Emerging Companies Fund

Monthly Update: July 2019

Dear Fellow Investors,

Our Emerging Companies Fund was up +17.6% in July vs +8.3% for the Emerging Companies Accumulation Index (XECAI) and +3.7% for the Small Industrials Accumulation Index (XSIAI). Since inception the Fund is +136.8% (assuming distributions are reinvested) vs +16.6% for the XECAI, +34.9% for the XSIAI and +11.7% for our cash-based benchmark.

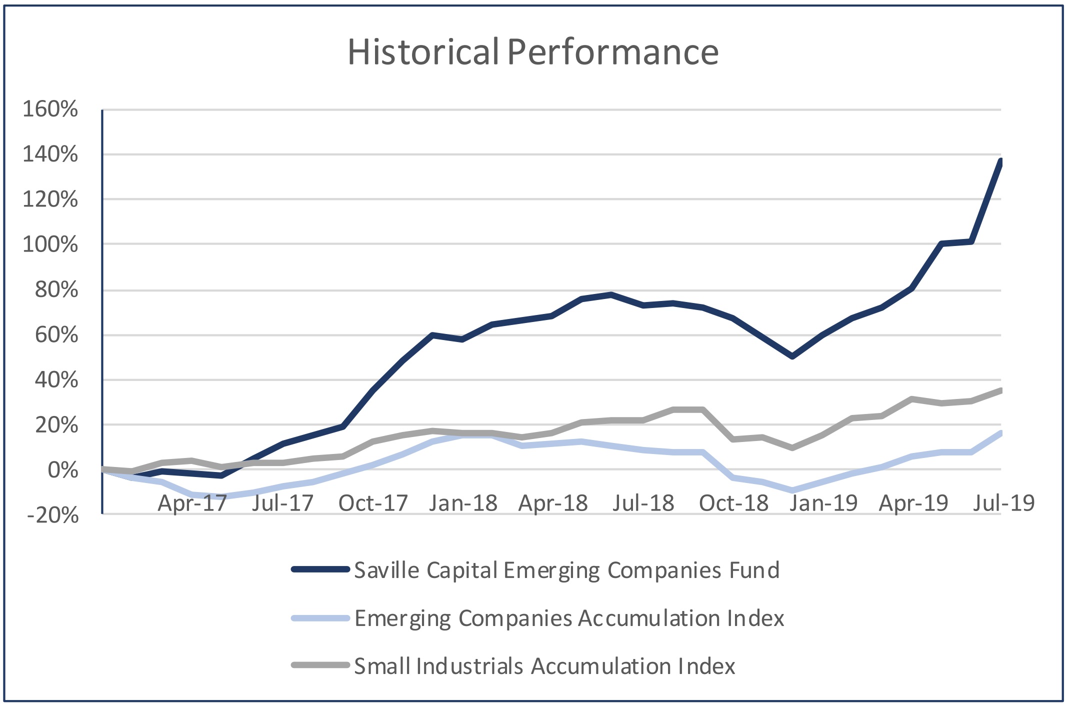
Please note that further to our last monthly update, the Fund will likely be closing to new investors at the end of August as we will have exceeded $40m of FUM. However, it will remain open to existing investors thereafter until FUM reaches $50m.

While we were clearly the beneficiaries of a strong index tailwind during July, it was nonetheless an extraordinary month for the Fund. Pleasingly, and importantly, most of our strong absolute performance came from positive developments among some of our key stocks, as opposed to just buoyant market sentiment. Notwithstanding that August is the month in which most companies report their annual (or interim) results, we own several companies that must provide quarterly cash flow statements in the month following each quarter (e.g. July). These reports are often accompanied by management commentary on recent trading performance and outlook, so at times they can be a significant catalyst for the share price, as was the case for a few of our stocks this July.

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%	+0.6%	+17.6%						+57.2%	+31.1%	+37.2%

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



Performance commentary

The key positive contributors for the month were Phoslock (PET, +75%), Redbubble (RBL, +55%), McPhersons (MCP, +55%), Rhinomed (RNO, +38%), Bluechiip (BCT, +28%), Pointsbet (PBH, +18%), National Veterinary Care (NVL, +16%) and Shine (SHJ, +9%). The key negative contributors were IDT Australia (IDT -9%), and Think Childcare (TNK, -4%).

PET had another very strong month of share price appreciation following the news that the Xingyun Lake project had been expanded to comprise the entire catchment area, increasing the scope of the project from 34km^2 to 371 km^2, thus requiring large tonnages of *Phoslock*® for many years to come. Furthermore, in its Quarterly Activities Report, PET stated that following the successful trial application of *Phoslock*®, the Florida Water Authority has sought funding for large scale *Phoslock*® applications to its wetlands. We continue to see a large contract in Florida as a key catalyst for the stock, as this would not only help to diversify a material portion of its revenue away from China, but also provide important further validation of the product's efficacy and potential in other markets.

RBL rewarded our faith in the business by delivering an unexpectedly strong 4Q FY19 result, in the context of its ongoing challenges with weak unpaid search traffic via Google. While the revenue result was broadly in line with our and consensus expectations, recent trading in the stock implied that the market was expecting it to materially miss consensus. Furthermore, improving margins from a combination of procurement benefits, marketing spend optimisation and solid control over opex (4Q was flat on 3Q) was again evident, delivering its maiden EBITDA profit of $3.8m, well ahead of consensus at $0.7m. Finally, RBL announced that it is launching an American Depository Receipt (ADR) program to facilitate easier access for US-based investors to invest in RBL. Given the incredible disparity in the key valuation metrics of RBL vs its more richly priced US peers, we think this is a very sensible (and significant) move by the Company to lower its cost of capital.

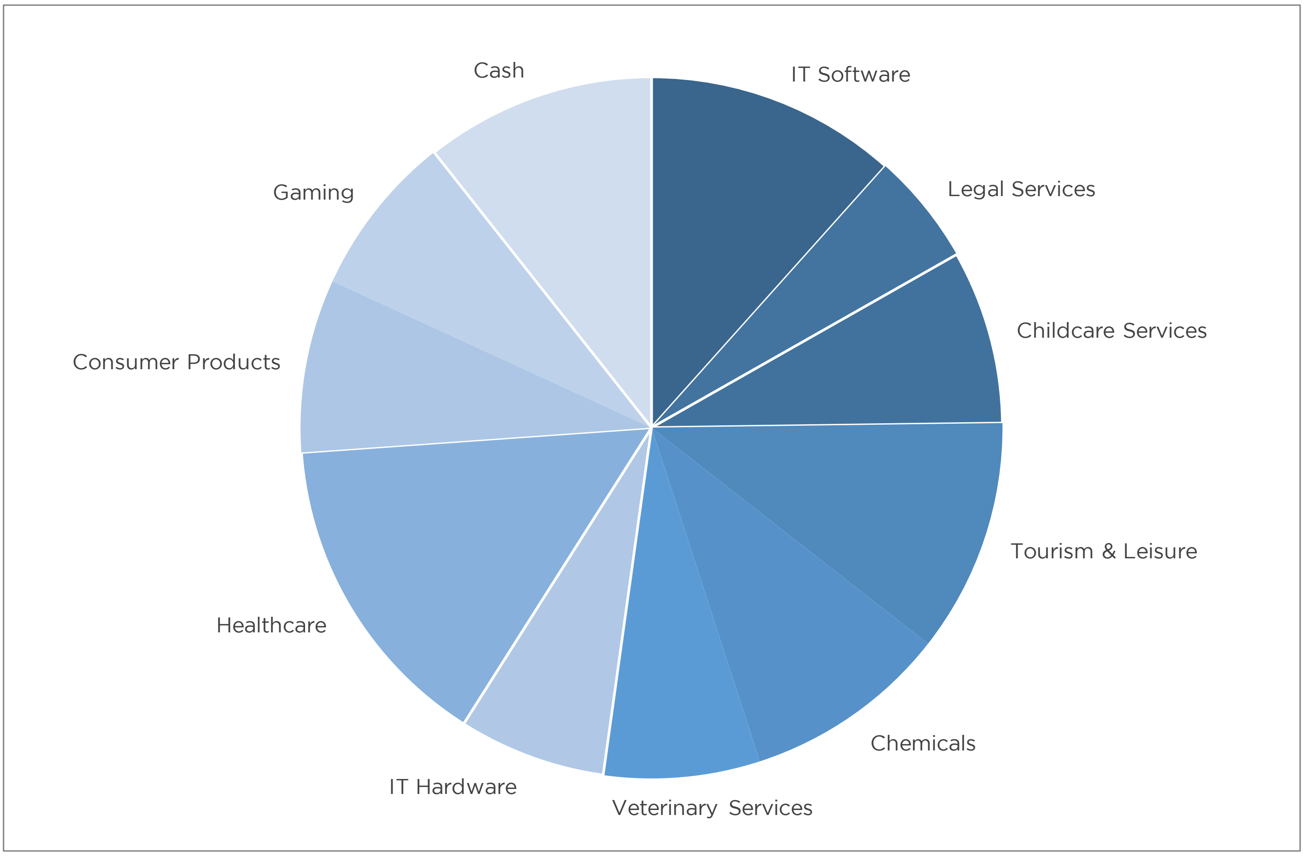
MCP is a stock we have owned previously, which we added back to the portfolio a few months ago. We will go into more detail about our investment thesis in a later update, but suffice to say that following its upbeat release to the market on 17 April 2019 and relatively muted market response, we identified a potential opportunity. At the time, the stock was trading on an FY19 P/E of ~11x and a FY19 yield of ~8%, with minimal debt and solid organic growth (~10-15%) momentum, in part driven by the rapidly growing sales of Dr. LeWinn's skincare products into China. When our industry channel checks confirmed that this momentum was likely to continue, our interest was piqued, especially given MCP's undemanding valuation metrics. As such, we took the proceeds of our sale of Audinate (AD8) and effectively rotated them into MCP. This decision bore fruit far earlier than we anticipated when MCP released its preliminary FY19 results in late July, which were at the top end of its guidance range and ahead of consensus on all key metrics (sales, margin, profit, debt and dividend). Given this came only three months after reiterating guidance, we can infer that the momentum in its business during 4Q was very solid. This bodes well for FY20 and we note that MCP will provide 12 months forward earnings guidance for the first time in many years when it releases its final FY19 result in mid-August.

In other news, the quarterly cash flow reports and updates from both RNO and BCT confirmed that positive momentum continues to build in both businesses. Meanwhile, PBH announced the identity of its sports betting partners in both Illinois and Colorado, highlighting that the potential of the huge US sports betting opportunity in front of it continues to progress towards becoming a reality through the execution of its strategy.

Finally, NVL announced that it had acquired another veterinary procurement business/GPO to complement its existing management services business, United Vets Group (UVG). Given the strategic role UVG plays in NVL's offering to its existing (and targeted) clinics, as well as its superior margins within the Group, this appears to be a very sound acquisition. We expect that it will not only deliver financial benefits to NVL via synergies with UVG, but also continue to build upon NVL's appeal as an owner/acquirer of choice in the Australian and New Zealand veterinary sector.

Portfolio characteristics

We currently have ~90% of our capital invested in 13 stocks.



Please get in touch should you have any queries regarding the above. Thanks again for your interest and support and I look forward to providing another update in early September on our performance during August.

Kind regards,

Jonathan Collett
Principal
Saville Capital

+61 3 9769 1789
jcollett@savillecapital.com

Important Information