Emerging Companies Fund

Monthly Update: April 2020

Dear Fellow Investors,

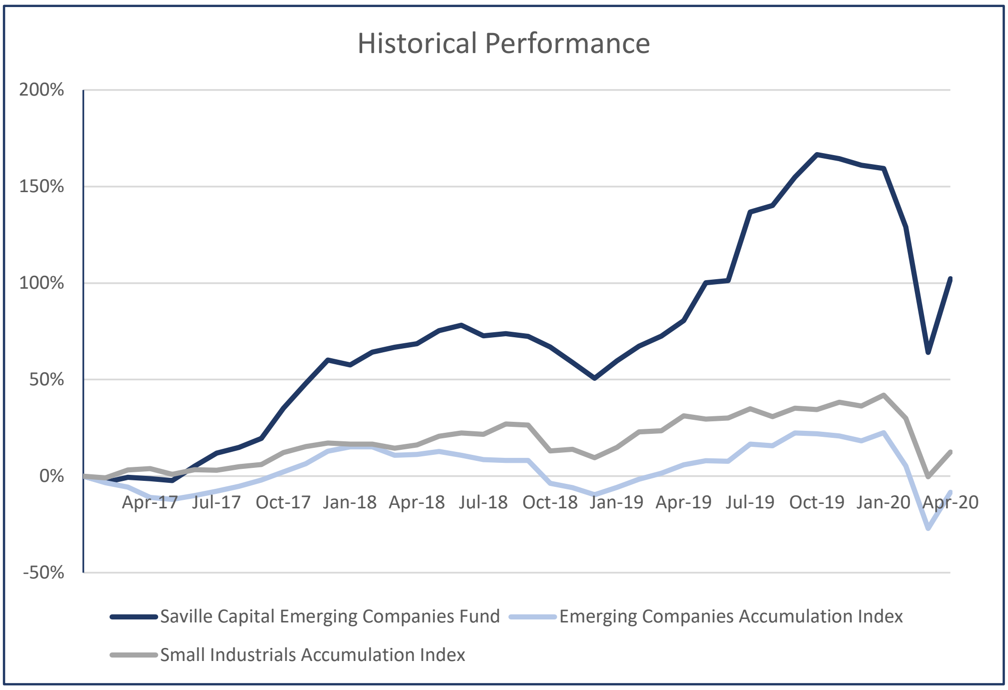
Our Emerging Companies Fund was up +23.3% in April vs +25.8% for the Emerging Companies Accumulation Index (XECAI) and +12.8% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund is +102.3% (assuming distributions are reinvested) vs -8.3% for the XECAI, +12.5% for the XSIAI and +13.9% for our cash-based benchmark.

Volatile market conditions persisted into April, albeit the general trend was significantly positive this month. Pleasingly, our Fund fully participated in the rally, noting that resource stocks (which we deliberately don't own) had a disproportionately positive impact on the XECAI returns for the month. As mentioned in our March update, we used our large cash balance to buy more of those stocks where we had the most conviction, as well as added new stocks to the portfolio which were either significantly oversold or clear structural winners from the effects of the pandemic. While at the time it felt very uncomfortable buying into the steep and persistent declines, staying true to our framework has been, and will continue to be, rewarded. Many participants continue to obsess over the short-term direction of markets, however we remain singularly focused on identifying attractive opportunities at the individual company level and ignoring the constant noise. In our view, this gives us the greatest scope for positive returns regardless of subsequent market direction, especially in an environment where panicked selling (and buying) is now being displaced by a more discerning appraisal of each company's operating outlook (particularly post lockdown), financial position and potential value.

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%	-1.3%	+73.2%		
2020	-0.6%	-11.7%	-28.4%	+23.3%									-22.5%	-22.0%	+12.0%

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



Performance commentary

The key positive contributors for April were Pointsbet (PBH, +65%), Catapult (CAT, +61%), Marley Spoon (MMM, +43%), Redbubble (RBL, +34%), IDT Australia (IDT, +35%), Tourism Holdings (THL, +17%) and Carbon Revolution (CBR, +15%). With the exception of Murray Cod Australia (MCA, -4%) and Bluechiip (BCT, -5%), every stock in the portfolio generated positive share price performance. However, a notable trend was that those stocks with larger market caps and greater liquidity within our portfolio typically performed a lot better than the smaller, less liquid stocks. We think part of the reason behind this trend would be that some of the micro and small cap managers that got caught up in the panic during March and moved to very elevated cash levels (and/or more defensive stocks), subsequently reversed that decision during April and chased the larger/liquid stocks in the index where they could deploy cash quickly in a bid to try to keep pace with a rapidly rising market.

As usual, April was a busy month with many of our stocks reporting on their March quarter activities and cash flow results. RBL reported 3Q FY20 revenue growth of +20% (YTD +25%), while also commenting that April MTD sales growth was tracking at above YTD trend. This comes as no surprise given RBL is a pure online retailer with no supply chain disruption and a competitive landscape which is now heavily skewed to online vs offline. The only disappointment was on costs, which were above our expectations, however RBL has committed to cost control measures which should see it move into a position of sustainable positive EBITDA from 4Q FY20 onwards. Once the Company has demonstrated this to the market, we expect it will enjoy a significant and sustained re-rating. While our patience and conviction has been tested over time, we still fully expect it to be handsomely rewarded.

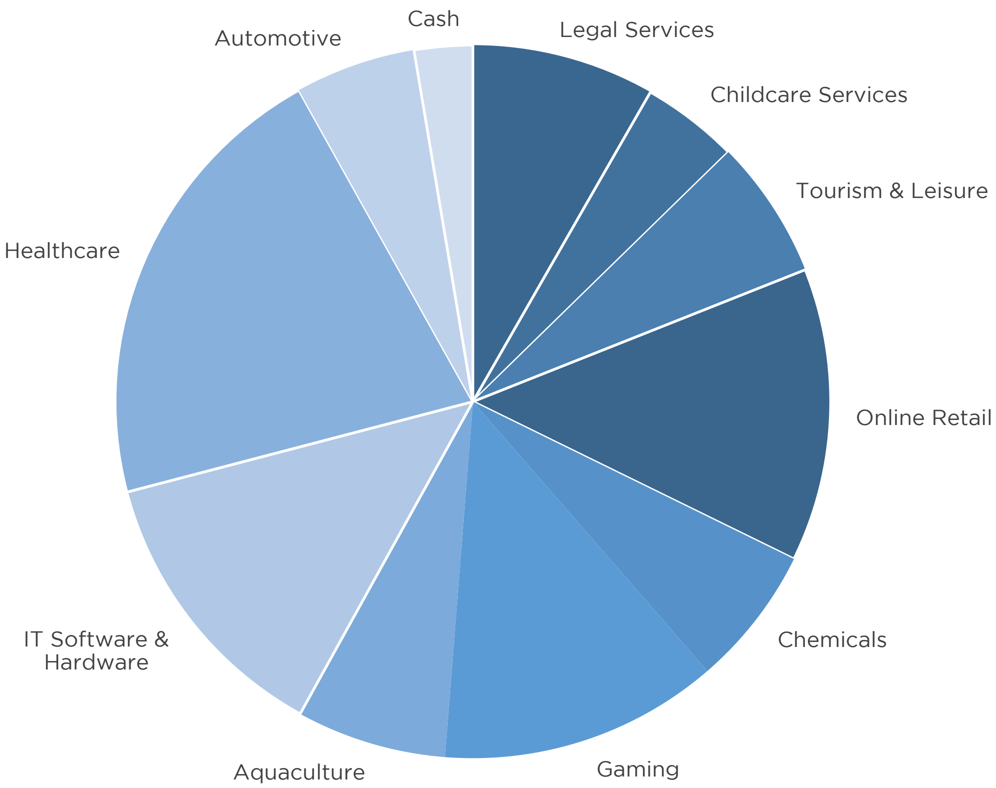
Despite the temporary suspension of most professional sport across the globe during 3Q FY20, PBH demonstrated the resilience and positive evolution of its business by recording strong growth in both Turnover and Net Win %, largely due to the continuation of racing across Australia and the pivot towards online gambling following the forced closure of all TABs and gaming venues. Similar to other online businesses, we expect much of these market share gains will be sustained in the aftermath of lockdown, particularly given that new habits will have been solidified. Importantly for PBH, while growth in its US business has now temporarily stalled due to lack of sports betting options, its Australian business has surged on the back of significantly increased wagering on racing, which has the added benefit of generating a higher margin. With the Australian business now EBITDA positive, we think it can become a funding vehicle for its US growth ambitions when global sports resume.

A recent addition to the Fund, Marley Spoon (MMM), also reported its 1Q CY20 results, with revenue growth of +46% on pcp, accelerating to >100% growth in April despite lower spend on advertising given the surge in organic customer acquisition. MMM also generated positive cash flow for the first time during 1Q, creating a strong platform for sustained positive cash flow going forward. While MMM was already benefiting from a structural tailwind (CY19 growth was >40%), MMM is a clear beneficiary of new habits being created during lockdown as it has accelerated the shift to home delivery of meal ingredients via online ordering, acquiring customers that previously made multiple visits to the supermarket each week instead. Having recently become a customer of MMM, it offers significant benefits to the consumer in terms of convenience, variety, quality and healthy meals that are relatively easy to prepare. Importantly, MMM only sees 4% churn on customers that order more than six times with them, so we don’t expect the majority of customers acquired during lockdown to revert to their previous habits. In fact, we expect they will pass on their positive experience to friends.

In other news, IDT announced that the Australian Government has asked it to assist with certain COVID-19 response activities, noting that its GMP pharmaceutical manufacturing facilities and laboratory remain fully operational and business operations continue without disruption. Importantly, IDT appears uniquely placed to benefit from the inevitable shift back towards greater local production and procurement of pharmaceuticals in Australia to diversify the risk of future potential supply disruptions from offshore facilities. Finally, TGH recorded another strong quarter, with revenue (net of rebates) up 55% on pcp and modest levels of cash burn, ending the quarter with almost $18m in the bank. TGH continues to add retail agency partners for distribution of its products and expand its product pipeline, as well as adding further expertise to its board and management team. Importantly, it remains fully funded to execute on its significant commercialisation and development plans.

Portfolio characteristics

We currently have 97.5% of our capital invested in 15 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 June on our performance during May.

Kind regards,

Jonathan Collett

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