Emerging Companies Fund

Monthly Update: July 2020

Dear Fellow Investors,

Our Emerging Companies Fund was up +16.0% in July vs +6.9% for the Emerging Companies Accumulation Index (XECAI) and -0.1% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund is +214.9% (assuming distributions are reinvested) vs +12.9% for the XECAI, +20.3% for the XSIAI and +14.8% for our cash-based benchmark. On an annualised basis, the Fund has generated a return of +38.8% p.a. since inception.

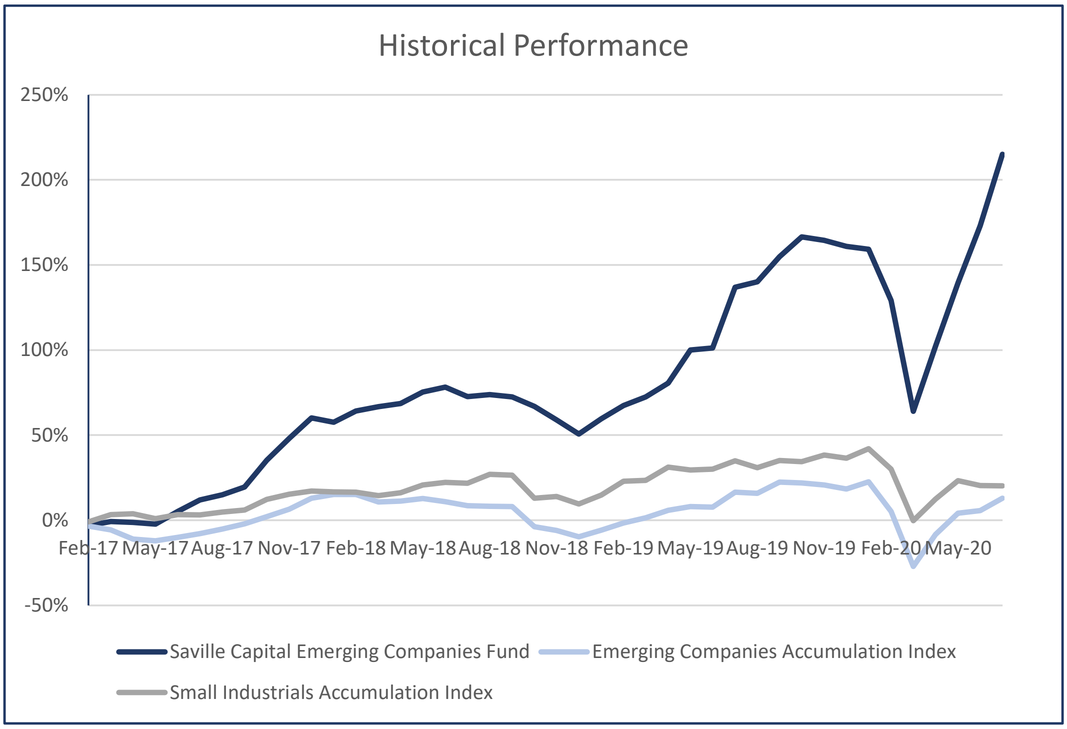
Apart from Gold stocks, which surged again and helped to underpin the strong performance of the XEC (especially vs the XSI and other indices), markets were more subdued in July. Pleasingly, our Fund had another exceptional month, again in large part due to having significant exposure to some stocks which remain clear short and long-term beneficiaries from the effects of the pandemic on human behaviour/habits.

Similar to what we said last month, we would caution investors against extrapolating our recent relative and absolute performance. This remains a unique environment with considerable volatility and uncertainty, so while we remain agile and alert to the opportunities, we must also be cognisant of the risks that exist during this period.

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%	+14.1%	+16.0%						+21.4%	+56.6%	+41.3%

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



Performance commentary

The three largest positive contributors for July were Marley Spoon (MMM, +81%), Redbubble (RBL, +27%) and Catapult (CAT, +46%). The three largest negative contributors were Bluechiip (BCT, -22%), Shine Justice (SHJ, -9%) and Carbon Revolution (CBR, -16%), which we have now exited. Similar to June, we again saw some significant dispersion of share price performance among the stocks we own, with the smaller and less liquid stocks again significantly underperforming relative to our overall portfolio.

MMM reported an outstanding 2Q CY20 result in which it generated revenue growth of +129% (including +171% in the US market) on pcp, a global contribution margin of 30.5% (up 6 pts on pcp) and Operating EBITDA of €4.5m. Given the strength of the result, MMM upgraded its CY20 revenue guidance to "at least 70% growth" (up from 30% previously). While achieving 70% revenue growth in CY20 would be a great result, we think this is conservative given the current operating momentum within the business and our own observations of changing consumer trends (i.e. this will be a sustained structural shift).

CAT released an update on its unaudited FY20 performance highlighting that despite the postponement of many professional leagues globally, its revenue and earnings had remained resilient. This was due to the subscription nature of most of its revenue and the integral role its hardware and software plays in the operations of its clients (even when not playing competitive matches), thus minimising churn. It also delivered on its target of achieving cash flow positivity a year earlier than forecast, with $9m of free cash flow in FY20 and a cash balance at 30 June 2020 of $27.5m (and no debt). While the resumption of professional sport around the globe has generally started, albeit not without its challenges and uncertainties, we think CAT is in a very strong position to leverage its technical expertise to continue to grow its engagement with existing customers (cross selling opportunities) as well as add new customers to its various technology platforms.

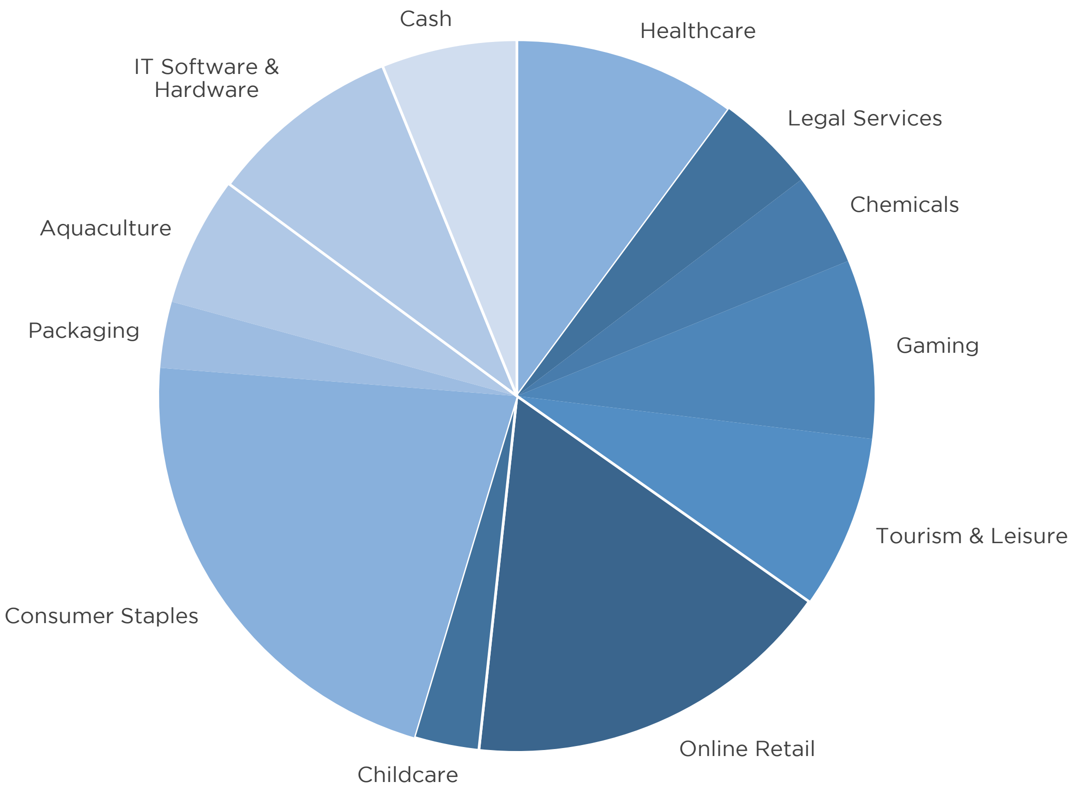
As foreshadowed at its interim trading update, PointsBet (PBH, +13%) reported a strong 4Q FY20 result, with QoQ Net Win growth of 109% in its Australian operations and its second consecutive positive EBITDA quarter for that business. Despite a lack of sporting content on which to bet, turnover in its US business was only down 13% on pcp, while still increasing its share of the New Jersey market to 8.7% (up from 5.6% in 3Q). With a profitable Australian business, a corporate cash balance of $135.4m at 30 June 2020, large markets such as Illinois and Michigan on the verge of commencement and a growing suite of astute sponsorship and media deals, we think PBH remains very well positioned to continue towards its objective of becoming a significant player in the US market.

BCT announced that Labcon North America has provided notice purporting to terminate the chip supply agreement it has with BCT. As a result, BCT is now seeking recovery from Labcon of an outstanding balance of US$3.5m, which it considers immediately due and payable. While this is a disappointing development, we are not yet convinced this is necessarily the end of BCT's relationship with Labcon (time will tell). Regardless, BCT continues to engage with other OEM partners and end customers (including in the IVF space), which we hope will deliver some contracts over the coming months to help replace the contracted revenue from Labcon. Importantly, BCT still has almost $8m of cash in the bank to help fund its ongoing business activities into the foreseeable future.

As already mentioned, we decided to sell our position in CBR following another underwhelming update to the market. While we consider ourselves to be long term investors and are happy to ride a few bumps along the way, in the case of CBR we believe the investment thesis has fundamentally changed. Firstly, while it has clearly had a negative impact, we don't think COVID-19 is entirely responsible for the poor earnings performance of CBR relative to its prospectus. Secondly, we believe that CBR's balance sheet position is already weak again, which could see the Company need to raise capital from the market for the third time in less than 12 months. On that basis, we decided that the business isn't as advanced on its journey to profitability and cash flow breakeven as we initially thought and consequently would rather just observe, rather than own, for now.

Portfolio characteristics

We currently have ~90% of our capital invested in 14 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 September on our performance during August.

Kind regards,

Jonathan Collett

Principal

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