# Emerging Companies Fund

## Monthly Update: November 2020

Dear Fellow Investors,

Our Emerging Companies Fund was up +2.3% in November vs +12.9% for the Emerging Companies Accumulation Index (XECAI) and +10.1% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund is +307.0% (assuming distributions are reinvested) vs +46.5% for the XECAI, +42.7% for the XSIAI and +15.9% for our cash-based benchmark. On an annualised basis, the Fund has generated a return of +44.3% p.a.

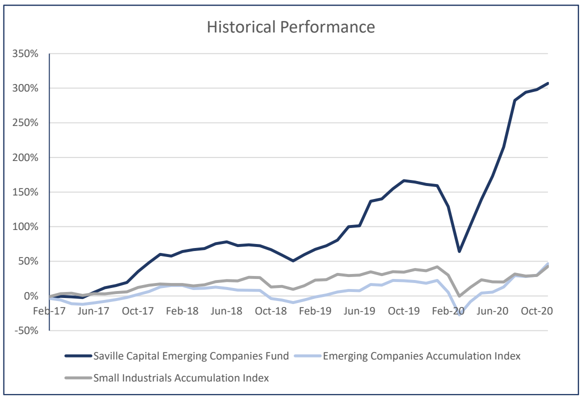
The news of highly effective COVID vaccines spawned a “re-opening” trade in November where many structurally challenged/cyclical businesses attracted euphoric market support based on a prevailing view that the vaccine will see consumer and business behaviour (as well as activity levels) largely revert back to “normal” in 2021. As an extension of that view, many stocks that have excelled during 2020 were sold off, either to fund the “rotation” or due to the perception that in a more open global economy, their strong operational and share price performance logically shouldn’t continue. We find this to be an overly simplistic interpretation of both the past nine months, but also the future that is to follow. While some activity will quickly revert to normal, such as leisure travel, we think that business travel will be permanently lower, working from home (even if just in part) will be permanently higher and online consumption trends will continue their growth trajectory from an elevated base. Our view remains that where habits have been forced to change in 2020, and that change has been a positive experience for consumers, businesses and society, those behaviours will now persist in the aftermath of COVID.

However, in the short term, the composition and relative weightings within our portfolio has meant that many of the high quality businesses we own that have so clearly demonstrated the attractive attributes of their operating models during 2020, had either a weak or benign month of share price performance during November. Given the exceptional performance of the Fund since March, it was inevitable that we would go through a period of consolidation, but we are surprised by the aggressive divergence based on news flow that should have been largely anticipated by the market anyway.

## 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% | +3.1% | +1.0% | +2.3% | | +56.0% | +6.4% | +54.0% |

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



## Performance commentary

The three key positive contributors were Think Childcare (TNK, +63%), Redbubble (RBL, +20%) and Tourism Holdings (THL, +15%). The three key negative contributors were Marley Spoon (MMM, -19%), Terragen (TGH, -18%) and Imricor (IMR, -12%).

TNK received two separate takeover offers during the month, the first being at $1.35 (TNK started the month at $1.01) and the second being at $1.75. Having added TNK to the portfolio in the Fund's first month of existence (February 2017) and continuing to accumulate as its share price consistently declined ever since then (despite solid operational performance), it has been a significant test of faith and patience. As such, to see it rewarded with recognition by two external parties that its business is worth considerably more than what the listed market has been ascribing was very satisfying. Nonetheless, we see the latest offer of $1.75 as still being too low (valuing it on a CY21 EV/EBITDA of 6.4x and a P/E of 9.4x) and are confident that TNK will be able to extract a higher price from that bidder or other interested parties. Regardless, the position has now generated capital gains for the Fund and we think they are unlikely to unwind from here.

Shine Justice (SHJ, +4%) announced that the Federal Court has ordered that the costs of the Mesh Class Action be fixed in the sum of $39.8m and be paid within 28 days. While SHJ will have to pay some of this away to the litigation funders, we understand that it will retain enough to effectively eliminate its net debt, with further funds to be received from the case (e.g. administration fees on client payments) over time. The receipt of these funds is a key catalyst for the stock as it will place SHJ in a position where it can undertake further accretive M&A deals to grow its business - leveraging its balance sheet, fixed overhead and practice management expertise to create value for shareholders.

Imricor signed a purchase agreement with University Hospital in Munster, Germany, marking the ninth site contracted in 2020. IMR now expects to have at least 14 clinical sites with signed purchase agreements by the end of 2020. Furthermore, while the current spike in COVID cases across Europe continues to delay the undertaking of procedures at all IMR sites, Maastricht University Medical Centre in the Netherlands is scheduling first cases with IMR's products in December, with other sites expected to commence procedures soon, as local circumstances allow.

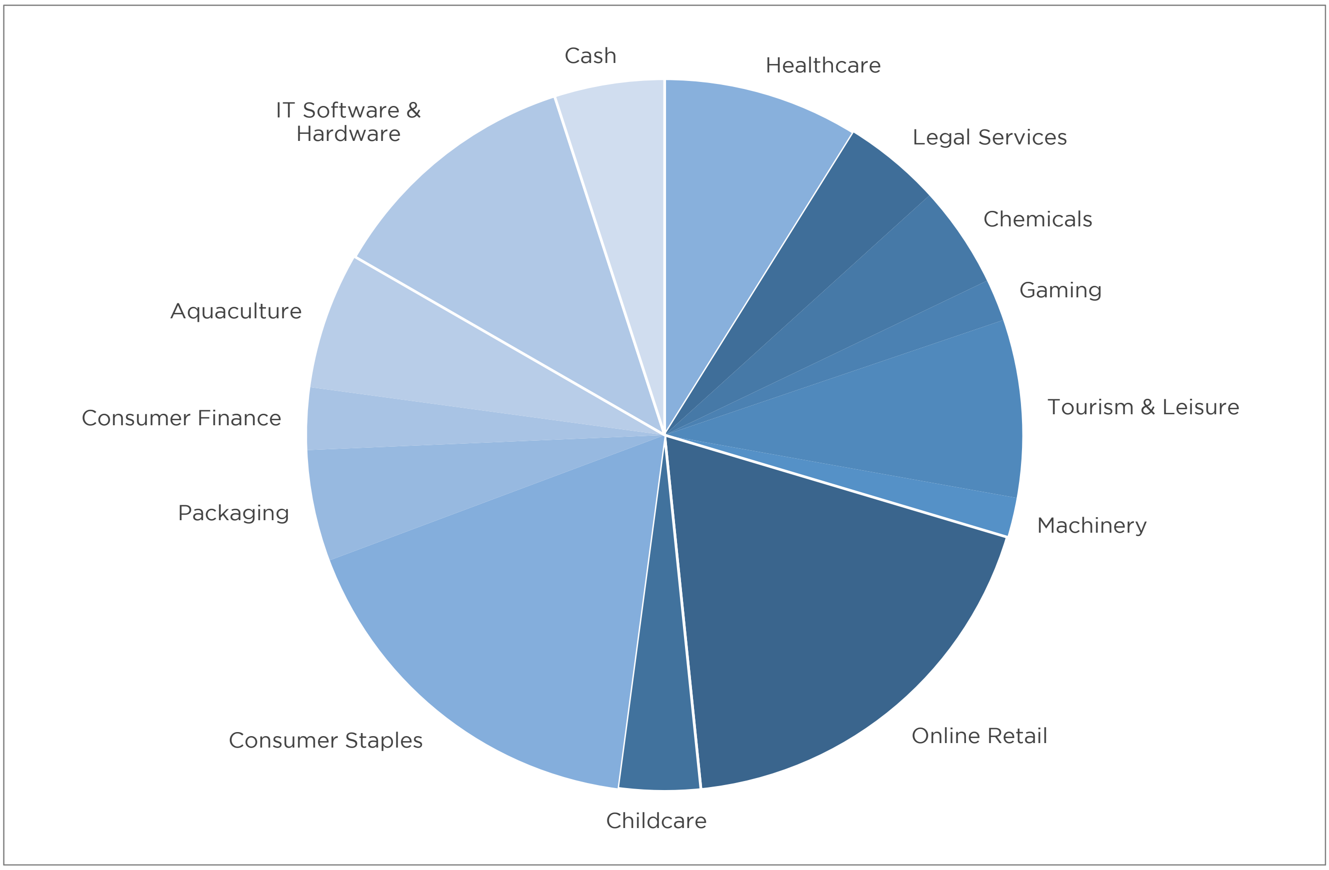
RBL announced that the highly regarded former CEO of Asia Pacific and Americas for SEEK, Michael Ilczynski, would be taking over as CEO of RBL from 27 January 2021. Our feedback from industry participants that know Michael has been universally positive, so we are excited about the skills and experience he will bring to the RBL business. We continue to believe that RBL has significant untapped potential and is still in the relatively early stages of its journey to becoming a multi-billion dollar revenue business.

IDT Australia (IDT, +8.5%) highlighted at its AGM that it is actively engaging with Government and pharmaceutical buying groups to re-shore the manufacture of essential medicines to Australia. As Australia's last small molecule cGMP API manufacturer and one of only a handful of local finished dosage form manufacturers, IDT remains uniquely positioned to benefit from the sovereign risks highlighted with imported medicines during the early stages of the COIVD pandemic. In addition to launching its proprietary medicinal cannabis products, IDT is aiming to commence domestic manufacture of essential medicines in the next 12 months. As a reminder, if we go back over a decade, IDT was generating revenue of >$30m (vs $14.2m in FY20), EBITDA of >$12m. NPAT of >$7m and an ROE of >20%, with much the same fixed asset base, so the potential is there.

Finally, we are still struggling to reconcile the persistent, and significant (-42%), sell-off since MMM's strong 3Q result, particularly given that its key comp, Hello Fresh (which is experiencing similar growth rates), is still seeing solid market support despite the prospects of a more "normal" 2021. We can only conclude that the MMM capital raising caused a significant imbalance in the supply/demand for the stock which is working itself through the system with remarkable impatience, causing this irrational share price action.

## Portfolio characteristics

We currently have 95% of our capital invested in 19 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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#### Important Information