Emerging Companies Fund

Monthly Update: June 2017

Dear Fellow Investors,

Our Emerging Companies Fund's performance during the month was very strong in both absolute and relative terms, +7.6% vs +2.2% for the Emerging Companies Accumulation Index (XECAI). Since inception the Fund's absolute return is now positive, +5.2% vs -10.0% for the XECAI and +1.8% for our cash-based benchmark, again highlighting its superior relative performance. While it is very pleasing to see the Fund continue to outperform in an environment where market sentiment has improved, we take greater pride in the resilience it showed during a period of weak market sentiment.

Performance summary

	Feb	Mar	Apr	May	Jun	Inception
Saville Capital Emerging Companies Fund[1]	-3.2%	+2.6%	-0.6%	-1.0%	+7.6%	+5.2%
Benchmark[2]	+0.3%	+0.4%	+0.4%	+0.4%	+0.4%	+1.8%
Relative Performance	-3.5%	+2.2%	-1.0%	-1.4%	+7.2%	+3.3%

[1] *Net of all base fees, performance fees and expenses of the Fund*

[2] *RBA cash rate +3% (per annum)*

Performance commentary

The Fund increased in value by 7.6% during June, which was driven by some very positive developments among some of our key investment positions. Tourism Holdings (THL.NZ, +7%) upgraded its FY17 NPAT guidance from NZ$27.0m to NZ$29.5m. THL is one of the largest operators of recreational vehicles (RVs) in Australia, New Zealand and the US under brands such as Maui, Britz, Road Bear and El Monte. We will discuss our investment thesis behind owning THL in a future edition of this newsletter.

National Veterinary Care (NVL) announced the acquisition of an additional four clinics (it currently owns 55) which should add at least $8.5m of revenue to the Group. The clinics are being purchased on an EBIT multiple of 4-5x (consistent with past acquisitions) and are expected to be EPS accretive in FY18. To put the acquisitions into context, we were assuming $6.6m of additional revenue in FY18 from new clinics, so NVL is already on track to exceed our forecasts despite having further acquisitions in the pipeline for FY18. NVL also raised c.$15m in new capital via a placement at $2.25 (stock finished the month at $2.36), in which we participated. NVL also reaffirmed its FY17 revenue guidance of at least 20% growth with a forecast EBIT margin range of 18% to 18.4%, noting that recent trading has been unaffected by increasing financial pressures on the consumer.

In other news, a company called BIG Un Limited (BIG) which we bought during May, increased by 55% during the month following a couple of very positive announcements (discussed over the page). Furthermore, our positions in Melbourne IT (MLB, +13%), Empired (EPD, +13%), Afterpay (APT, +11%) and McPherson's (MCP, +7%) all made strong positive contributions to the Fund's performance. The key detractors from our performance were our positions in Pureprofile (PPL, -13%) and Shaver Shop (SSG, -5%), which both declined on no news flow. We continue to see the recent sell-off in SSG as a buying opportunity given it is now trading only slightly ahead of where it was prior to its first (significant) earnings upgrade in April. Our view is that recent weakness has been caused by a combination of tax-loss selling (SSG is down c.50% from its FY17 highs) and hysteria over the potential impact of Amazon entering the Australian market.

Market commentary

The XECAI showed some improvement on recent months, increasing by 2.2% in June, while the Small Industrials Accumulation Index (XSIAI) was also stronger, up 2.4% for the month. We also note with interest that Wilson Asset Management raised $154m for a new microcap fund (structured as a LIC) during the month, which closed oversubscribed in a positive sign for investor appetite within the small/microcap space.

Company in focus: BIG Un Limited (BIG)

In this update we provide a summary of why we own a company called BIG Un Limited (BIG) in the portfolio, which was up 55% in June (closing at $1.085), following some very positive news flow during the month including a further 10% upgrade to its cash revenue guidance for Q4 FY17, implying exceptional growth of 58% on 3Q FY17.

BIG operates in the media and technology space providing online video content, video reviews and online marketing servies for consumers as well as SMEs in Australia, the UK and US. It offers a video-driven review platfrom (BIG Review TV) that integrates video, internet, social media, a mobile video review app and TV review shows. The BIG Review TV app allows consumers to search and view video reviews of places of interest (e.g. restaurants, hotels). They can also produce their own video reviews that upload automatically to Bigreviewtv.com and can be shared via social media networks.

BIG's competitive advantage comes from its ability to produce high quality video content in a cost effective manner with a very modest level of capital investment. BIG operates a number of 'pods' comprising a presenter, cameraman and editor that can record four client videos per day, which are then sent to its production centre in Sydney before being provided to the client in exchange for an annual royalty fee (current ARPU is $5,100). This centralised production process ensures that a consistent high level of quality is maintained. It has also enabled BIG to amass a huge amount of generic film content that can be used in videos produced for other clients operating in the same industry sector or geographic locations, thus lowering its production costs over time.

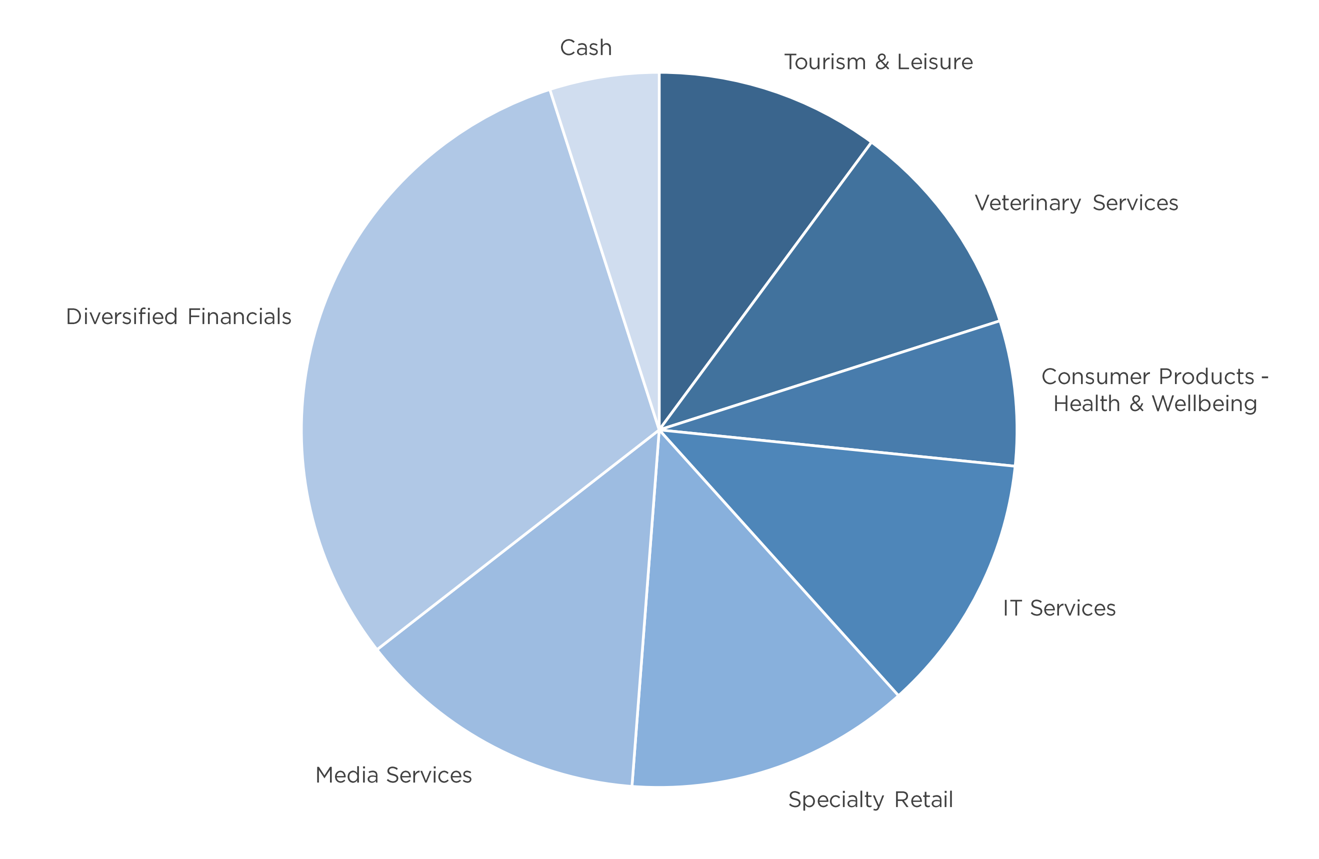
BIG currently has 3,100 paying video subscribers (up 82% on pcp, including low customer churn to date) with a target market of 600,000 SMEs in Australia worth over $100m. In the US market, BIG believes that there are 5.2m suitable SMEs for its video subscription packages. Importantly, BIG is already generating revenue in the US from over 600 subscribers, with 'pods' based in Austin, New York, San Francisco and Vancouver.

As an example of its success to date, during June BIG announced an agreement with Marriott International to supply global video content for its newly released Marriott mobile app. The fact that the world's largest hotel company would choose BIG for this service is a huge endorsement of the quality of their offering and competitive pricing model. BIG also announced the acquisition of the Hospitality vertical from The Intermedia Group. This will provide BIG with advertising revenue of $6m per annum, but more importantly it provides BIG with a direct relationship with over 65,000 Australian businesses, creating significant potential revenue synergies. The deal was valued at $4m (4x EBITDA multiple), funded 60% from scrip (issued at a c.15% premium to the last closing price) and 40% from cash.

We currently have a DCF valuation of $1.80 for BIG which we believe is based on a conservative set of assumptions. Importantly, despite its incredible growth trajectory, BIG is already generating strong positive cash flow from its operations, giving us a high degree of comfort when assessing the financial outlook for what it still a very young business.

Portfolio characteristics

We currently have c.95% of our capital invested in 13 stocks, with the remainder held in cash. Since our last update, we have added Lovisa Holdings (LOV, +4%) to the portfolio thus increasing our exposure to the retail sector. While we are certainly not bullish on the general outlook for retailers, we believe the recent aggressive and broad-based sell-off in that sector has provided an opportunity to invest in some high quality stocks at deep discounts to fair value, of which we consider LOV to be one such proposition.



Thanks again for your interest and support and I look forward to providing another update in early August on our performance during July. In the meantime, please don't hesitate to get in touch should you have any specific questions about the portfolio.

Kind regards,

Jonathan Collett

Principal

Saville Capital

+61 3 9769 1789

jcollett@savillecapital.com