Emerging Companies Fund

Monthly Update: October 2017

SAVILLE CAPITAL

Dear Fellow Investors,

Our Emerging Companies Fund performed exceptionally well in October. The Fund was up +13.2% vs +4.3% for the Emerging Companies Accumulation Index (XECAI) and +5.9% for the Small Industrials Accumulation Index (XSIAI). Since inception the Fund's absolute return is now +35.2% vs +2.2% for the XECAI and +3.4% for our cash-based benchmark.

Performance summary

	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Inception
Saville Capital Emerging Companies Fund[1]	-3.2%	+2.6%	-0.6%	-1.0%	+7.6%	+6.4%	+2.7%	+4.0%	+13.2%	+35.2%
Benchmark[2]	+0.3%	+0.4%	+0.4%	+0.4%	+0.4%	+0.4%	+0.4%	+0.4%	+0.4%	+3.4%
Relative Performance	-3.5%	+2.2%	-1.0%	-1.4%	+7.2%	+6.0%	+2.4%	+3.6%	+12.8%	+31.9%

[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 13.2% during October, driven by very strong performance from some of our key portfolio holdings, namely BIG Un (BIG, +88.2%), Afterpay Touch (APT, +24.4%), Pioneer Credit (PNC, +20.5%), PolyNovo (PNV, +17.9%), Lovisa (LOV, +13.2%) and HUB24 (HUB, +11.3%). Importantly, all of these companies made material announcements during the month that underpinned their share price re-rating. However, where appropriate, we took the opportunity to convert some of these gains into cash.

BIG delivered another very strong quarter, with 1Q FY18 cash revenue of $15.0m, up 488% on pcp and ahead of the $14m guidance provided in September. It generated a cash gross margin of 48% and cash profit of $5.6m, already placing it well ahead of our expectations for FY18. Furthermore, it announced the development of a dedicated Big Review TV channel on Apple TV for launch in November 2017. The channel will feature BIG's specialist 10 minute review shows covering health, beauty, lifestyle and travel. In addition, BIG has entered into an agreement to broadcast its Wayfarer Travel Show series on the Sky Business channel. Both of these initiatives will drive further revenue across the business model, most notably from sponsorship (e.g. British Airways and Marriott Hotels already sponsor its travel shows), providing for a potential step change in our earnings forecasts and valuation given we previously viewed this revenue stream as "blue sky" only.

APT reported underlying quarterly sales of $367m (up from $271m in Q4 FY17), with over 8,600 merchants now on-boarded (up from c.6,000 at 30 June 2017) and over 1.1m customers (up from 841k at 30 June 2017). Incredibly, new customers continue to grow on average by more than 3,000 per day and repeat transactions per month are well over 80% and increasing. APT also expects its in-store footprint to have expanded to well over 4,000 shop fronts before the Christmas trading period, which in our view remains a massive opportunity for the Company. Despite this positive news, we did use the share price strength to reduce our position in APT to reflect the fact that these figures were only modestly ahead of our own expectations (despite the significant share price reaction) and as a consequence the discount to our valuation of the Company narrowed considerably.

PNV made several positive announcements, most notably a sales order from another major US hospital as well as repeat orders from an existing US hospital client. While the orders themselves are likely to be immaterial in financial terms, they demonstrate critical early validation of PNV's product (discussed further below) and its direct sales strategy.

PNC announced that 100% of its FY18 forecast customer portfolio investment of $70m is now contracted and an additional $20m has been secured in debt funding. Furthermore, it has appointed an adviser to lead a proposed debt raising focused on addressing its medium term growth requirements. All of this bodes well for PNC to meet (or exceed) its FY18 NPAT guidance of $16m as well as to continue to deliver solid growth thereafter.

LOV announced that it is in the process of launching its first pilot store in the United States, which is expected to open in Los Angeles in November. Given LOV's success to date in other (similar) markets, its clearly defined business model and the size of the US retail opportunity, we see this as a significant positive development for the Company.

Meanwhile, HUB reported strong quarterly net inflows of $535m, well ahead of market expectations, taking its FUA to $6.1b. It also launched a white label super and IDPS product for a prominent stockbroking/advisory firm, as well as signing a distribution agreement with another broking business to commence using HUB's retail platform.

Finally, we exited our position in Empired (EPD), having owned it since the Fund's inception in February. Our decision to sell was largely based on a combination of recent opaque outlook commentary and lack of valuation upside. Being an IT services provider, earnings momentum is a critical value/share price driver and hence we made the decision to crystalise our gains (c.25%) rather than await a potential earnings disappointment.

Company in focus: PolyNovo Limited (PNV)

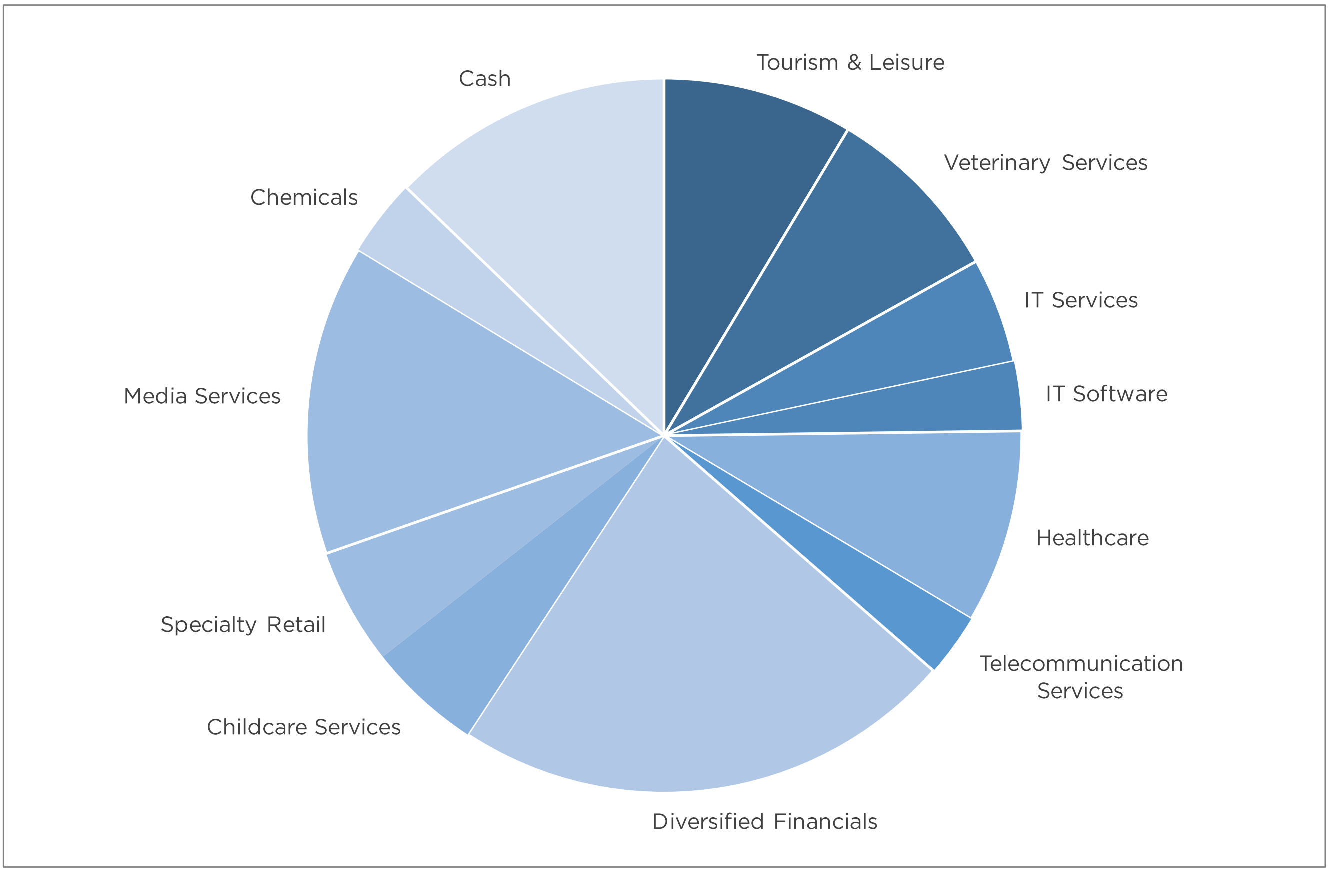
PNV is a medical device company that designs, develops and manufactures solutions using its patented 'NovoSorb' biodegradable polymer technology (NovoSorb BTM). It is designed to be used in medical devices and for tissue engineering scaffolds. The potential applications include reconstructive surgery and repair in a diverse range of fields including wounds, burns, cardiovascular, orthopaedic, periodontal, cartilage and drug delivery. Artificial dermal templates already play an important role in physiologic wound closure after injury. In addition to contributing to stable, durable and flexible wound closure, they provide a scaffold for tissue repair. However, as mentioned above, there are multiple other potential uses for the product which the Company is in the process of exploring.

Importantly, the market for NovoSorb BTM is already proven as there is an incumbent product (Dermal Regeneration Template, DRT) owned by Integra Lifesciences (US$4b company listed on the NASDAQ) that generates substantial sales across the globe. Furthermore, NovoSorb BTM has FDA approval and is already generating modest sales of its own in the US, with three major hospitals initiating orders for the product in recent weeks (including one re-order). A key difference between the two products is that NovoSorb BTM is fully synthetic whereas the Integra DRT is animal-derived. Interestingly, independent clinical trials comparing the two products suggest that "NovoSorb BTM demonstrates favourable properties as a dermal template" with the added bonus of almost zero risk of infection, as opposed to a 30% infection rate for the Integra DRT (according to PNV). Finally, being a synthetic product means that NovoSorb BTM sells at a quarter of the cost of Integra DRT, while still generating gross margins in excess of 90%.

We expect PNV to be cash flow positive within the next 6-12 months and profitable in FY19, which should be a significant share price catalyst. Furthermore, we have derived a DCF valuation for the company of $0.70 (vs current share price of $0.34) based on fairly conservative volume/earnings assumptions and a high cost of capital to reflect the fact that it still remains in the initial stages of its commericalisation journey. Nonetheless, we take comfort from the fact that its very high gross margins and substantial manufacturing capacity (based in Port Melbourne) have it ideally positioned to generate potentially significant profits even at a relatively early stage in its growth journey.

Portfolio characteristics

We currently have c.87% of our capital invested in 14 stocks, with the remainder held in cash. We added one new position to the portfolio during October which we will discuss in subsequent versions of our monthly update.



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

Kind regards,

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