Emerging Companies Fund

Monthly Update: January 2019

Dear Fellow Investors,

Our Emerging Companies Fund was up +6.0% in January vs +4.2% for the Emerging Companies Accumulation Index (XECAI) and +4.9% for the Small Industrials Accumulation Index (XSIAI). Since inception the Fund is +59.7% (assuming distributions are reinvested) vs -5.8% for the XECAI, +14.9% for the XSIAI and +9.0% for our cash-based benchmark.

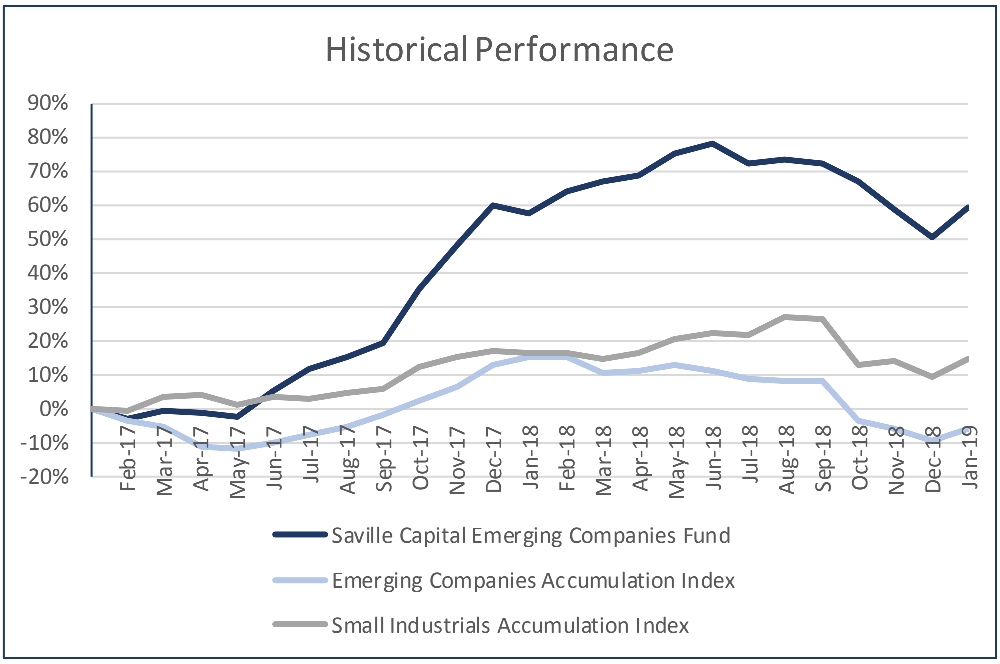
After a tumultuous finish to 2018, it was pleasing to see the Fund (and the market) return to positive performance during January. Some of our largest holdings rebounded strongly during the month, driven by a combination of more positive market sentiment and numerous quarterly cash flow results that were generally well received by investors. While further near-term market volatility is certainly possible in the current environment, we think January provided some reward for those investors that held their nerve during the December quarter and didn't blindly capitulate to the chorus of negativity that was plaguing most stocks, regardless of their quality, but particularly micro and small caps.

We look forward to digesting the earnings results and outlook commentary from each company within our portfolio over the next few weeks, which we hope will refocus the market back on their individual performance and investment attributes instead of just blindly following the direction of the index. While negative earnings surprises are always possible (and arguably inevitable if you own a diversified portfolio), we feel confident that the Fund is well positioned for a positive reporting season during February.

Performance summary

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	3M	12M
2017		-3.2%	+2.6%	-0.6%	-1.0%	+7.6%	+6.4%	+2.7%	+4.0%	+13.2%	+9.5%	+8.1%	+60.1%		
2018	-1.6%	+4.2%	+1.6%	+1.1%	+4.1%	+1.6%	-3.1%	+0.7%	-0.8%	-3.2%	-4.8%	-5.2%	-5.9%		
2019	+6.0%												+6.0%	-4.3%	+1.4%

Returns are net of all base fees, performance fees and expenses of the Fund



Performance commentary

The key positive contributors to the Fund's performance in January were Polynovo (PNV, +14%), Phoslock (PET, +10%), Bluechiip (BCT, +30%), Redbubble (RBL, +8%), Audinate (AD8, +13%), Think Childcare (TNK, +8%) and IDT Australia (IDT, +10%).

Apart from Longtable (LON, -16%) which continues its share price slide and has thus become an insignificant component of our portfolio, the only material negative performer of note was National Veterinary Care (NVL, -7%). At one point during the month NVL was down an extraordinary -17% without any news flow, and in a rising market. Given our latest channel checks suggest that the veterinary industry continues to experience solid performance, we took the opportunity to increase our position in NVL during the month. In our view, NVL remains a great business that is perfectly positioned to benefit from the disruption that may occur due to the imminent ownership change at Greencross (GXL).

PNV had a busy quarter in which it reported 1H FY19 sales of $3.75m (up almost 320% on pcp), which puts it on track to at least meet, if not exceed, our full year sales forecast for FY19. It also received first orders from Saudi Arabia and India as well as obtaining regulatory approval in Malaysia, such that it can now proceed towards appointing a distributor in that market/region. Finally, it announced the purchase of an adjoining office/warehouse facility to its existing premises in Port Melbourne. This purchase, combined with the renewal of the 10-year lease at its existing facility, will enable PNV to join and expand the production facility and install Hernia and Breast production equipment, as well as ensure medium-term stability in the supply of NovoSorb BTM.

In its latest business update, PET reported 1H revenue of $9.3m (up 50% on pcp) and gross margins in excess of 50%. Given PET's FY19 revenue guidance is $27 – $30m with a seasonal 1H/2H split of one-third/two-thirds, this revenue figure was in line with our expectations. Perhaps more importantly, PET highlighted that it received $7.5m in cash from Chinese debtors during January, which we think helps to address a key concern that potential investors have had about PET's significant exposure to that market. PET also provided some commentary on its pipeline, with a pilot project in Florida (where blue green algal blooms are chronic) piquing our interest. Based on previous discussions with management, the opportunity in Florida has the potential to be a significant contributor to PET's future earnings should it proceed beyond the pilot stage, which commences in March. PET also noted that it has eight confirmed, or soon to be confirmed, projects in China on an expanding geographic area, underwriting strong sales for 2019.

RBL provided its much-anticipated 2Q earnings result which demonstrated that whilst revenue growth is tracking below expectations (2Q +12% in constant currency, 1H +18% vs initial guidance of +30% in FY19), it remains on track to meet its guidance of positive EBITDA in FY19, largely due to expanding gross margins. Importantly, given its revenue growth headwinds are almost certainly transitory, but the margin improvement is structural (e.g. fulfillment and shipping cost reductions from increased scale), it bodes well for the future earnings performance of RBL. Furthermore, excluding the current issues with its unpaid Google search ranking, RBL's key metrics and drivers of sustainable long-term value remain very healthy, including revenue from repeat customers up +36.0% in 1H and revenue from members up 9 percentage points to 25% of total revenue in 1H. While in our view RBL remains very undervalued, for this to correct we must patiently wait for unpaid Google search traffic to show a sustained return to solid growth. Our recent conversations with RBL management suggest that they are confident the work currently being undertaken will deliver a return to solid growth in the reasonably near future.

BCT's 2Q cash flow report was inconsequential given the contracted orders from Labcon only started during December. Nonetheless, we think that the appearance of the Bluechiip-enabled cryo vials on Labcon's website (www.labcon.com/tubescryo.html) demonstrated that significant progress has been made by Labcon and served to reinforce to the market their commitment to the contracted use of BCT's patented technology to drive future sales. We expect 2H FY19 will see a significant increase in revenue for BCT as orders from Labcon ramp up in line with the minimum contracted amount for FY19, providing a catalyst for the market to increasingly de-risk the BCT investment proposition. We continue to believe that BCT is trading at a very modest valuation ($37m market cap) given the inherent value of its existing contractual relationship with Labcon, let alone the pipeline of its potential future customers due to the strength of its technology.

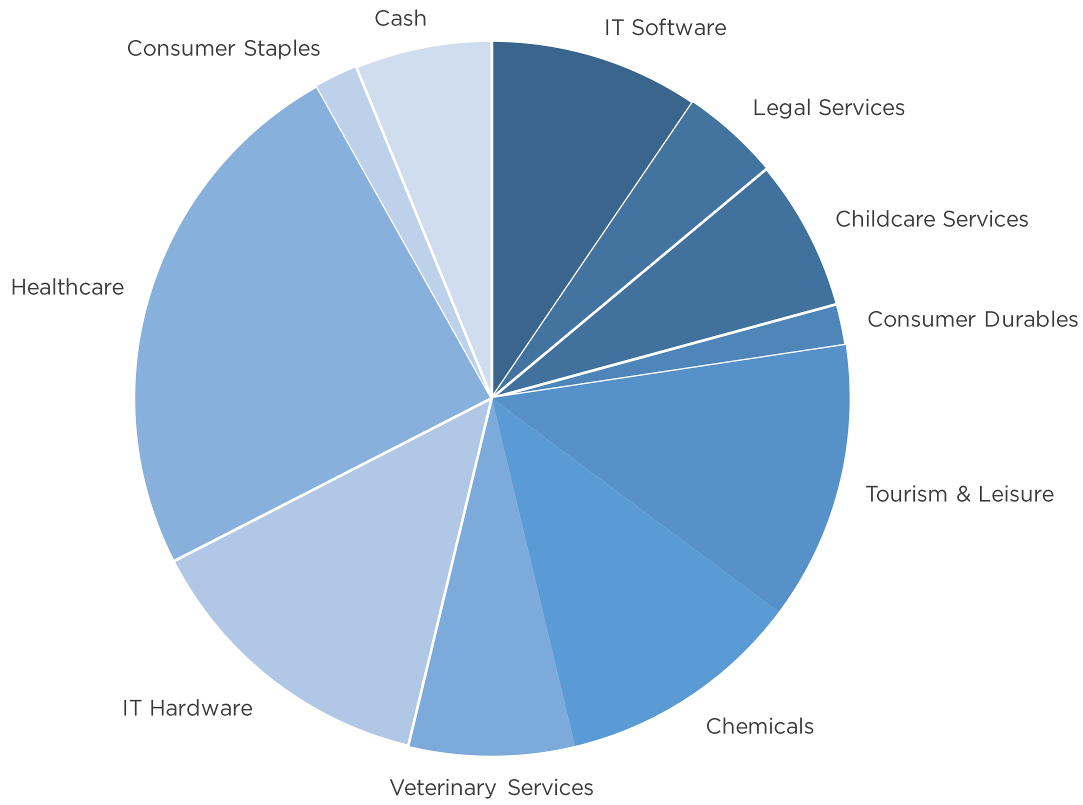
AD8 reported another very strong quarterly cash flow result, with cash receipts (a reasonable proxy for revenue at AD8) up 49% on pcp to $7.2m, which was above our, and market, expectations. With 1H cash receipts tracking at above +50% growth, there now appears to be material upside to AD8's FY19 revenue guidance of +26% and +31% growth on pcp. AD8 also announced that it expects to commercialise its Dante AV module in the middle of 2019, with these products starting to contribute revenue from FY20 onwards. Despite it having the potential to double the size of AD8's addressable market, we (and AD8's coverage brokers) have not yet factored this opportunity into our forecasts. Clearly as we approach commercialisation, this will need to be addressed and therefore we'd expect the market to begin to build some of its potential value into the share price.

Finally, Rhinomed (RNO, unchanged) reported a softer than expected 2Q result, with revenue up 132% on pcp but significantly below 1Q. However, we understand that there was a deliberate reduction in marketing and promotional activities in the US during the quarter. The logic behind this decision was that heightened media pricing and the noise from the US midterm elections followed by Thanksgiving and Christmas retail activity weakens the ROI from promotional activities during this period. On that basis, we expect to see quarterly revenue move back to its previous run-rate in 3Q, especially given the increased US pharmacy distribution footprint RNO now has in place. Furthermore, RNO stated that the decision to bring Australian distribution back in house is already delivering positive outcomes with several major chains recommitting to core ranging of its Mute products, which should impact revenue during 3Q. Finally, the Company gave an update on its new technology for launch in FY19, with development of two new product lines (targeting nasal decongestant and sleep onset issues) now complete and being presented to US pharmacy retailers at a trade show in Chicago during early February, which it hopes will result in some pre-orders for these products prior to entering production.

Given there has been plenty to discuss regarding the various updates from a range of companies in the portfolio, in the interests of brevity we have decided not to provide a review of one of our portfolio companies this month.

Portfolio characteristics

We currently have 94% of our capital invested in 14 stocks, with no additions or removals since December.



Thanks again for your interest and support and we look forward to providing another update in early March on our performance during February.

Kind regards,

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Important Information