Emerging Companies Fund

Monthly Update: July 2017

Dear Fellow Investors,

Our Emerging Companies Fund's performance during the month was again very strong in both absolute and relative terms. The Fund was up 6.4% vs +3.0% for the Emerging Companies Accumulation Index (XECAI). Since inception the Fund's absolute return is now +11.9% vs -7.3% for the XECAI and +2.2% for our cash-based benchmark, highlighting its superior relative performance.

Performance summary

	Feb	Mar	Apr	May	Jun	Jul	Inception
Saville Capital Emerging Companies Fund[1]	-3.2%	+2.6%	-0.6%	-1.0%	+7.6%	+6.4%	+11.9%
Benchmark[2]	+0.3%	+0.4%	+0.4%	+0.4%	+0.4%	+0.4%	+2.2%
Relative Performance	-3.5%	+2.2%	-1.0%	-1.4%	+7.2%	+6.0%	+9.6%

[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 6.4% during July, which was driven by ongoing positive developments among some of our key investment positions. BIG Un Limited (BIG, +36.9%) reported a very strong cash flow result for 4Q FY17, with cash profit of $3.8m vs $0.6m for the preceding nine months, giving some indication of the momentum within the business.

National Veterinary Care Limited (NVL, +6.8%) announced a further three clinic acquisitions, already taking its total to seven for FY18 (vs our forecast of ten). We retain our view that FY18 consensus forecasts for NVL remain very conservative. Afterpay Touch (APT, +5.1%) announced 87% QoQ growth in underlying sales to $271m for 4Q FY17. Given that its underlying sales for April and May combined were $165m, this suggests that June saw a staggering 28.5% MoM growth vs the average of April and May.

We also participated in a placement for Pushpay Limited (PPH, +37.2%) at $1.45, with the stock closing the month at $1.99. We will discuss our investment thesis behind PPH in a subsequent monthly update, but in summary it provides a mobile payments system primarily targeted at the US Faith sector (i.e. capitalising on the strong growth in online giving), having already established c.2% market share.

In other developments during July, Pioneer Credit (PNC, +9.2%) announced that its NPAT for FY17 would be $10.7m (vs previous guidance of $10.5m) and that it expected NPAT of at least $16m in FY18, which was materially ahead of consensus forecasts and represents growth of c.50% on pcp.

Finally, our positions in Lovisa (LOV, +12.5%), McPherson's (MCP, +9.6%) and Empired (EPD, +5.6%) also combined to make strong positive contributions to the Fund's performance, despite the absence of news flow. The only material detractor from our performance was our position in Pureprofile (PPL, -11.5%), which we have now exited following a disappointing earnings update and senior management changes which, in our view, has created too much uncertainty over the current direction of the business.

Market commentary

The XECAI had another strong month, increasing by 3.0% in July, however the Small Industrials Accumulation Index (XSIAI) was slightly weaker, down 0.2% for the month. Interestingly, the XECAI is now 6% above its 12-month low recorded in May 2017.

Company in focus: Tourism Holdings Limited (THL.NZ)

In this update we provide a summary of why we own a company called Tourism Holdings Limited (THL) in the portfolio, which was up 1.9% in July (closing at NZ$4.28).

THL is a major player in the global RV rental market (e.g. motorhomes, campervans), with operations in New Zealand (45% market share), Australia (31%) and the US (28%). Its key RV brands are “Maui”, “Britz”, “Mighty”, “Road Bear” and “El Monte”. It also owns 50% of Action Manufacturing Limited, which designs and manufactures most of the motorhomes used in THL’s businesses. Furthermore, it owns a number of RV sales centres across Australia and New Zealand that stock a range of motorhomes, campervans, caravans and RV accessories. Finally, it operates Kiwi Experience (a hop on, hop off guided bus tour of NZ) and the Discover Waitomo Group, which includes Waitomo Glowworm Caves, Ruakuri Cave, Aranui Cave and the Black Water Rafting Co.

The key drivers of THL’s business are domestic and inbound tourism (particularly from Europe) within its key markets, underpinned by an ageing population. We also see rising domestic airfares (e.g. up c.20% in Australia in real terms since 2012) and increasing hotel room rates as supportive for RV rental demand. THL has demonstrated a disciplined approach to implementing its growth strategy, with a clear focus on increasing its Return on Funds Employed (ROFE). As evidence of this, it generated an 82% increase in its normalised EPS from FY13 to FY16, lifting its ROFE from 5.5% to 15.1% over that period.

We currently have a DCF valuation of NZ$5.15 for THL (vs current share price of NZ$4.28) which is based on continued solid demand growth in its key markets as well as conservative synergy benefits (and an improving returns profile) from its recent acquisition of El Monte in the US. THL recently published a target NPAT of $NZ50m by FY20, representing a c.19% CAGR on its FY17 NPAT guidance of $29.5m, which we see as very achievable given the quality of its businesses and current growth trajectory. Furthermore, there appears significant opportunities to improve the performance of El Monte via a reduced fleet size, improved utilisation and operational synergies with its Road Bear business (also based in the US).

Risk management

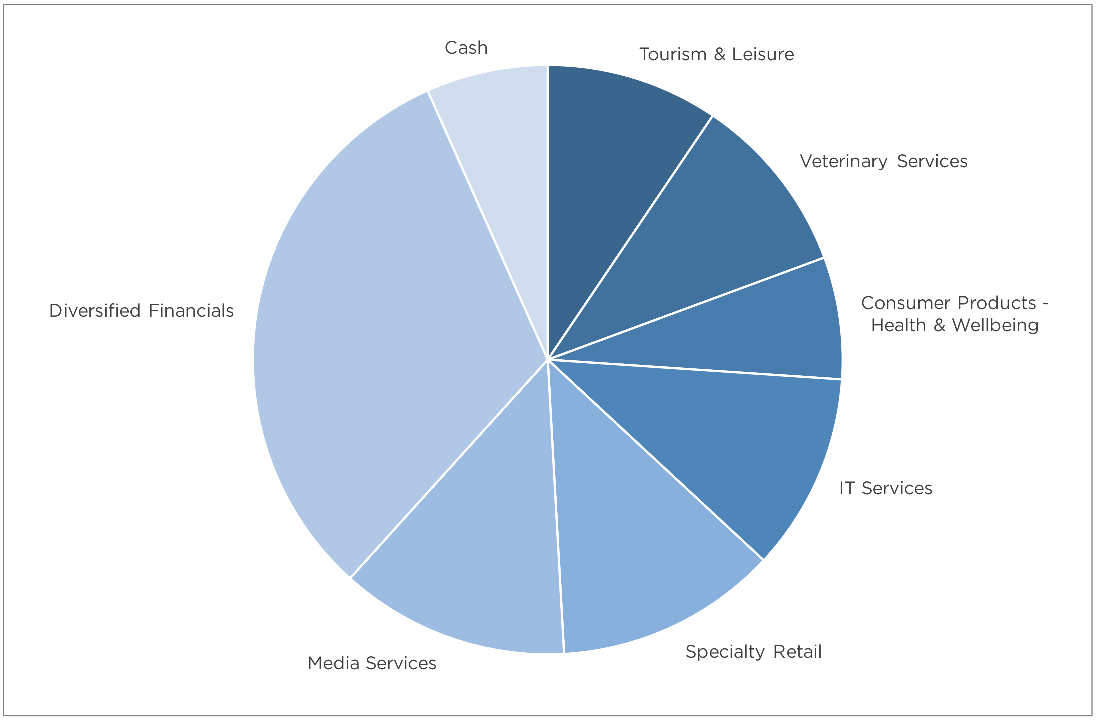
Given the relatively large return figures we have generated in the past two months, with only moderate index support, we thought it would be timely to provide a brief reminder of our risk management strategy in order to highlight that our performance is not a reflection of a high risk strategy, but merely the product of hard work and diligent stock selection.

Firstly, our largest position (at cost) within the portfolio is 10% (vs maximum of 15%) and our smallest position (at cost) is 2.5% (which is the minimum). The portfolio comprises of 13 positions with an average weighting of 6.5% (at cost), bearing in mind we deliberately run a concentrated strategy (10 – 25 stocks). When assessing positions based on current market value, our largest position is 12.6%, our smallest position is 2.5% and the average weighting is 7.2%. The weighted average FY18 P/E of the portfolio is 19.0x, FY18 yield is 3.5% and Net Debt/EBITDA (i.e. gearing) is just 0.8x, with 5 out of the 13 stocks in the portfolio actually net cash. Furthermore, consistent with our strategy, we don’t own any stocks that are directly exposed to the Resources sector. So hopefully this highlights that the performance is being borne out of careful, conservative and concentrated stock selection, as opposed to any reckless pursuit of high returns in exchange for high risk.

Finally, it is also worth mentioning that we carefully monitor and manage the portfolio weightings to ensure that the portfolio does not become excessively exposed to one particular stock or sector. As an example, our position in BIG, which has seen significant share price appreciation since we entered the stock, was initially 9.0% at cost. It is currently 6.0% at cost (albeit its weighting is >10% at current market value), reflecting our disciplined approach to managing its ongoing weighting in the portfolio.

Portfolio characteristics

We currently have c.93% of our capital invested in 13 stocks, with the remainder held in cash. As already mentioned, since our last update we have added Pushpay Limited (PPH) to the portfolio via a share placement.



Thanks again for your interest and support and I look forward to providing another update in early September on our performance during August. 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

Important Information