weak.

Global markets generally performed better than local stocks with the Nasdaq (NVIDIA) leading the market with a rise of 6.1% for the month. The Dow was up 2.2%, S&P500 up 5.2% and the Russell 2000 hanging in there with a rise of 4.8%. European markets were also strong with Germany and France up 4.6% and 3.5% respectively – the UK continues to be in the misery corner, flat for the month. Germany has now outperformed the UK by 18% over the past 12 months - how's Brexit going? In Asia, the HK and Shanghai markets resumed their funk after the Chinese National Peoples Congress came up with little to inspire economic confidence. Other Asian markets were flat to slightly negative.

Commodities were mixed. Gold fell slightly but was rising late in the month and oil continued to rise with the WTI up 3.2%. Base metals were weak with the exception of a dead cat bounce by Nickel; iron ore peeled off after defying gravity for many months; and lithium finally seems to be finding a base after a horror year. Oh yes, and Bitcoin rose 44.6% to $61,410 - wow!

Locally there were a couple of economic releases worth mentioning. Firstly, the January CPI of 3.4% was below forecasts and encouraging. The y/y wages growth of 4.2% (higher in the public sector) was a worry for the expectations of a rate cut – especially with tax cuts coming through.

Now, onto reporting season. Some bullet points below on the small-cap market outcomes:

- Sales and margins held up well - the former suggesting economic and consumer resilience, the latter a good focus on costs and the freeing up of supply chain and labour issues.
- Cash generation was good. Lower inventories and working capital was a feature.
- Retail and consumer services held up better than expected.
- Small companies are still investing to grow, either by acquisition or expansion.
- Certain costs are still moving higher – insurances, State Government charges and construction costs repeatedly mentioned.
- Resource companies are still facing high production costs.
- Small caps 2024 earnings forecasts came back 5.4% over the period with Industrials falling a modest 3.5% and resources down 10.7%.
- FY 2025 earnings forecasts for the Small-Ords *rose* 1.2% to 19.7%, while earnings growth for the S&P/ASX 100 was downgraded 0.5% to 1.5% - some difference. On consensus data, the Flinders portfolio has forecast EPS growth of 28.2% in FY25.

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Performance Review

The Fund returned -0.08% in February, 1.80% below the benchmark return of 1.72%.

Key Contributors: In a reporting season where, aggregate earnings largely met expectations, there was certainly plenty of volatility at the individual stock level if companies missed or surpassed forecasts. Utilities and Telco service provider, **Service Stream (+21.0%)** produced a result that was modestly above market expectations at an operating level but with lower depreciation and interest charges, was around 20% above forecasts. Comfort that margins in the utilities (water, gas & electricity) business are rising and NBN work continues apace led to upgrades to the 2025 and 2026 FY profits. Software provider to global utilities, **Gentrack (+22.0%)** also had a strong month. The company had its AGM during February, and the business continues to add customers and sees a solid pipeline of potential new contracts over the next year. With much of the industry faced with replacing outdated customer management and payment systems the addressable market for software companies with adaptable and flexible technology that can handle both customer and provider demands is huge.

Regional construction materials and building company, **Maas Group (+19.0%)** announced a strong first half profit result due to good performances from its concrete and quarries businesses and a stabilisation of the recent decline in its residential housing division. The second half will also see balance sheet benefit from the recent sales of surplus commercial property assets at good prices and provide capital to purchase operating assets with higher returns. With its regional focus in growth corridors, strong management team and market opportunities, high returns should continue. Emerging telecommunications company, **Aussie Broadband (+18.5%)** also announced a solid first half result and upgraded profit guidance. It has been a busy six months for the group as it has now completed the acquisition of wholesale services provider, Symbio, dealt with the new pricing regime instituted by NBN, expanded further into the business and enterprise sector and still managed to grow its core residential broadband subscriber base. Since the release, it has made a takeover offer for listed competitor, Superloop, all of which (if successful) would see its revenues double over two years and surpass Optus as the number three residential provider.

Key Detractors: Invoice lending group, **EarlyPay (-24.5%)** didn't help performance, giving back its gains of the past few months with an interim result that came in below expectations. The company has pleasingly refinanced its main funding package but isn't expected to start seeing the benefits until late this financial year. Growth in its equipment finance business has slowed due to a more cautious approach to some industries but the company expects to accelerate new business in its core invoice lending business throughout this year which will lead to a much improved FY 2025 outcome.

Multi-modal transit business, **Kelsian (-15.9%)** released a profit result that was expected at an operating (EBITDA) level, but higher depreciation and amortisation (D&A) charges left the net profit result short of forecasts. While a considerable amount of these non-cash charges were one-off, it still led to EPS downgrades. Encouragingly the company's newly acquired US business is doing exceptionally well and has numerous growth opportunities. The company is also seeing margins rise in its newly won Sydney bus concessions and has a number of tenders out for further bus contracts in the UK, Australia (Melbourne) and Singapore. Neurological disorder drug developer, **Neuren Pharmaceuticals (-18.0%)** came back in price after a mighty run over the past few months. It was caught up in a US based "short report" that cast doubt over some of the success Neuren's US distributor, Acadia Pharmaceutical has had with the Neuren developed drug, DAYBUE. Both companies have released details refuting the negative claims with factual updates.

Business travel company, **Corporate Travel Management (-21.7%)** released a result that was weaker than expected at an operational level largely due to issues with a large British Government contract that involved housing refugees (much lower numbers than anticipated). The company still sees a strong growth profile in their traditional corporate travel business here, in the US, Asia and Europe as it slowly climbs back toward pre-Covid levels, but the UK issue and the slower recovery profile saw downgrades to this year and the next two. Disappointing, given the more positive AGM comments only in November.

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Aussie Broadband	Corporate Travel Management	AUB Group
Bellevue Gold	Earlypay	Credit Corp Group
Gentrack Group	Lifestyle Communities	EQT Holdings
Maas Group Holdings	Kelsian Group	Johns Lyng Group
Service Stream	Neuren Pharmaceuticals	Pinnacle Investment Management

^ Alphabetical order. * Denotes stock not held. Attribution is for the 1 month ending 29th February 2024. Top 5 positions are effective 29th February 2024.