Emerging Companies Fund

Monthly Update: August 2019

Dear Fellow Investors,

Our Emerging Companies Fund was up +1.4% in August vs -0.7% for the Emerging Companies Accumulation Index (XECAI) and -3.0% for the Small Industrials Accumulation Index (XSIAI). Since inception the Fund is +140.1% (assuming distributions are reinvested) vs +15.8% for the XECAI, +30.9% for the XSIAI and +11.5% for our cash-based benchmark.

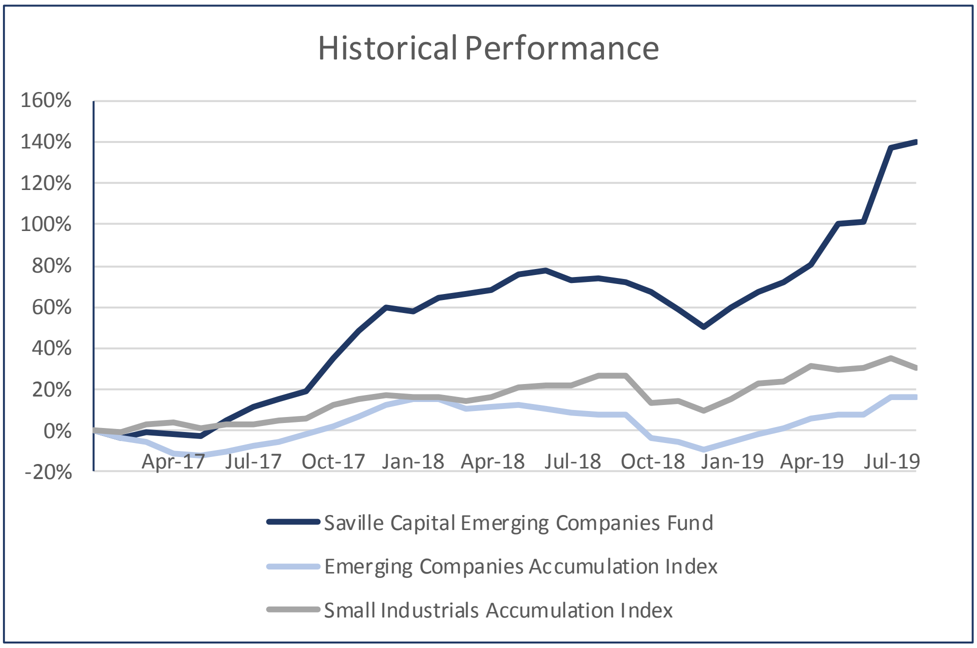
Please note that the Fund is now effectively closed to new investors (other than a few pre-approved exceptions entering this month) as we have exceeded $40m of FUM. However, it will remain open to existing investors until FUM reaches $50m, which appears likely to occur by the end of September or October (at the latest). As a consequence, going forward these monthly updates will only be sent to existing clients of the Fund.

While the final performance figure would suggest otherwise, August was a very volatile month for the Fund (and markets). Several of the stocks we own experienced material declines due to negative market sentiment, however some solid earnings results from other stocks in the portfolio as well as a standout month of performance from Bluechiip (BCT, +65%), meant that we were still able to end the period in positive territory. While there was nothing specific behind the BCT re-rating other than a company roadshow, it does again highlight the benefit of owning stocks which sit beneath the radar of most institutional investors, where increased exposure and recognition of an exciting and undervalued opportunity can sometimes drive significant share price performance.

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%	+1.4%					+59.4%	+20.0%	+38.2%

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



Performance commentary

Apart from BCT, the other key positive contributors for the month were Polynovo (PNV, +27%), McPhersons (MCP, +14%) and Shine (SHJ, +14%). The key negative contributors were Rhinomed (RNO, -24%), Think Childcare (TNK, -16%), Phoslock (PET, -15%), Redbubble (RBL, -11%) and Tourism Holdings (THL, -8%).

The most significant announcement from one of our stocks during August was made by PointsBet (PBH, -1%), in which it provided the details of an agreement it has signed with Penn National Gaming Inc (PNG, US$2.2B company listed on the NASDAQ). It grants PBH the right to develop, own, market and operate PointsBet branded online sportsbook and gaming operations in Ohio, Indiana, Missouri, West Virginia and Louisiana, subject to enabling legislation (as relevant) and licensure in each of those States. In addition, PNG has granted PBH the first right of offer for any new market access points (i.e. States), not currently committed by PNG to a third party, which become available. This partnership has the potential to expand PBH's United States footprint to 10 States, thus providing it with the platform to establish critical mass in the most exciting sports betting market in the world. Importantly, the majority of the market access fee payable to PNG has been satisfied by a combination of an equity placement and options, highlighting PNG's belief in, and commitment to, the long-term success of PBH. Nonetheless, given PBH has already established 5.4% market share in New Jersey (up from only 2.2% in February), we shouldn't be all that surprised that PNG was keen to form a partnership with them.

PNV had yet another strong month of share price performance driven by FY19 sales that met our (and market) expectations combined with very solid cost control, as well as an indicative sales run rate into FY20 which implied it is tracking comfortably ahead of our and market expectations. Clearly, with a market cap now in excess of $1.4B (relative to annual run rate sales of $15.6m), it is vital that PNV doesn't disappoint relative to expectations. However, we are increasingly confident the Company is on track to deliver on the significant opportunity it has in front of it, courtesy of its unique product pipeline.

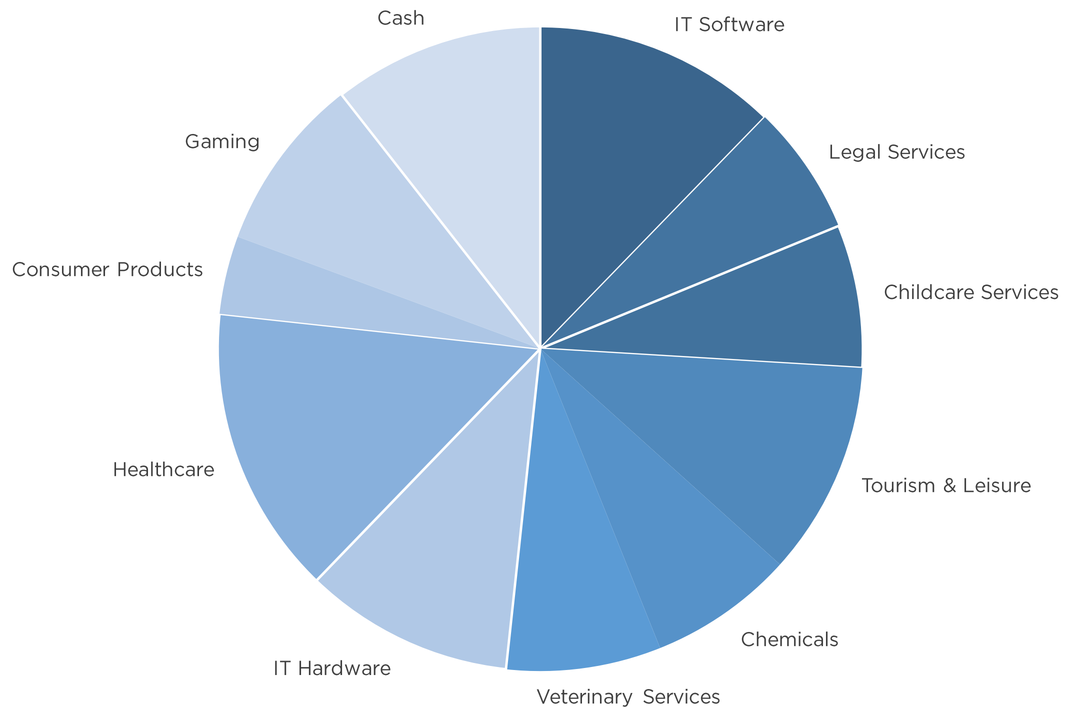
TNK delivered a 1H result which was broadly in line with our expectations, but it spooked the market by announcing a stapled security structure to finance its own (modest) greenfield development pipeline. While we think the proposal makes complete sense, the market reacted negatively to the initial uncertainty surrounding the structure and how it would impact the earnings and risk profile of the existing operations. Assuming the proposal gains shareholder approval and the new structure is implemented, we would expect the market to become increasingly comfortable with how it will operate and its potential to enhance (not diminish) shareholder value over time.

PET had a weaker month of share price performance following its 1H CY19 result, which we put down to the reiteration of its CY19 revenue and profit guidance (as opposed to an upgrade). While PET's existing and potential contract pipeline appears to be rapidly expanding, it still takes time to add the necessary resources and capacity to meet the increased demand and thus we were not expecting an immediate step change in its earnings results. However, looking beyond CY19 it still appears very well positioned to achieve significant growth as its core product *Phoslock®* gains more traction across China and other potentially large markets, like the United States. In other news, PET also secured the exclusive global licence for a phosphorous removal product in <u>moving</u> water, which will complement its existing product suite that is applied in static water bodies.

Finally, IDT appears poised for a period of renewed earnings growth now that it has secured its Medicinal Cannabis Manufacturing Permit, thus enabling it to ramp-up its activities in Good Manufacturing Practice (GMP) medicinal cannabis manufacturing. Furthermore, the subsequent lifting of the FDA's Warning Letter was timely, as it allows the Company to shift its focus back to securing more contracts across a range of active pharmaceutical ingredients (APIs), not just cannabis, that can leverage its significant manufacturing footprint and industry expertise.

Portfolio characteristics

We currently have ~89% 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 October on our performance during September.

Kind regards,

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