Emerging Companies Fund

Monthly Update: May 2020

Dear Fellow Investors,

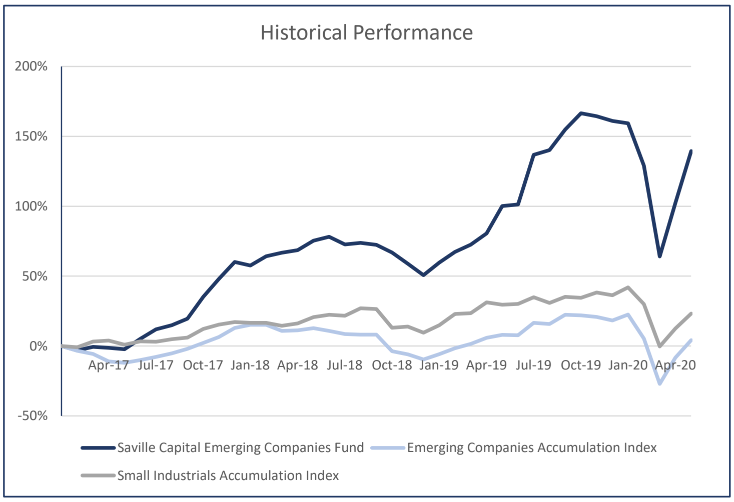
Our Emerging Companies Fund was up +18.4% in May vs +13.6% for the Emerging Companies Accumulation Index (XECAI) and +9.6% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund is +139.4% (assuming distributions are reinvested) vs +4.2% for the XECAI, +23.3% for the XSIAI and +14.2% for our cash-based benchmark. On an annualised basis, the Fund has generated a return of +30.0% p.a. since inception.

The sharp recovery in markets continued into May, with our Fund delivering very strong performance. As per usual, we would rather not opine on the short-term outlook for markets, but one clear observation we would like to share is that this has become a very fertile market for our particular investment strategy and process. The reason being is that with so much structural change occurring within the economy in such a short space of time, we think many investors are struggling to digest all of this new information, let alone distil it into high conviction investment decisions. We are very fortunate that as professional investors we are able to have regular conversations with a variety of business operators, who have shared some fascinating industry insights with us in recent weeks. This environment has created some significant opportunities where, in our view, stocks are still being completely mispriced by the market, even if their share prices have recovered somewhat from their lows in March. Equally, we think there are many stocks which have significantly recovered from their lows that probably shouldn't have. During such a period, we think an approach that is heavily concentrated on what we perceive to be the structural winners has the potential to generate strong investment returns, particularly relative to the broader market. As a consequence, we are looking forward to the next six to 12 months with great anticipation, as we expect that several of our key stocks are going to report results that are (or remain) well ahead of market expectations.

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%	+18.4%								-8.3%	+4.5%	+19.7%

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



Performance commentary

The key positive contributors for May were Redbubble (RBL, +57%), Tourism Holdings (THL, +38%), Pointsbet (PBH, +36%), Carbon Revolution (CBR, +25%), Terragen (TGH, +20%), Catapult (CAT, +18%), IDT Australia (IDT, +13%), and Shine (SHJ, +8%). With the exception of Marley Spoon (MMM, -4%) and Micro-X (MX1, -3%), every stock in the portfolio generated positive share price performance. Similar to April, those stocks with larger market caps and greater liquidity within our portfolio typically performed better than the smaller, less liquid stocks. Assuming markets don't experience another sharp pullback, we expect that many of our smaller stocks will start to play catch-up in the coming months as the relative valuation dispersion becomes too great to ignore.

Despite the fact that it is likely still experiencing significant operating momentum within its business, MMM's share price retreated slightly as the market digested a $16.6m capital raising in order to strengthen its balance sheet and accelerate its global growth strategy. The placement (in which we participated) was done at $1.05 and the stock finished the month at $1.08. We note with interest that MMM has become far more active on TV with recent advertising campaigns during prime-time slots. We understand that MMM is trying to capitalise on a more engaged audience for their product offering and at a much cheaper cost than prior to COVID-19, due to current weak overall demand for advertising. We believe that engaging in an aggressive marketing strategy during this period is going to deliver sustained benefits for MMM in not just the months, but years to come.

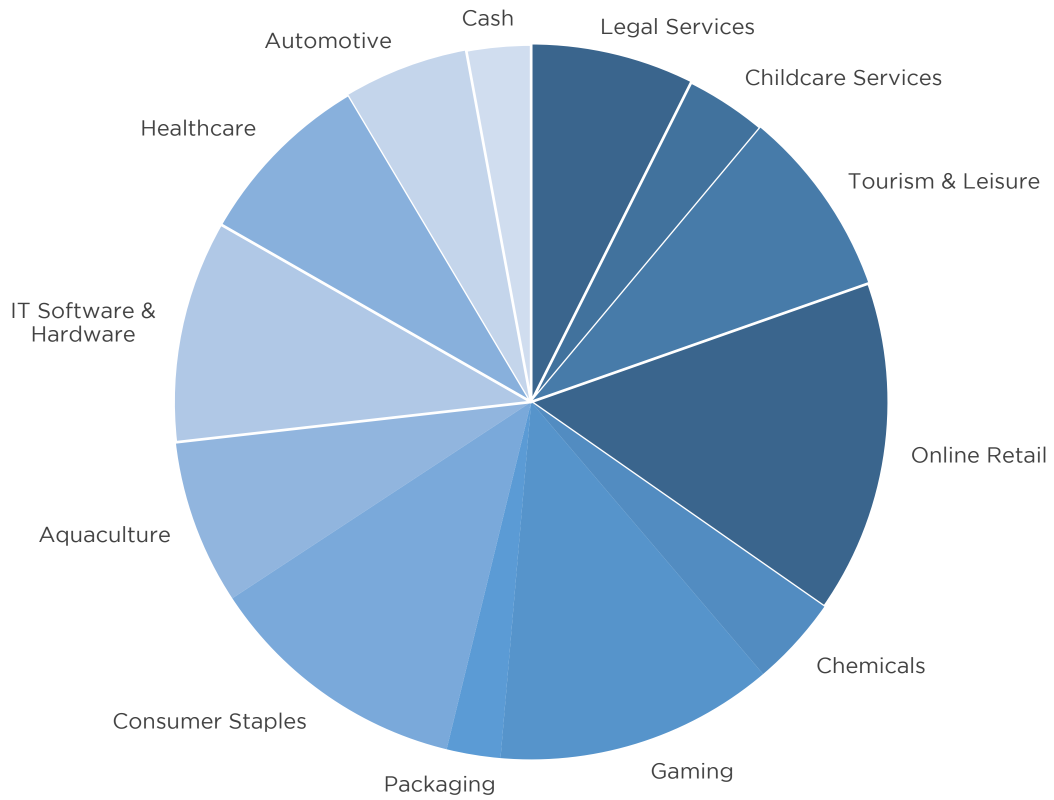
PBH delivered an impromptu trading update towards the end of May, announcing that its Australian trading business achieved an extraordinary Net Win of A$18.2m for the period 1 April to 25 May (less than two-thirds of 4Q). To put this into context, PBH's Australian business had total Net Win of A$15.5m in 3Q and $14.6m for 2Q (peak racing season). It also announced that it has entered into an agreement to become the exclusive wagering partner for Fox Sports AFL during the 2020 season. The resumption of NRL combined with the imminent return of AFL, and multiple US sports in the coming months, bodes well for a continuation of PBH's recent operating momentum during CY20 and beyond. From a share price perspective, it is also notable that US stocks with direct exposure to the US online sports betting market (such as DraftKings, DKNG, which is up ~50% in the past week or so) have been surging of late as investors start to digest the enormity of the opportunity in front of those companies with licenses to operate in multiple US states.

THL announced a restructuring process for its New Zealand business, particularly Waitomo, Kiwi Experience and Group support, to ensure it is matching crew numbers to current activity levels and expectations for the coming months. While it noted that around 140 people are expected to be impacted by these changes, encouragingly it added that the response to its recent motorhome rental marketing campaign had significantly exceeded expectations and that it was reviewing resourcing for its New Zealand Rentals and Sales business for any potential changes that may be required.

In other news, Cann Group (CAN) announced that it has executed two new export supply agreements with European and UK partners for a range of medicinal cannabis formulated oil and dried flower products for sale in that region. These products are to be manufactured by IDT, allowing it to scale-up its manufacturing and supply operations even further as it moves towards its target of sustainable profitability. Meanwhile, CBR noted that its largest customer, Ferrari, returned to full production on the 8th of May, and Ford started to gradually resume production from the last week of May. Finally, MX1 continues to build, ship and invoice for an increasing number of orders ($2.2m since January 2020, vs $0.8m in 2Q FY20), with new order delivery times now less than four weeks, which is critical to generating new orders during the COVID-19 pandemic where government health agencies are using emergency procurement processes to meet the urgent need for imaging infected patients.

Portfolio characteristics

We currently have ~97% 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 July on our performance during June.

Kind regards,

Jonathan Collett

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