

# Emerging Companies Fund

Monthly Update: May 2019



Dear Fellow Investors,

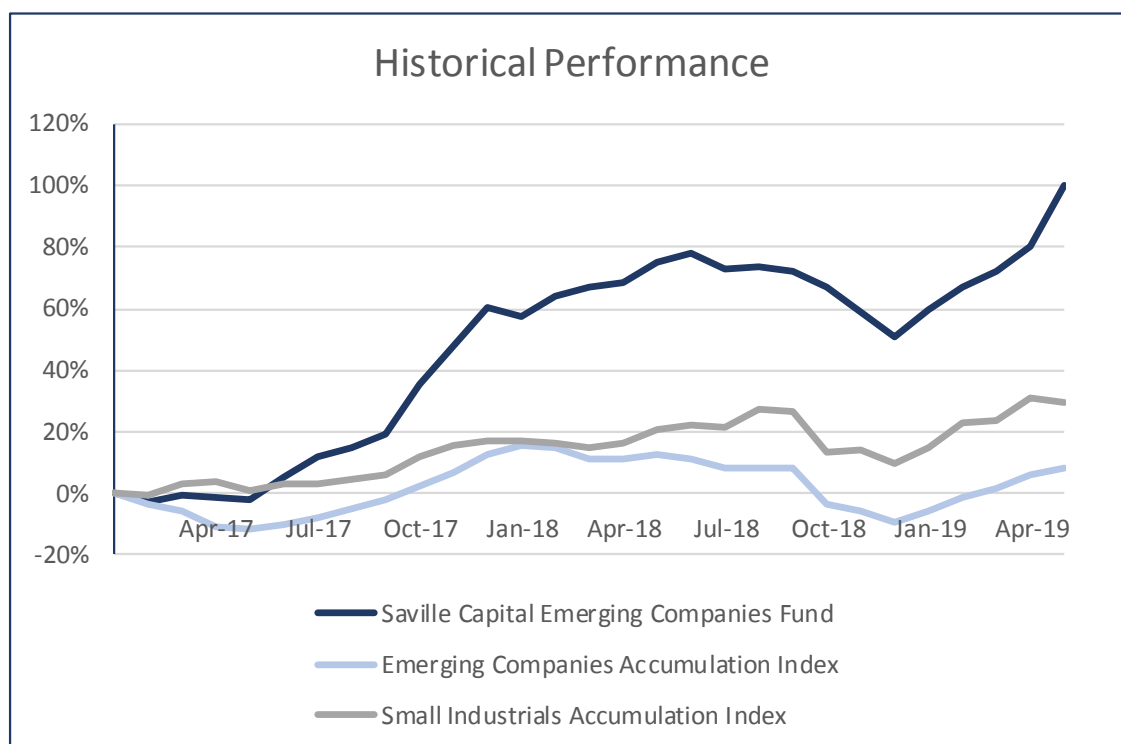
Our Emerging Companies Fund was up +10.8% in May vs +2.1% for the Emerging Companies Accumulation Index (XECAI) and -1.3% for the Small Industrials Accumulation Index (XSIAI). Since inception the Fund is +100.1% (assuming distributions are reinvested) vs +8.1% for the XECAI, +29.5% for the XSIAI and +10.5% for our cash-based benchmark.

While market conditions were more subdued during May, the Fund continued its very strong performance of late following some significant announcements from a few of our key stocks. As existing investors will be aware, the Fund operates a concentrated/high conviction strategy and consequently when one (or more) of our key positions has a significant re-rating event, the Fund reaps the rewards (this also applies in reverse, of course). This was one such month where our approach to portfolio construction was handsomely rewarded. We will provide more detail on the individual stocks over the page, but the most exceptional performer for the Fund was Phoslock (PET). It experienced a 76% uplift in its share price due to a significant contract win and scientific accreditation in China, that will not only underpin its current earnings, but likely lead to several more contract wins across China of equal, if not greater, size and of a similarly recurring nature.

## 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%	+10.8%								+32.8%	+19.5%	+14.1%

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



## Performance commentary

The key positive contributors for the month were Phoslock (PET, +76%), Rhinomed (RNO, +34%), Audinate (AD8, +28%), Polynovo (PNV, +16%), Redbubble (RBL, +14%), IDT Australia (IDT, +13%), and Think Childcare (TNK, +10%). The key negative contributors were Sealink (SLK, -11%), Bluechiip (BCT, -8%) and Tourism Holdings (THL.NZ, -4%).

As already mentioned, PET enjoyed a significant re-rating during May which was largely driven by the announcement of a major contract win to treat a very large lake (34 square km, which is 2/3 the size of Sydney Harbour) in South West China. We understand that this contract is likely to generate monthly product revenue of ~\$1m for the next three to five years. To put this into context, PET is guiding to total revenue of \$27m to \$30m in CY19. Furthermore, this is just one lake in a region where there are nine very large lakes, some that are several times larger (but just as polluted) as this initial one. As a result of this new contract and the emerging opportunity across this region, broader China and internationally, PET is now in the process of significantly expanding its production capacity at its factory in Changxing (to be funded from existing cash reserves). Finally, PET's advanced phosphorus removal technology ("Phoslock") has been recognised by the Chinese Ministry of Water Resources as a product of advanced practical technology in water conservation and remediation. This is an important milestone for PET, as it will play a major role in successfully marketing its products and services throughout China. We now eagerly await further news on a potential large wetlands project in Florida, USA.

PNV also had yet another strong month on the back of further progress updates. Firstly, PNV announced that its revenue from NovoSorb BTM sales exceeded \$1m (for the first time) in April and then again in May. Secondly, PNV has been granted access to the US Department of Defence (DoD) contacts. This allows DoD facilities to purchase BTM for the treatment of serving military, veterans and their families. Consequently, DoD health facilities, anywhere in the world, will now be able to purchase BTM. In addition, PNV has been granted access to several other US Government contracts. The US Government will provide BTM access to Medicare/Medicaid patients under the Federal Supply Services contract, enabling both inpatient and outpatient treatments using BTM to be reimbursed.

Following RNO's launch in April of its new Pronto™ range of dual action, rechargeable vapour release products for 2H CY19, it confirmed that its technology has now been registered with both the US FDA and the Australian TGA as a Class 1 medical device. As we noted in our April update, we think the Pronto™ range (Pronto Sleep and Pronto Clear) has the potential to significantly augment RNO's current earnings growth profile.

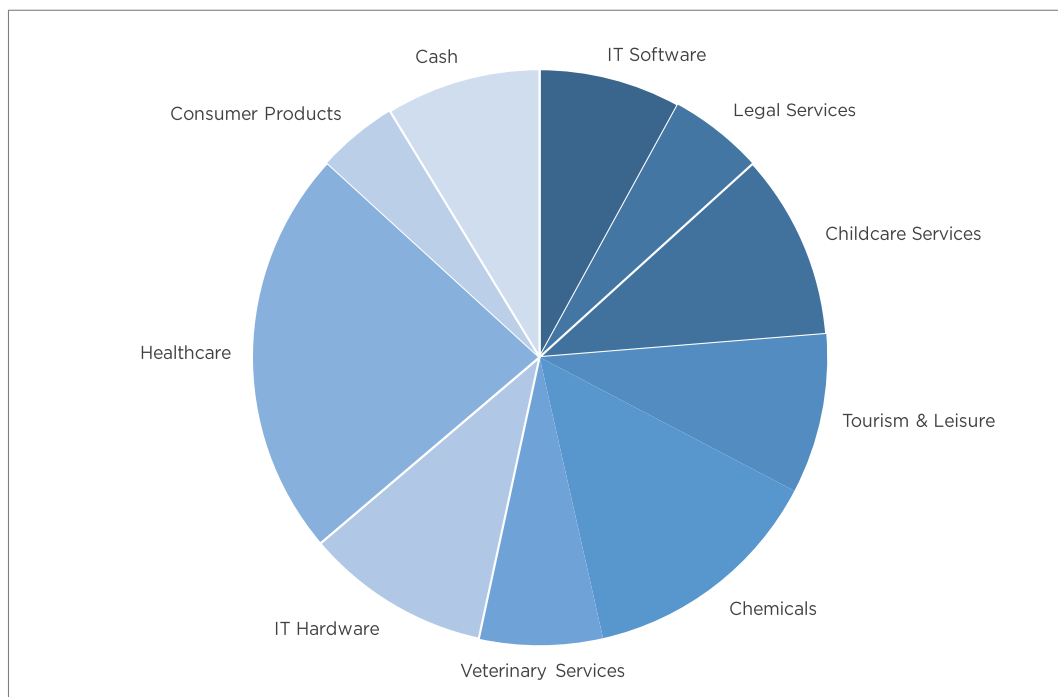
TNK provided a 1Q CY19 trading update at its AGM held during the month, noting that like-for-like (LFL) revenue (centres owned for at least the past 12 months) was up 7% on pcp and LFL centre EBITDA was up 26%, largely driven by focused wage management. It also reiterated its guidance of CY19 underlying EBITDA to be between \$13.8m and \$14.8m. Following its AGM, TNK invited its key investors to visit some of its owned and managed (incubator) centres operating under the Nido brand. We were very impressed with the quality of the facilities and staff at the centres we visited, supporting our confidence in the strategy, execution, management team and long-term potential of this business.

IDT announced that the Department of Health - Office of Drug Control has granted it a Medicinal Cannabis Manufacturing Licence. This authorises IDT to manufacture extracts and tinctures of cannabis and cannabis resin, as well as package, transport and store the drug. This licence complements IDT's existing pharmaceutical manufacturing capabilities and allows it to manufacture a range of precursor products, as well as develop finished dosage forms such as tinctures, liquids and solid oral dose (tablets and capsules) for both clinical trial and commercial applications. This licence builds upon the existing relationship it has with Cann Group (CAN) to provide manufacturing support in relation to its medicinal cannabis-based product formulations.

Finally, SLK and THL both declined on some evidence that tourism growth across Australia (and New Zealand) has become more subdued in recent months. However, with the Australian federal election now behind us and a persistently weak AUD, we think this trend will prove to be transient. Furthermore, both companies have arguably become victims of the market's obsession with chasing high earnings growth (at the expense of valuation discipline), being sold off to fund the pursuit of the "next" exceptional high growth story. As such, we think their own long term/sustainable growth potential and strategic value is being overlooked, which will ultimately be to our benefit as we are using this opportunity to increase our ownership of great assets at attractive prices.

## Portfolio characteristics

We currently have ~91% of our capital invested in 13 stocks, with one addition during May.



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

Kind regards,

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