Emerging Companies Fund

Monthly Update: November 2019

Dear Fellow Investors,

Our Emerging Companies Fund was down -0.8% in November vs -1.0% for the Emerging Companies Accumulation Index (XECAI) and +2.8% for the Small Industrials Accumulation Index (XSIAI). Since inception the Fund is +164.4% (assuming distributions are reinvested) vs +20.8% for the XECAI, +38.3% for the XSIAI and +12.5% for our cash-based benchmark.

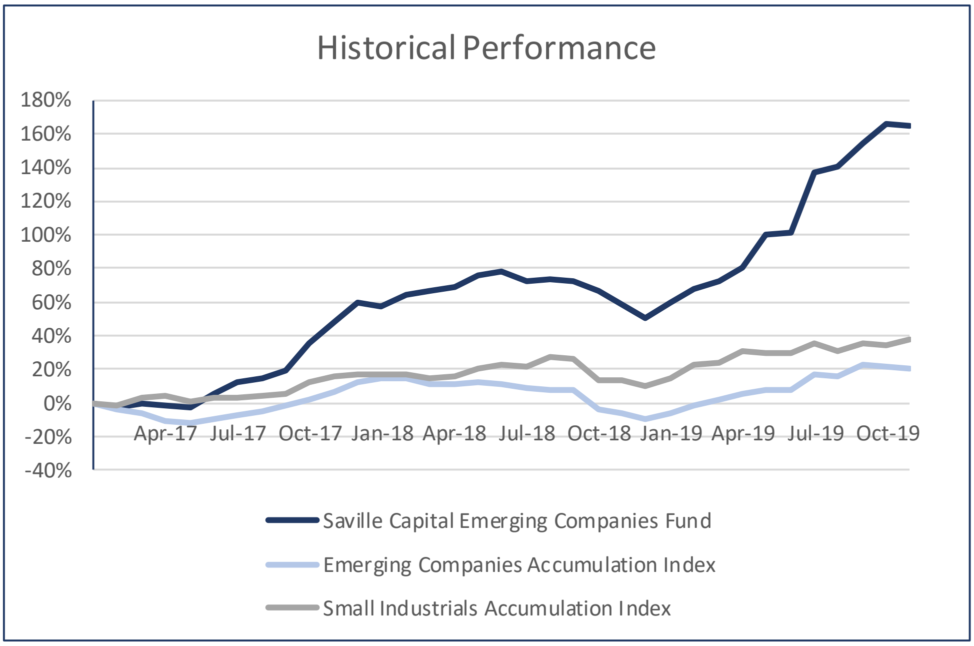
While on face value November would appear to have been quite a benign month for the portfolio, the performance dispersion among our stocks was vast. We had five stocks down over 10%, three of which were down more than 20%, and none of the movements were in response to any material news flow. Thankfully four of those five were the smallest positions in the Fund, however the drag on portfolio performance was still evident. Conversely, the four best performers in November were among our five largest positions.

We partly put this dispersion (and significant weakness in some stocks) down to another bout of transition flow within the small, and more particularly micro, cap markets. We know of at least one micro/small cap fund that closed during the month, while there were rumours of other small cap funds losing large mandates. Just like it has in the past, this caused some forced selling across the market and we believe some of our stocks were affected (particularly those with relatively low liquidity). It also helps to perhaps explain why the Emerging Companies index was down -1%, when most other indices (particularly the S&P ASX200 Accumulation Index, which was +3.3%) enjoyed strong positive months, underpinned by a more buoyant US market.

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%	+4.6%	-0.8%		+76.8%	+10.1%	+66.4%

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



Performance commentary

The key positive contributors for November were PointsBet (PBH, +14%), Shine Corporate (SHJ, +11%), Bluechiip (BCT, +3%) and a new addition to the portfolio (via IPO), Carbon Revolution (CBR, +33%). Conversely, the key negative contributors were Rhinomed (RNO, -23%), IDT Australia (IDT, -21%), Polynovo (PNV, -21%), Phoslock (PET, -12%), Think Childcare (TNK, -10%), Tourism Holdings (THL, -8%), and Redbubble (RBL, -6%).

SHJ announced that its Mesh Class Action had been successful, paving the way for SHJ to secure damages for all group members represented in the class action, as well as eventual payment for its significant investment of working capital (under the no win, no fee mechanism). While SHJ has never disclosed the quantum of its investment, given the size and length of the class action (it commenced in 2012), we believe it will be substantial and thus have a significant positive impact on SHJ's balance sheet once finalised and paid.

TNK provided a CY19 trading update in which it reaffirmed EBITDA (underlying) guidance of $13.8m to $14.8m (vs consensus forecasts at $14.1m). Like-for-like revenue is tracking 4% higher than pcp despite days sold being 1.3% lower, while it also highlighted ongoing improvement in cost control, with wages as a percentage of revenue now at 60.1% (vs 60.6% in pcp). Separately, NVL reaffirmed its FY20 guidance at its AGM, which is for underlying revenue to exceed $140m and underlying EBITDA margin of 15.5% to 16.0% (consensus is $140m and 15.75% respectively).

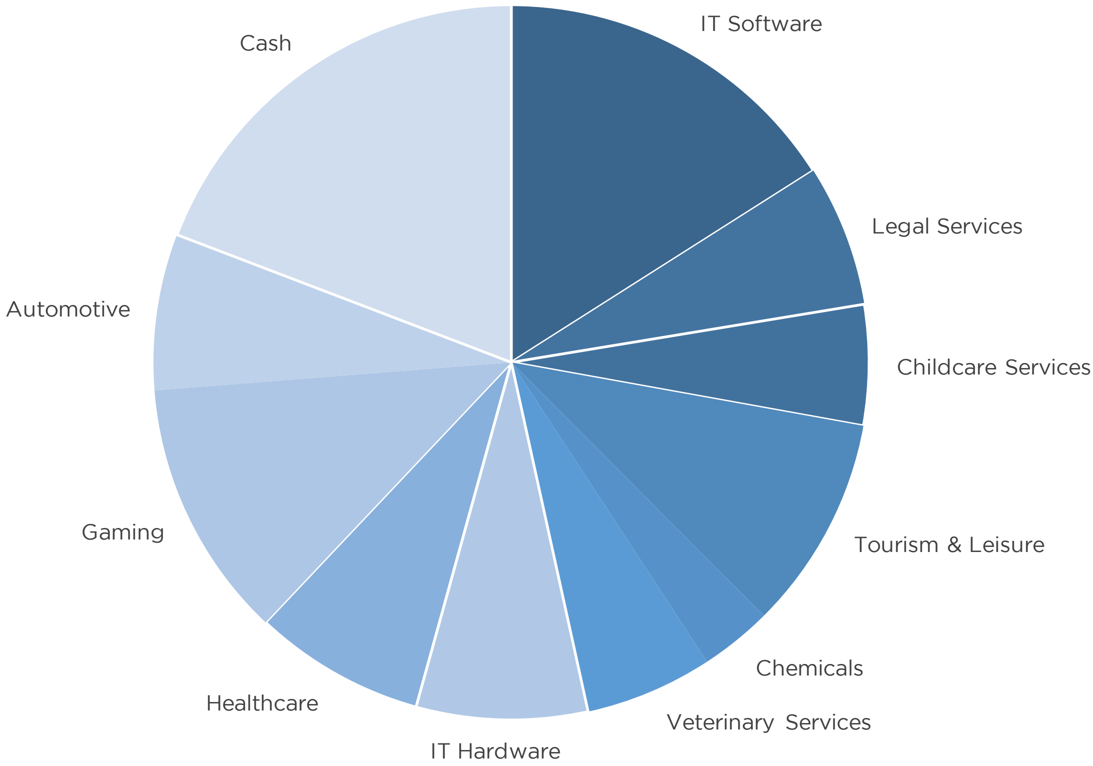
PBH announced that Colorado has legalised sports betting through its referendum, thus enabling PBH to prepare for the launch of their retail and online operations (via its partner, Double Eagle Casino) from May 2020. Colorado has a population of 5.7m people and is estimated to be a US$296m sports betting market (i.e. about half the size of New Jersey).

We decided to exit our positions in McPhersons (MCP) and PET during the month. Our decision to sell MCP was largely based on valuation, as we think $2.50 is around fair value for the stock, yet it traded as high as $2.81 during November. With regard to PET, having progressively (but significantly) reduced our exposure during the May to September period in response to its rapid share price appreciation (peaking at >$1.50), we were left with the decision of whether to start accumulating again as its share price retreated back below $1.00. The conclusion we came to was that while we are still attracted to PET's long term growth potential, we felt that there were other more compelling opportunities (on a relative basis) available to us at the moment (e.g. CBR), so we would rather direct our incremental capital that way and use our residual holding in PET as a funding source. Nonetheless, it has been a great performer for the Fund (we first accumulated our stake in PET at <$0.25 in December 2017) and we will continue to monitor the stock with interest.

We will discuss the investment case behind CBR in our December update, but suffice to say we are very excited about the prospects of both its business and share price. In short, CBR designs, manufactures and markets single piece (patented) carbon fibre wheels, largely targeted at the global (premium) automotive market. CBR already has contracts with OEMs including Ferrari, Ford and Renault, and is in active negotiations with several others, that will underpin significant growth in its business into the foreseeable future. While CBR enjoyed a strong debut (up 33% on its first day of listing), if management can execute on its growth potential, we think the share price upside remains very significant.

Portfolio characteristics

We currently have ~81% 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 January on our performance during December.

Kind regards,

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