Emerging Companies Fund

Monthly Update: September 2019

Dear Fellow Investors,

Our Emerging Companies Fund was up +6.1% in September vs +5.7% for the Emerging Companies Accumulation Index (XECAI) and +3.3% for the Small Industrials Accumulation Index (XSIAI). Since inception the Fund is +154.8% (assuming distributions are reinvested) vs +22.4% for the XECAI, +35.2% for the XSIAI and +11.8% for our cash-based benchmark.

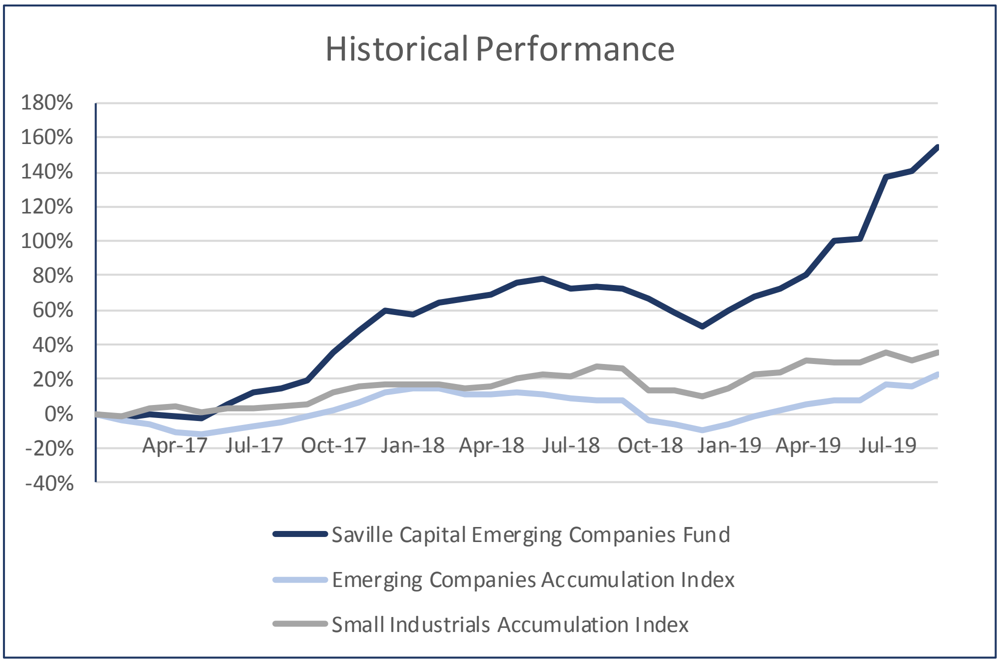
Please note that the Fund is now effectively closed to new and existing investors (other than a few pre-approved exceptions) as we have exceeded $50m of FUM.

September saw a return to more buoyant market conditions which helped drive another strong month of performance for the Fund, with every stock in the portfolio finishing higher (after allowing for dividends), except National Veterinary Care (NVL, -2%). Just on dividends, around half of the portfolio has declared and paid a dividend in the past month, generating a modest level of income for the Fund. Given the ongoing strength of the portfolio, we yet again took the opportunity to trim some of our best performers and increase our cash holdings. This provides us with significant flexibility with regard to adding any new compelling investment propositions that may emerge (one or two of which we expect to add shortly) or if/when there is an opportunity to re-weight some of our existing holdings at more attractive prices due to a market pullback.

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%	+6.1%				+69.1%	+26.6%	+47.8%

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



Performance commentary

The key positive contributors for the month were PointsBet (PBH, +24%), Redbubble (RBL, +18%), McPhersons (MCP, +17%), IDT Australia (IDT, +17%), Rhinomed (RNO, +15%) and Tourism Holdings (THL, +13%). As mentioned, there were no significant negative contributors.

As is often the case following on from the usual busy August reporting period, most of our stocks made no new announcements during September. This is usually the time when companies conduct their management roadshows and investors take the opportunity to digest their results in more detail.

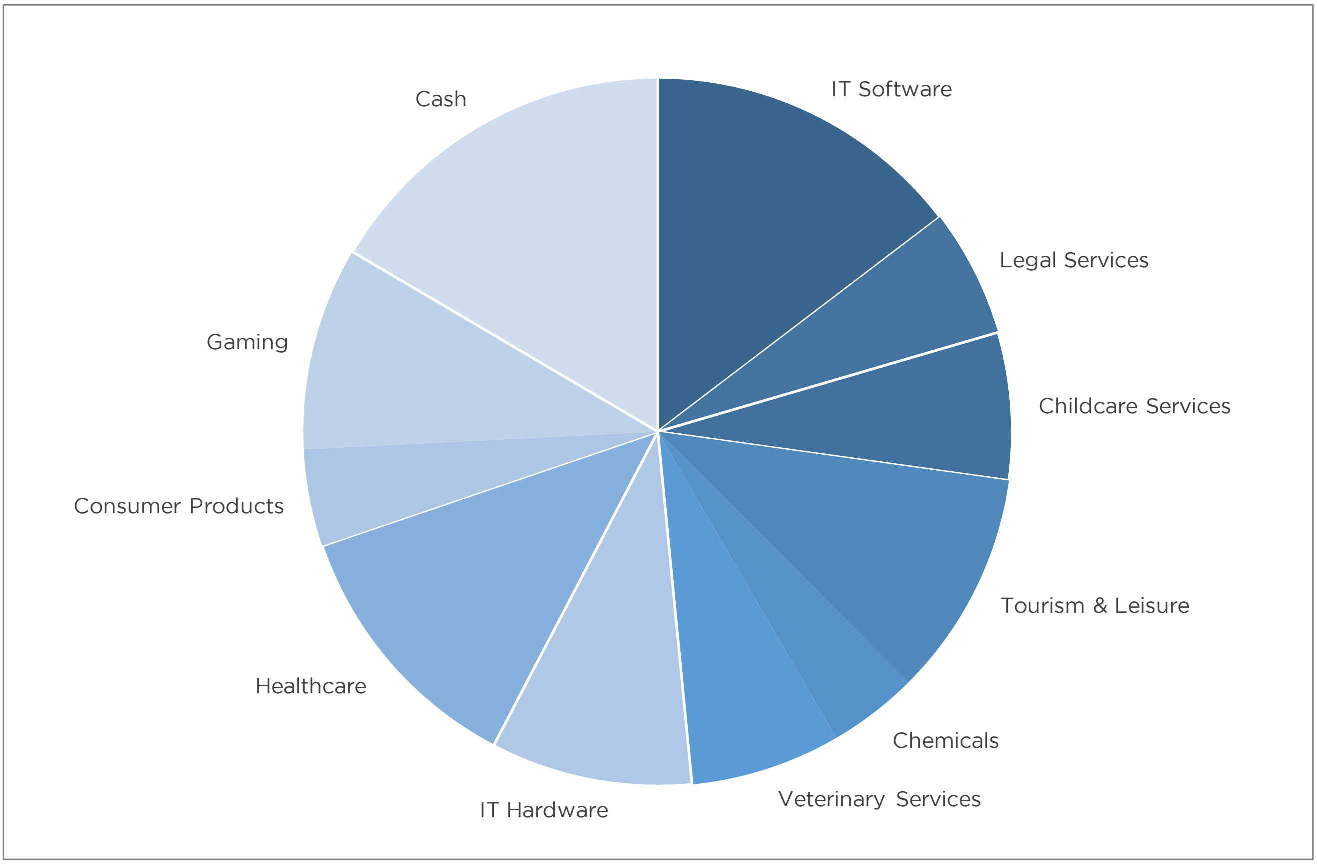
Nonetheless, RNO bucked the trend and announced a $6m capital raising in conjunction with revenue guidance of at least 50% growth in FY20. The placement was made to a number of new institutional investors and existing shareholders (including our Fund). Following the recent successful launch of Pronto Sleep (already in ~1,000 Walgreens stores in the US), RNO gave more detail on its new product rollout timeline, comprising Pronto Clear, Pronto Sleep Plus, Pronto Anxiety, Pronto Nausea and Pronto Allergy Relief, all of which are due to be released to the market before December 2020. Furthermore, RNO is targeting 30,000+ stores for its product suite by 2021 (up from 13,000 currently), largely within the US market, as well as an increased online presence in Asia. While there is still much work to do to launch and gain customer traction with its emerging product suite, we continue to view RNO as one of the more exciting companies within our portfolio that can deliver significant share price upside should it demonstrate successful execution.

Phoslock (PET +1%) ended the month broadly flat, however it experienced significant intra-month volatility as investors digested the news that multiple directors (including the chairman) sold a material stake in the Company to “satisfy demand” from one large institutional investor. While director selldowns are generally inevitable when companies such as PET grow out of their status as a microcap, especially when the directors own such a large stake (>30% in the case of PET), it is always unnerving for the market when it occurs. While nothing has fundamentally changed, in fact PET’s momentum in terms of new and potential contract wins remains very positive, we view these events as reason to re-evaluate our weighting of that stock in the Fund, as opposed to necessitating an exit.

Finally, in terms of providing some context to the share price performance of PBH during September, we can only point to very strong ongoing growth in the monthly data which summarises online sports betting turnover in New Jersey (specifically New Meadowlands Racetrack, where PBH holds its licence). Furthermore, in terms of RBL’s strong month, the only piece of news flow was that Goldman Sachs upgraded it to a Buy, setting out its investment thesis in a compelling and detailed research note that summarised many of the key reasons why we continue to hold the stock as one of our largest positions in the Fund.

Portfolio characteristics

We currently have ~83% 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 November on our performance during October.

Kind regards,

Jonathan Collett
Principal
Saville Capital

+61 3 9769 1789
jcollett@savillecapital.com