Emerging Companies Fund

Monthly Update: March 2019

Dear Fellow Investors,

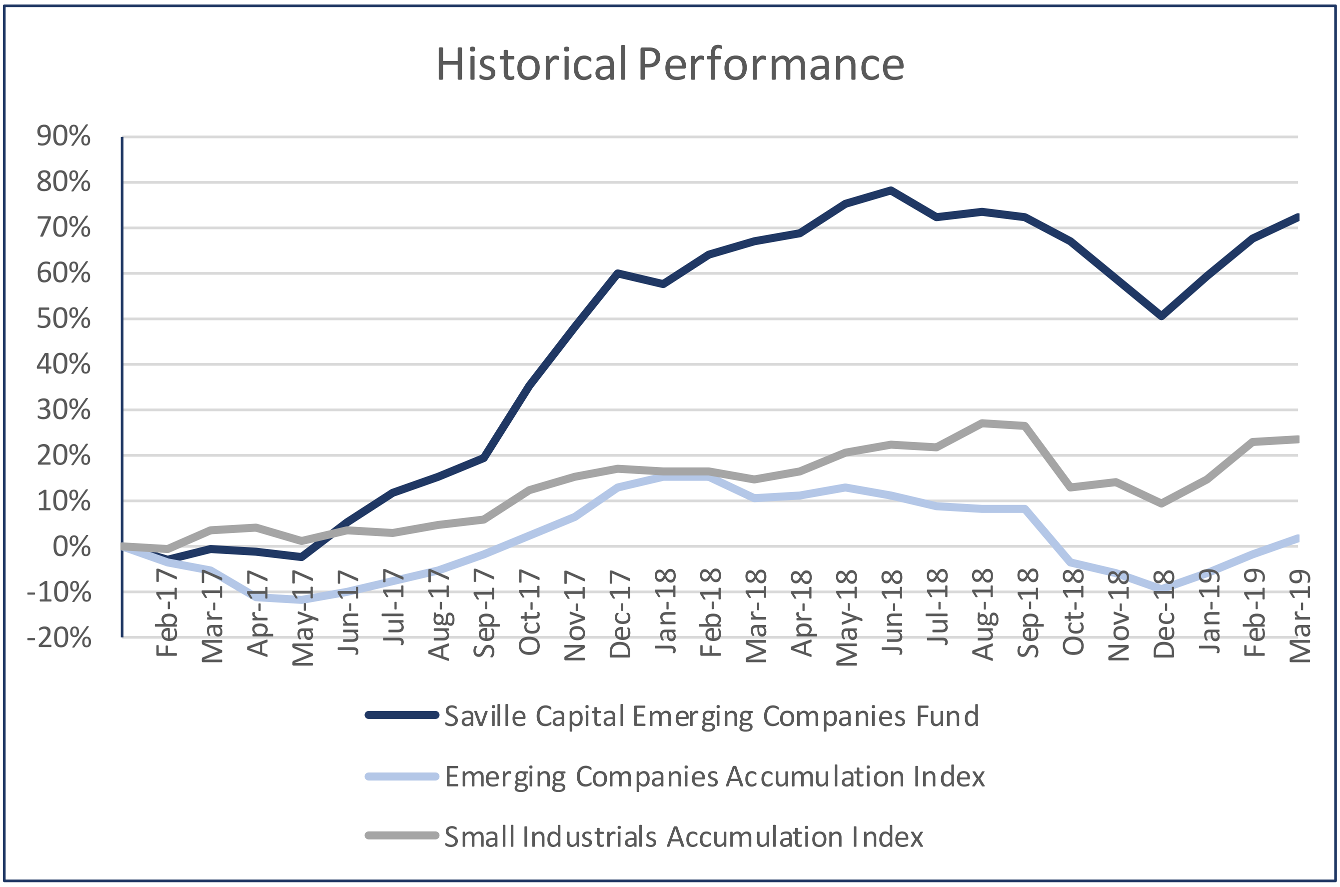
Our Emerging Companies Fund was up +3.1% in March vs +2.8% for the Emerging Companies Accumulation Index (XECAI) and +0.4% for the Small Industrials Accumulation Index (XSIAI). Since inception the Fund is +72.5% (assuming distributions are reinvested) vs +1.5% for the XECAI, +23.5% for the XSIAI and +9.7% for our cash-based benchmark.

Following the market correction that occurred in the December quarter of 2018, March 2019 completed the third consecutive month where market sentiment remained positive, helping to underpin further strong performance for the Fund. However, it is important to note that as long-term investors, we do not rely upon nor wait in anticipation of a positive market. We of course base our decisions on a rational market eventually prevailing and will therefore attempt to capitalise on any periods or instances of irrational behaviour within those stocks that meet our investment criteria.

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%	+4.8%	+3.1%										+14.5%	+14.5%	+3.4%

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



Performance commentary

The key positive contributors for the month were Rhinomed (RNO, +35%), Audinate (AD8, +18%), Bluechiip (BCT, +17%) and Redbubble (RBL, +7%). The key negative contributors were National Veterinary Care (NVL, -7%) and Polynovo (PNV, -5%). There was no material news flow released this month for any of these stocks.

Think Childcare (TNK, -9%) acquired four newly constructed, purpose-built Nido childcare centres in Perth from its incubator partners for a multiple of 4x EBITDA, with a total purchase price of $6.5m (excluding costs and potential earn-out). This transaction perfectly demonstrates one of the key attractions to owning TNK, being that it has an extensive pipeline of quality acquisitions at an agreed (and accretive) multiple, but without the usual risks associated with such a deal because TNK was already managing the centres. In order to fund the transaction and increase its capacity to undertake further acquisitions, TNK raised $18m via an institutional placement at $1.58 (it ended the month at $1.68) in which we fully participated. Finally, TNK issued CY19 EBITDA guidance of $13.8m to $14.8m, which was in line with our expectations (we had forecast $14.2m).

In other news flow relevant to stocks within our portfolio, we note that as part of an announcement detailing its revised expansion plans via construction of a new greenhouse facility in Mildura, Cann Group Limited (CAN) highlighted that it is continuing progression toward establishment of its third-party GMP product manufacturing capacity with IDT Australia (IDT). This will enable production of valued-added formulations which can be supplied to Australian patients and under its offtake agreement with Aurora. Equipment is currently being installed and commissioned at IDT to facilitate full GMP manufacturing of these products. While this opportunity with CAN wasn't the key driver behind our decision to invest in IDT, it does highlight that the potential upside from this agreement is on track.

Company in focus: Shine Corporate Limited (SHJ)

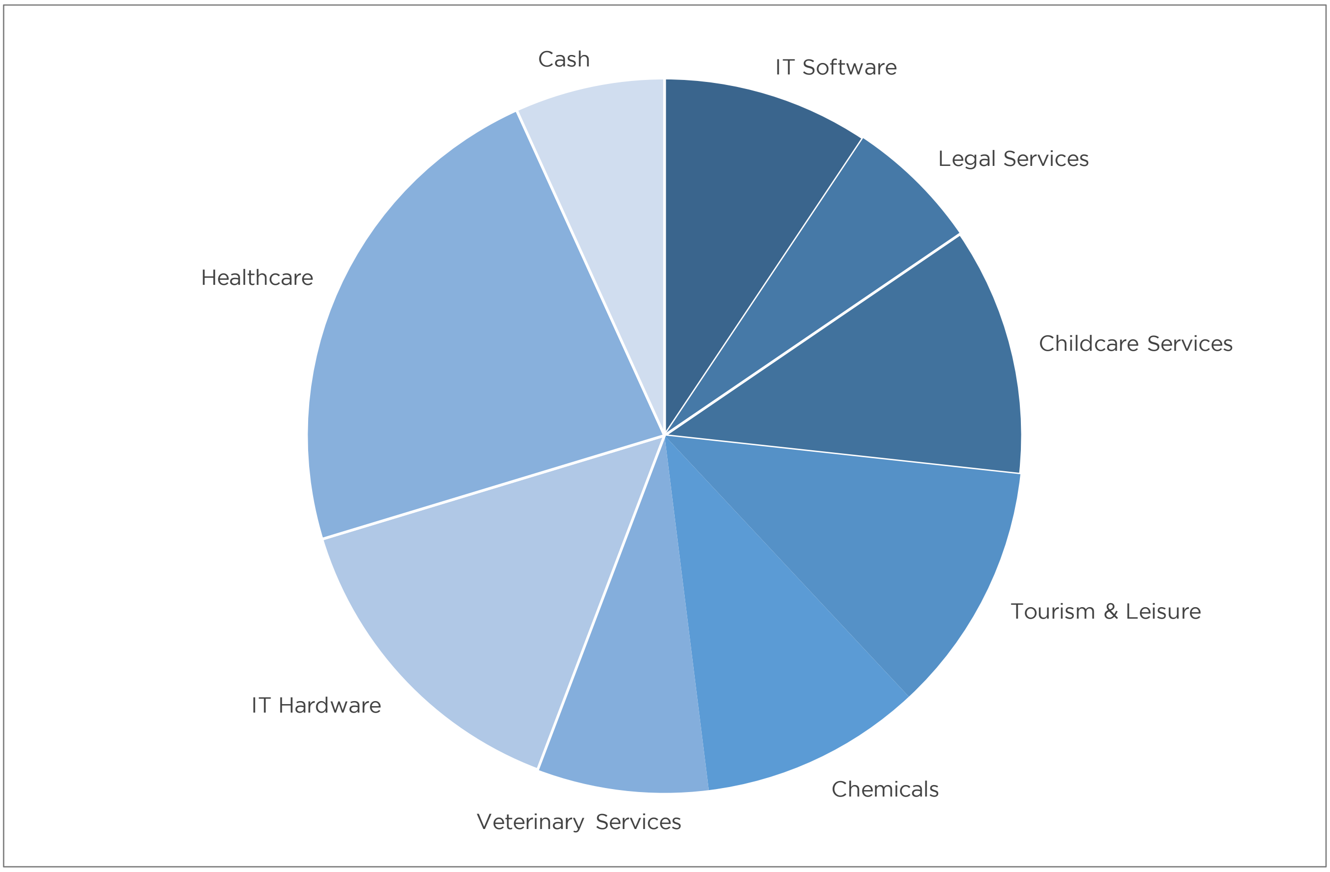
Established in 1976, SHJ is now one of Australia's largest diversified providers of litigation and specialist resolution services. Through its various subsidiaries it specialises in Personal Injury litigation services (workplace, motor vehicle, public liability), as well as a range of Emerging Practice Areas (class actions, professional and medical negligence, employment law, family law and commercial litigation). To put its size into context, SHJ currently occupies ~8% of the Personal Injury market in Australia, with a leadership position in Queensland and solid share in the other key States. SHJ is led by Simon Morrison (CEO), who owns ~25%, creating important alignment with other shareholders, such as ourselves.

SHJ offers its services on a "no win, no fee" basis, therefore no fee is payable by the client unless they receive compensation. As a result of its fee structure, a critical component of SHJ's business is carefully selecting the cases it pursues and concluding them in a timely manner to minimise the amount of Work in Progress (WIP) it must fund, either by internal cash resources or from an external funding partner. While SHJ accrues both income and expenses (particularly as the cases progress), the income is only converted to cash upon successful completion, hence cash flow is far more of a focus for the market than earnings.

Our attraction to SHJ is based on a combination of: (1) strong industry tailwinds (particularly in class actions) due to the volume of work emanating from recent royal commissions (e.g. financial services) underpinning solid earnings growth; (2) rapid expansion of the external litigation funding model, reducing SHJ's reliance on internally funding its growth and thus increasing its case capacity as well as improving its potential ROE; (3) a significant potential positive catalyst (settlement of the class action against Johnson & Johnson which would substantially reduce its WIP and debt balances) within the next six months; (4) minimal exposure to the economic cycle; (5) growth via strategic bolt-on acquisitions that expand its service and geographic footprint while leveraging its corporate overhead, and (6) undemanding valuation metrics (FY19 EV/EBITDA of <4.0x, with a target of 60-70% GOCF to EBITDA, and FY19 dividend yield of >5.0%).

Portfolio characteristics

We currently have 93% of our capital invested in 12 stocks, with no additions or removals since February.



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

Kind regards,

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