Emerging Companies Fund

Monthly Update: April 2019

Dear Fellow Investors,

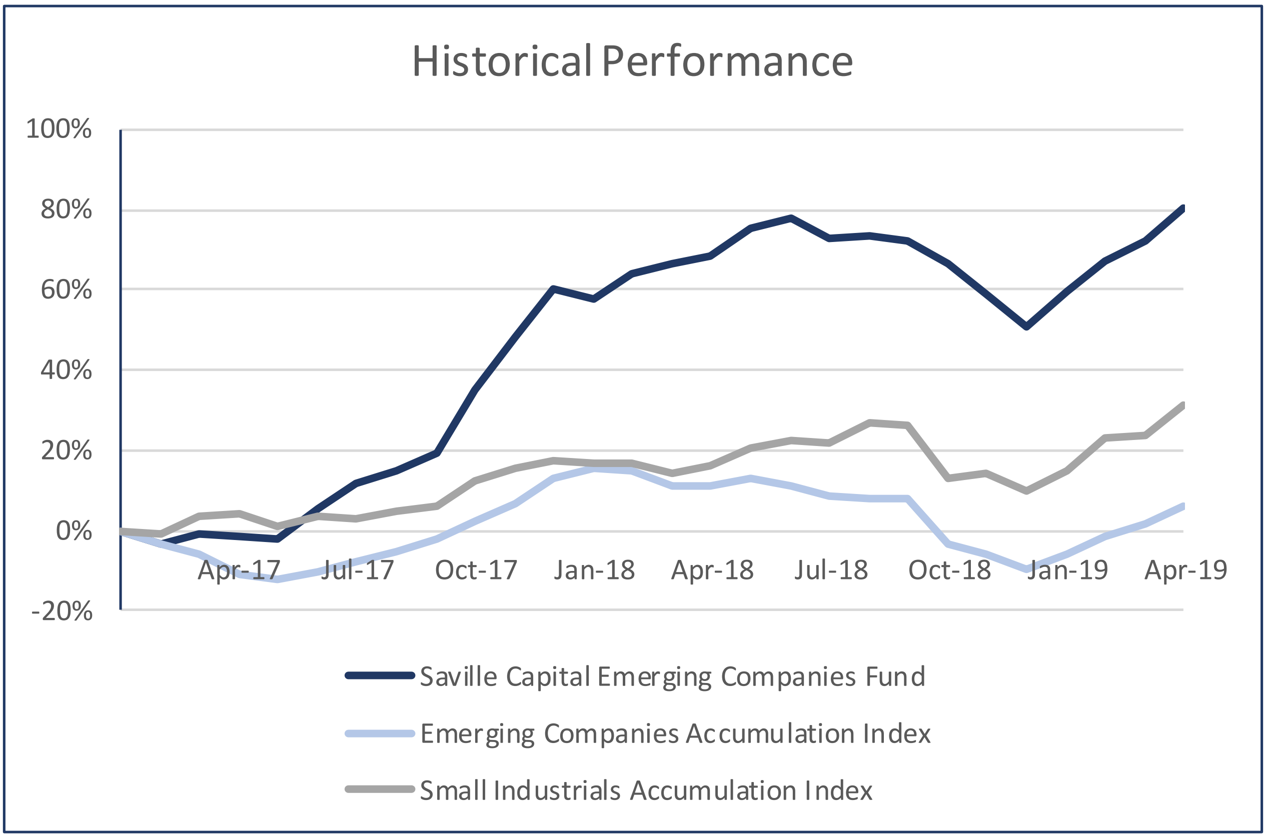
Our Emerging Companies Fund was up +4.7% in April vs +4.3% for the Emerging Companies Accumulation Index (XECAI) and +6.3% for the Small Industrials Accumulation Index (XSIAI). Since inception the Fund is +80.6% (assuming distributions are reinvested) vs +5.9% for the XECAI, +31.3% for the XSIAI and +10.0% for our cash-based benchmark. We are pleased to report that the Fund has now recovered all of its negative absolute performance from the second half of last year, when markets dipped sharply.

The Fund's upward trajectory in 2019 continues to be supported by positive news flow from some of our key stocks and generally buoyant market conditions. April is always a busy month for the Fund as many of our stocks provide quarterly cash flow and business updates for the March quarter. Pleasingly, the majority of those updates either met or exceeded our (and market) expectations. While positive share price moves in stocks we own is always pleasing, we take far greater comfort when it is in response to an earnings or business update, as the positive re-rating is therefore far more likely to be sustained.

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%	+4.7%									+19.9%	+13.1%	+7.2%

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



Performance commentary

The key positive contributors for the month were Polynovo (PNV, +38%), Phoslock (PET, +12%), National Veterinary Care (NVL, +6%), Rhinomed (RNO, +5%), Shine (SHJ, +4%) and Audinate (AD8, +4%). The key negative contributors were Redbubble (RBL, -12%) and Tourism Holdings (THL.NZ, -16%).

PNV enjoyed a significant re-rating during April, which we largely attribute to increasing market recognition of its earnings potential. This is being driven by more broker coverage (Evans & Partners published an initiation report with a Buy recommendation and numerous valuation upside scenarios) and expanding its audience of potential investors (PNV presented at an investment conference in New York during the month). In terms of news flow, PNV has appointed PolyMedics Innovation (PMI) as the distributor for NovoSorb BTM in Germany, Austria, Switzerland and Luxembourg. PNV also noted that it expects CE regulatory clearance shortly and the appointment of PMI will enable immediate market entry in the countries mentioned above.

PET released a very positive 1Q CY19 business update in which it recorded cash receipts of $10m (for context, its receipts for all of CY18 were just over $8m) and $6m in net cash flow from operations. We understand that cash flow and revenue recoverability has been a key concern for potential investors in PET (despite never having had a bad debt), hence why we think this quarterly update was particularly well received, especially given that PET noted that it also expects strong cash flow in 2Q CY19. In addition to the quantitative update, PET went into a bit more detail on a few of the projects in its immediate pipeline, most notably several large lakes in south west China and the wetlands in Florida, USA. Our understanding is that if either of these projects proceed to their potential, let alone both, they will generate a step change in PET's revenue, earnings profile and valuation.

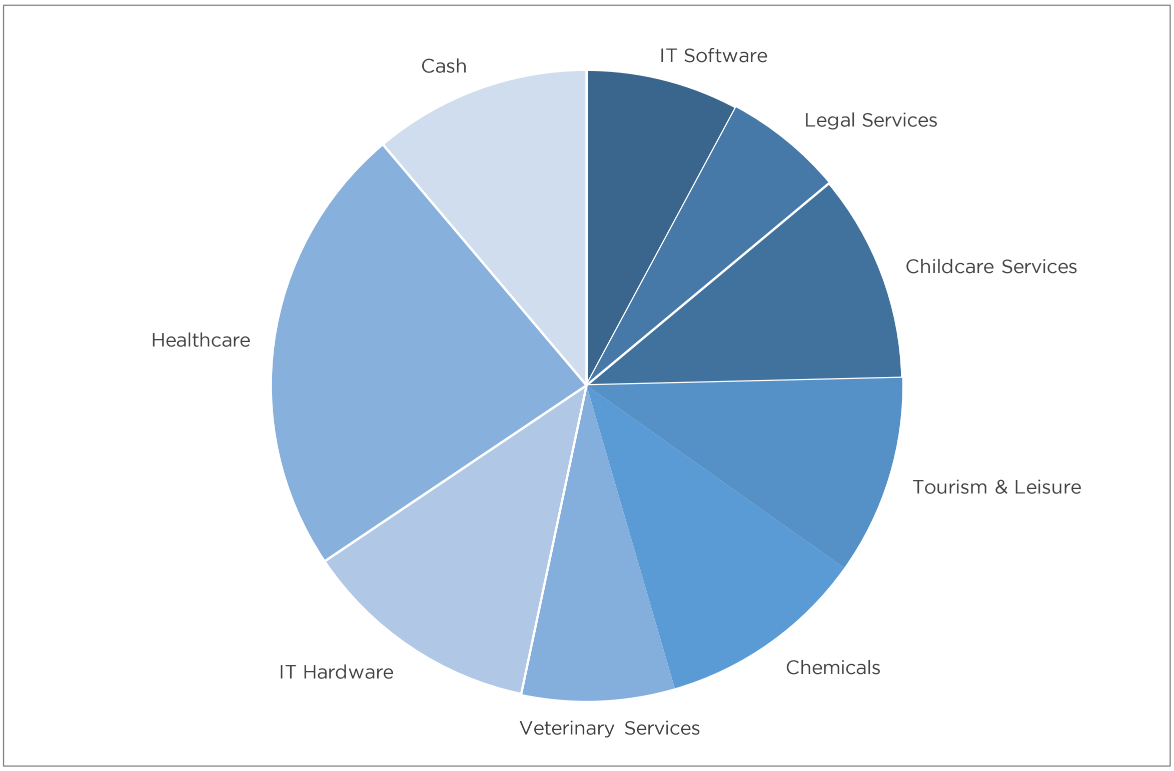
RNO confirmed the launch of its new Pronto™ range of dual action, rechargeable vapour release products in 2H CY19. The Pronto™ range comes in two formulation variants – Pronto Sleep and Pronto Clear – addressing the needs of the global sleep aid and global nasal congestion, cough, cold and allergy markets respectively. Initial purchase orders for the Pronto Sleep aid product have already been received from one of America's leading drugstore chains, with product to be shipped at the end of May and rolled out into 900 stores across the US during August/September. While these new products are unlikely to have any meaningful impact on revenue until at least 2H FY20, we see both as having the potential to significantly augment RNO's current earnings growth profile. Speaking of which, RNO also released its 3Q FY19 cash flow results, highlighting that quarterly revenue was up 64% on 2Q FY19 (to just over $1m) and that FY19 YTD revenue has already exceeded the FY18 full year revenue. Furthermore, stock shipped (but not yet recognised as revenue) continues to grow very strongly, which bodes well for future sales.

On the negative side of the equation, RBL reported its 3Q FY19 results which showed that generating growth via unpaid organic search remains challenging (this source of traffic was -3% in 3Q). However, while the market continues to obsess over the weak unpaid growth (the drivers of which we still expect will prove to be transient), all of the core metrics within RBL that underpin a business of sustainable and enduring value remain very positive, and either in line with or ahead of our expectations. For example, revenue from members grew by +114% on pcp (representing 26.7% of Group revenue), and repeat revenue growth was +29.8% on pcp (40% of Group revenue). Furthermore, despite the increased investment in paid acquisition (marketing) to offset weak unpaid search traffic, its gross profit margins (after customer acquisition costs) are largely being maintained, while at the EBITDA line we are seeing much better flow through of gross profit due to vastly improved cost control. As such, while it is frustrating that RBL has not yet been able to adequately address the root cause of its weaker unpaid organic search results within Google, it is proving that even without that tailwind it can still generate solid (and profitable) growth. In our view, RBL is being priced as though unpaid organic search growth will not return, as such it is like a free option with significant potential value.

Finally, THL downgraded its FY19 NPAT guidance by ~20% due to ongoing weakness in US vehicle sales, as the market remains in oversupply. Given its core business is in rentals (the demand for which remains robust), not the sale of its used vehicle fleet, we don't see this as a reason to sell the stock and hence our positive investment thesis remains unchanged. In fact, having recently hired a Maui campervan (one of the key brands owned by THL) in New Zealand, we got to observe first-hand the exceptional service THL provides to its customers as well as one of the main growth drivers for the business, which is growing demand from Asian markets that are increasingly shifting from tour groups to DIY travel.

Portfolio characteristics

We currently have 89% of our capital invested in 12 stocks, with no additions or removals during April.



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

Kind regards,

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