Emerging Companies Fund

Monthly Update: October 2020

Dear Fellow Investors,

Our Emerging Companies Fund was up +1.0% in October vs +1.3% for the Emerging Companies Accumulation Index (XECAI) and +0.6% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund is +298.0% (assuming distributions are reinvested) vs +29.8% for the XECAI, +29.6% for the XSIAI and +15.6% for our cash-based benchmark. On an annualised basis, the Fund has generated a return of +44.6% p.a.

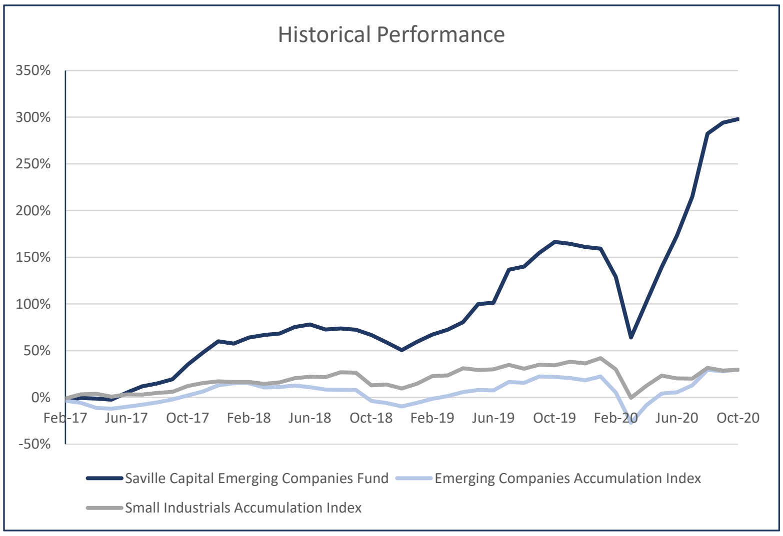
The reported performance results for October belie the significant volatility we observed across the portfolio throughout the month. The XECAI peaked at +9.3% on the 19th of October, at which point our Fund was up over +12% for the month. However, from there we observed a remarkably sharp decline across a range of stocks and industries, albeit none more than the various e-Commerce stocks that have benefitted from the impacts of COVID-19 on consumer behaviour over the past six months.

Given our ongoing significant exposure to Marley Spoon (MMM) and Redbubble (RBL), our portfolio was heavily impacted by this shift in sentiment. It appears that an inevitable slowing in the monthly growth rates of these stocks has made investors temporarily nervous, however this should have been entirely expected given the unusual circumstances underpinning their extraordinary revenue growth rates between April and August, in particular. It is even more ironic when you consider that (unfortunately) similar circumstances are now returning to many countries in the northern hemisphere, which should help to underpin elevated online consumption growth. Regardless, we don't own MMM or RBL for the next month or quarter's revenue growth rates, these are highly scalable, global businesses which have significant structural drivers that will underpin sustained long term growth, regardless of whether there is a prevailing global pandemic.

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%			+52.5%	+25.6%	+49.4%

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



Performance commentary

The three key positive contributors for October were Terragen (TGH, +27%), 4D Medical (4DX, +36%) and Murray Cod Australia (MCA, +13%). The three key negative contributors were Marley Spoon (MMM, -10%), Catapult (CAT, -20%) and Bluechiip (BCT, -25%).

RBL delivered an outstanding 1Q FY21 result, with revenue growth of +116% on pcp, gross profit growth of +149% (the margin increased from 37.8% to 43.7%) and EBITDA of $25.7m vs just $1.4m in the pcp. While the revenue growth was probably as strong as the market had expected, it was the operating leverage (expenses declined QoQ) that caught most people by surprise. Nonetheless, since then some investors have since chosen to focus on the implied "slower" growth in September (noting that July revenue growth was +132%), which was partly due to the significant reduction in mask sales. RBL stated that excluding masks, revenue growth for 1Q was ~60%, so if we apply that same growth rate in 2Q (effectively assuming zero mask sales, which is unlikely) then that would still deliver 2Q revenue of ~$175m and "should" result in EBITDA of at least $30m, bringing 1H EBITDA to ~$55m (vs consensus FY21 EBITDA of just $67m). Further to the potential for consensus upgrades, if RBL generates even just $80m of EBITDA in FY21, then it is effectively trading on an EV/EBITDA multiple of ~12.5x, which is incredible for a Company that is growing so rapidly with minimal capex required to continue to scale into a huge addressable market.

MMM also reported another outstanding quarterly result with constant currency revenue growth of +118% on pcp (US was +163%), managing to almost match its revenue result for 2Q CY20 despite currency headwinds and 3Q being seasonally weaker. Unfortunately, the stock didn't trade on this news as it immediately went into a trading halt to raise $56m via an institutional placement at $3.22. Despite articulating the merits of having a larger cash balance to fund more aggressive client acquisition during a period of very favourable unit economics, the raising seemed to come as a shock to some investors, which prompted an unwarranted vicious selloff in the aftermath. We used this price weakness to add to our core position in the stock and maintain our view that MMM is not a one year "COVID wonder" and will continue to generate strong growth even once the pandemic subsides. Despite growing faster than any of its peers in the largest addressable market (US), MMM continues to trade at a substantial discount to our view of its relative and absolute value.

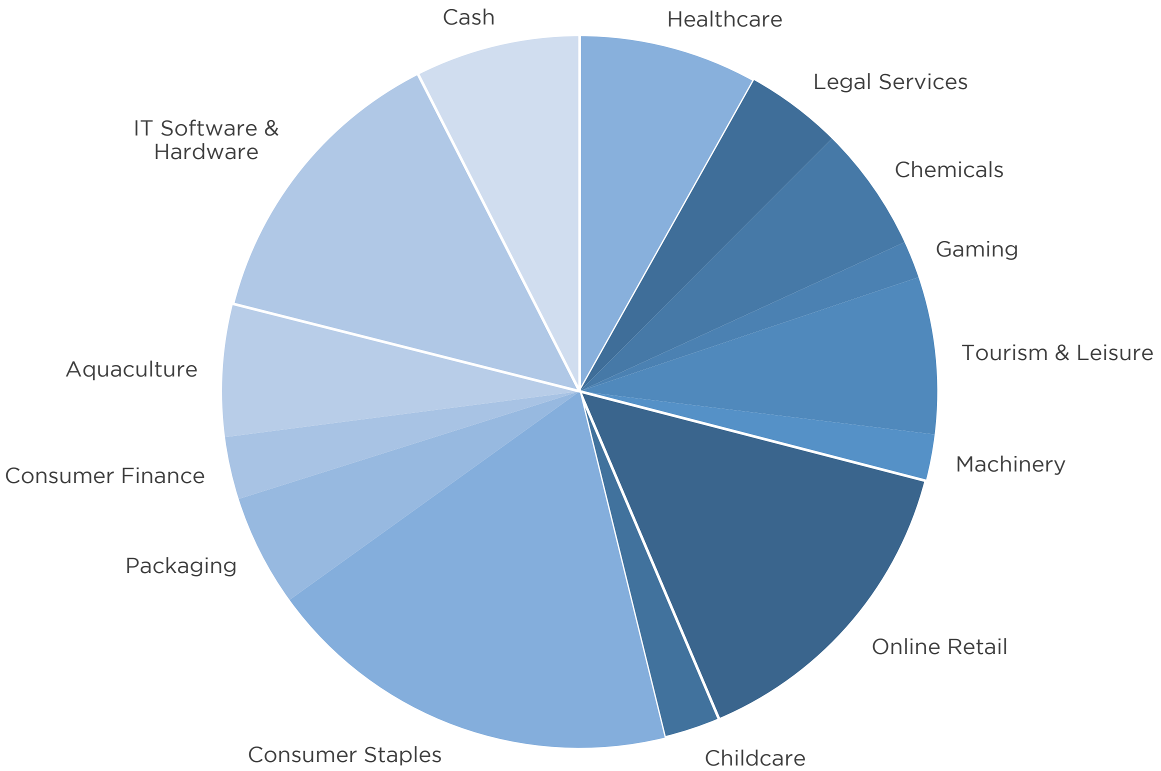
TGH provided the standout result of the quarter for us (relative to expectations), with 1Q FY21 revenue up +99% on pcp (+71% QoQ), largely driven by rapid growth in sales of *Mylo*. With $15m in cash and now rapidly advancing towards cash flow break even, TGH looks very well positioned to continue its positive re-rating. Interestingly, TGH has become another prime example of why patience is essential when it comes to investing, especially in micro caps. As a reminder, we invested in TGH at its IPO price of $0.25 in December 2019, then watched it fall ~65% over the next four months on no negative news, and yet it just closed at $0.42 at the end of October. This once again highlights that many "investors" often blindly follow share price momentum in the short term, with scant regard for the underlying business, which can then be compounded by low levels of liquidity.

Imricor (IMR, +7%) signed purchase agreements with more medical centres across Europe, namely in France and Germany, bringing the total signed agreements now in place to eight (with a further 12 sites in the pipeline for CY20). While we are unlikely to see much revenue from these sites until 1Q CY21, to have signed up five sites in the past six weeks is significant commercial validation given the upfront cost of the capital equipment at these centres. These commitments should underpin years of stable, recurring revenue as on-site cardiologists undertake regular cardiac ablation procedures using IMR's revolutionary equipment. IMR also took the opportunity to raise $30m to fund its sales and marketing efforts, product development and additional regulatory approval processes (e.g. FDA).

Lark Whisky (LRK, +5%) had a strong start to FY21, generating Net Sales growth of 78% with opex growth of just 13%, delivering a positive EBIT result (vs significant EBIT loss in the pcp) for 1Q. LRK was also announced as one of four finalists for the Worldwide Whiskey Producer of the Year (outside of Scotland), building on its positive momentum.

Portfolio characteristics

We currently have 92.5% 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 December on our performance during November.

Kind regards,

Jonathan Collett

Principal

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