Emerging Companies Fund

Monthly Update: August 2020

Dear Fellow Investors,

Our Emerging Companies Fund was up +20.7% in August vs +14.6% for the Emerging Companies Accumulation Index (XECAI) and +9.6% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund is +277.6% (assuming distributions are reinvested) vs +29.4% for the XECAI, +31.8% for the XSIAI and +15.0% for our cash-based benchmark. On an annualised basis, the Fund has generated a return of +44.9% p.a. since inception.

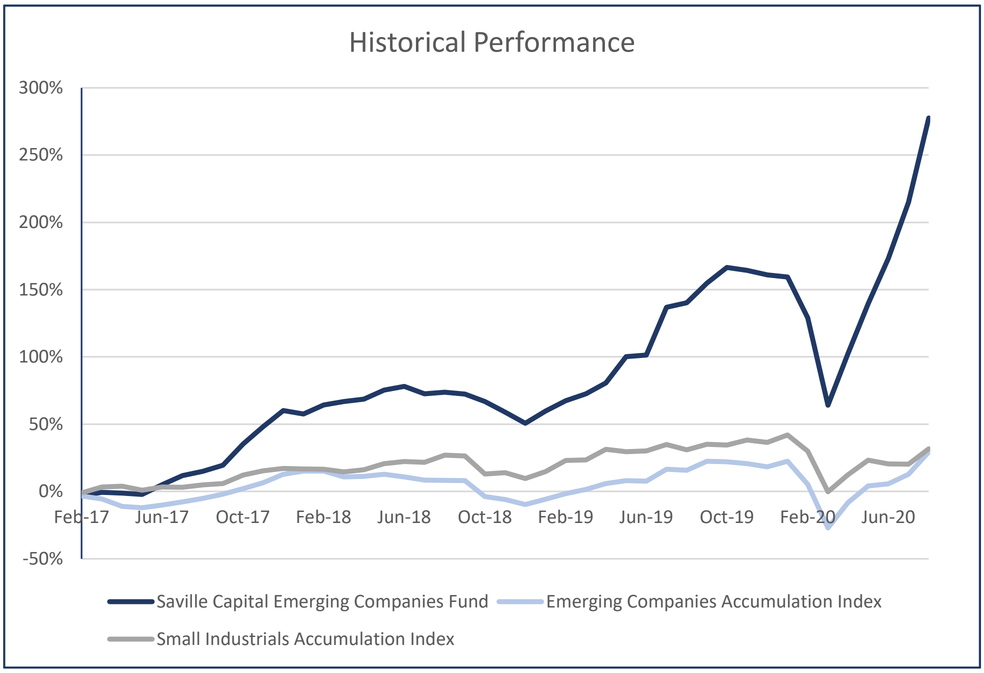
Buoyed by a strong market tailwind, especially among micro and small caps, our Fund had another exceptional month. Almost our entire portfolio generated positive performance, however the most pleasing aspect was that the largest contributors were generally those stocks that either reported strong earnings results or made significant company announcements. This gives us confidence that our recent performance should be able to form a new base for the Fund, as opposed to solely benefitting from positive market sentiment which could subsequently unwind.

Nonetheless, we acknowledge that these are unsustainably high monthly performance figures and that a return to more benign monthly returns is inevitable, if not imminent. Furthermore, due to the strong recent performance and steady inflows we have decided to close the Fund to new investment at the end of September, thus ensuring we retain our desired level of agility in order to manage liquidity risk and optimise performance.

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%	+20.7%					+46.5%	+59.7%	+59.2%

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



Performance commentary

The three largest positive contributors for August were PointsBet (PBH, +118%), Redbubble (RBL, +49%) and Class (CL1, +37%). There were no material negative contributors.

PBH signed a transformational marketing deal with NBC Universal Media (NBC), making it the Official Sports Betting Partner of NBC Sports in the US. The partnership will provide PBH with access to leading national and regional television and digital assets with the largest sports audience of any US media company, accessing over 184 million viewers. PBH has committed marketing spend of US$393m to be allocated progressively in increasing amounts over the five-year media partnership. The alignment of interests has been enhanced with a significant equity subscription by NBC of a 4.9% shareholding in PBH and 66.88m options maturing in five years at $13/share. PBH also intends to raise ~$300m via a renounceable entitlement offer and placement. We see this deal as taking PBH's position in the US sports betting market as a potential niche player to a likely key long-term player, as such the incredible surge in its share price in response to the announcement would appear to be justified.

While both RBL and Marley Spoon (MMM, +4%) had already reported many of their key performance metrics prior to August, in its FY20 result briefing RBL gave a very positive update on trading since 30 June (revenue growth of >130% on pcp) while MMM upgraded its CY20 revenue guidance from "at least 70% growth" to "80% to 100% growth". We continue to hold significant exposure to both businesses given the compelling combination of what we believe is further earnings upside to consensus expectations and undemanding valuation metrics on both an absolute and relative basis (vs key peers).

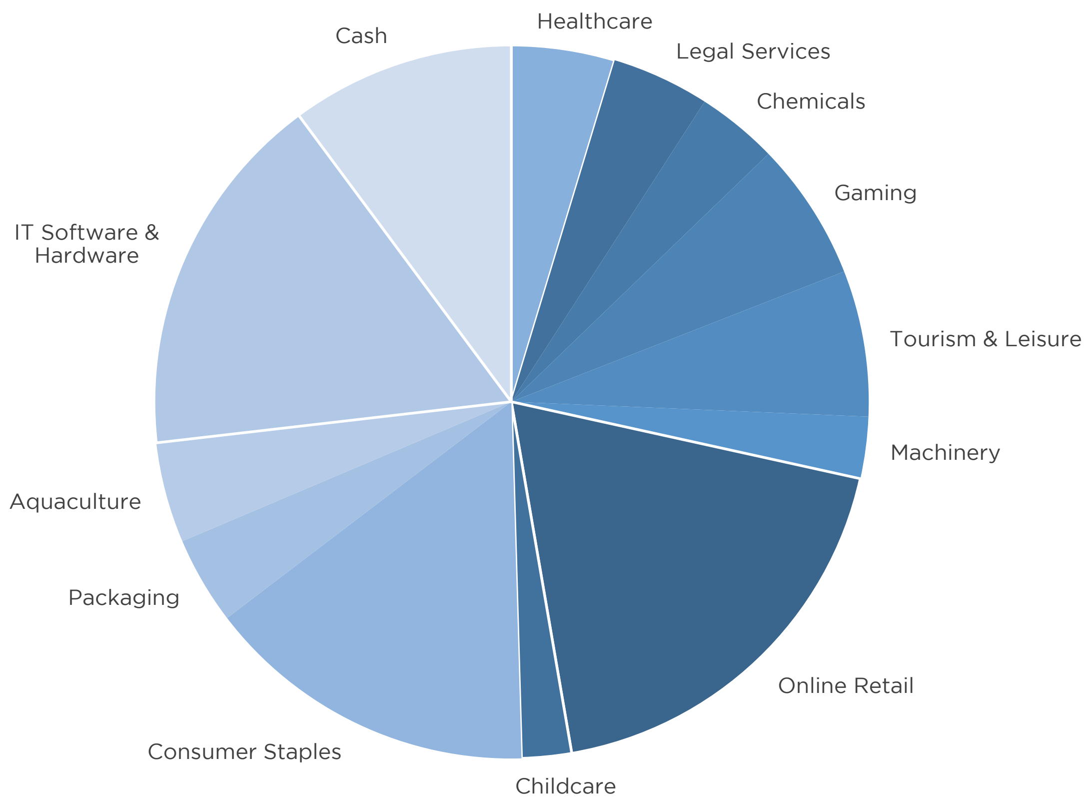
CL1 is a fairly recent addition to the Fund (we started building our position in June) so it was very pleasing to be rewarded so quickly with an FY20 result which exceeded our (and consensus) expectations. We have always viewed CL1 as a very solid business and have closely monitored its progress for several years, awaiting an opportunity to buy it at our desired price, and thankfully that opportunity arose in June. In a subsequent monthly update, we will discuss in more detail the key attributes of the business and why we consider it to be a likely long-term holding in the Fund. Briefly, it offers a market-leading software product to accountants and financial planners that use it to help generate client reports for SMSFs, investment portfolios and investment trusts.

One of the best results we reviewed during reporting season was from a stock we added to the Fund in May called Pro-Pac Packaging (PPG, -3%), which delivered 15.4% growth in EBITDA, an outstanding cash flow conversion of 150% and a 50% reduction in its net debt. PPG is being turned around by a new, highly capable management team that is removing uncommercial product lines, consolidating manufacturing sites and significantly improving its working capital. Further to that, it has structural and cyclical demand tailwinds being fuelled by increased eCommerce (deliveries typically require more packaging), an increasing preference for a localised supply chain (~55% of packaging is imported) and improving growing conditions (PPG has significant exposure to agriculture). Further to this, the lower oil price has fed into reduced resin prices, which is its key input cost. Despite all these positive attributes and significant potential for further margin and earnings growth, PPG only trades on a FY20 EV/EBITDA of 5x and a P/E of 10x.

We note with interest that Bluechiip (BCT, +79%) mentioned that it remains well engaged with multiple OEM opportunities and expects that "a number of these will convert in the not too distant future". It also highlighted that it has a platform to chase opportunities that relate specifically to vaccines being developed for COVID-19, both locally and offshore, that are required to be stored at cryogenic temperatures. Finally, we were also buoyed by the comment in TGH's results release that it is initiating preliminary studies into the potential of *Mylo* to reduce greenhouse gas emissions. While *Mylo* is already being successfully sold to dairy farmers based on its existing attributes around improved gut health and milk production, this would be a significant addition, if scientifically proven.

Portfolio characteristics

We currently have ~90% of our capital invested in 17 stocks, having added three new stocks during the month.



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 August on our performance during September.

Kind regards,

Jonathan Collett

Principal

Saville Capital

+61 3 9769 1789
jcollett@savillecapital.com