Emerging Companies Fund

Monthly Update: December 2020

Dear Fellow Investors,

Our Emerging Companies Fund was up +4.0% in December vs +2.6% for the Emerging Companies Accumulation Index (XECAI) and +1.2% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund is +323.5% (assuming distributions are reinvested) vs +50.4% for the XECAI, +44.5% for the XSIAI and +16.1% for our cash-based benchmark. On an annualised basis, the Fund has generated a return of +44.6% p.a. since inception.

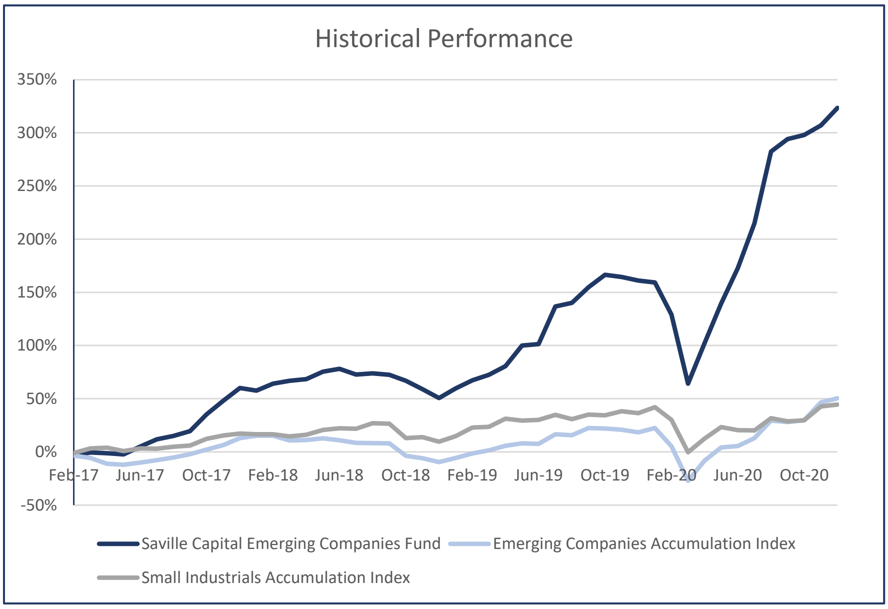
Our Fund ended the year with a strong December, albeit essentially almost all of that performance came from Marley Spoon (MMM, +32%) and, to a lesser extent, Redbubble (RBL, +6%). In fact, our portfolio had more stocks that declined than increased during the month, which we believe was at least partly driven by certain Funds needing to increase their liquidity levels into 31 December. As such, we have several stocks in the portfolio that have significantly lagged the market in recent weeks which may see a solid rebound in the coming weeks or months. We note that the strong surge in many micro/small cap stocks we have already observed in early January 2021 would appear to support this conclusion.

As has been the case in the past, we have remained disciplined in converting our gains into cash where it is prudent to do so, accordingly we have been able to declare a $0.20/unit distribution for the six-month period ending 31 December 2020. When we look across our portfolio and compare the current share prices of our stocks with our assessment of their fair value, combined with their likely share price catalysts, we feel optimistic about the potential for our Fund to continue to generate solid returns in 2021.

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%	+4.0%	+62.3%	+7.5%	+62.3%

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



Performance commentary

The three largest positive contributors for December included Marley Spoon (MMM, +32%), Redbubble (RBL, +6%) and Terragen (TGH, +10%). The three largest negative contributors were Bluechiip (BCT, -20%), Imricor (IMR, -8%) and Catapult (CAT, -12%).

MMM announced that in order to manage the continuation of its growth trajectory and the increasing volume of customers' orders, it is significantly increasing production capacity across its major markets. While it is scheduled to take possession of its new custom-built Sydney manufacturing centre in Q2 2021, tripling its Sydney manufacturing footprint to 14,000 m2, it also recently took possession of its third Australian manufacturing centre in Perth, WA and launched its Dinnerly brand in the region in December 2020. Its Marley Spoon brand is expected to follow in the first half of 2021. The Company will also increase its manufacturing footprint in California in 2021, tripling its current US West Coast manufacturing footprint to 12,000 m2. MMM also reaffirmed its CY20 revenue guidance, with revenue growth expected to be in the middle of the guidance range (90% - 100%). MMM's CEO, Fabian Siegel, stated that "we believe we are still in the early days of consumer behaviour switching from offline to online shopping in our category, supporting growth at attractive unit economics in 2021 and the years beyond." It is pleasing to see the Company showing such confidence in both its short and long-term growth outlook, which is certainly shared by us. We continue to believe that the market will significantly re-rate the MMM share price as it proves that trends observed in 2020 will be sustained.

As mentioned in our November Update, TNK recently received two separate takeover offers, the first being at $1.35 (TNK started the month at $1.01) from Alceon Group Pty Ltd and the second being at $1.75 from Busy Bees Early Learning Australia Pty Ltd. Since then, Alceon has acquired 19.23% of TNK via on-market buying and also increased its Offer to $1.75 to match Busy Bees, albeit with a scrip option for those who may prefer to remain invested. Based on these latest developments, unless Busy Bees were to increase its offer, Alceon looks well positioned to acquire TNK. The only query remains whether enough shareholders (needs to be at least 75%) will vote in favour of a bid at $1.75, should it proceed to a formal Scheme of Arrangement.

Laybuy (LBY, -5%) announced that purchases made using LBY reached NZ$71 million in November 2020, an increase of 56% on October 2020. The results significantly exceeded forecasts made as part of LBY's 1H FY21 results, released on 23 November 2020, which estimated November's GMV (Gross Merchant Value) at NZ$61 million. LBY's CEO stated that LBY experienced strong growth in all three of the markets in which it operates, but the standout performer was the UK. Compared to October, purchases made using LBY in the month of November increased by 33% in both Australia and New Zealand, while sales surged by 79% in the UK. LBY noted that its marketing strategy in the UK is clearly having an impact, including recent sponsorship agreements with Manchester United and Manchester City and a partnership with Arsenal helping increase LBY's brand recognition amongst those clubs' millions of fans. Furthermore, the ongoing lockdown in the UK is also prompting increasing numbers to make purchases online while retail stores are closed.

LBY's growth rate in GMV on pcp was +220% for the October and November period, which is faster than any other BNPL provider listed on the ASX. Despite this, LBY trades on FY21 EV/GMV of 0.4x (vs sector mean of 1.1x and median of 1.0x) and FY21 EV/Revenue of 4.4x (vs sector mean of 14.3x and median of 11.0x). Therefore, not only is LBY materially below the sector averages, it is the lowest of any of the BNPL providers and now serves as an outlier. This disparity is difficult to reconcile given its superior growth trajectory coupled with the operational initiatives it has recently announced including a digital BNPL Mastercard (allowing customers to purchase in-store using Laybuy), collaboration with Prezzee to enable gift cards to be purchased via Laybuy at a huge variety of stores across Australia and the UK, and an imminent launch of Laybuy in the US market with selected retailers. We view this as a classic example of market dislocation which occurs in microcaps with surprising regularity, but invariably gets resolved over time with those who are patient being rewarded.

Company in focus: Imricor Medical Systems Limited (IMR)

IMR, founded in 2006, is the first (and only) company in the world to bring commercially viable and safe MRI-compatible products to the cardiac catheter ablation market. Headquartered in Minnesota (USA), IMR seeks to have a positive impact on patients, healthcare professionals, and healthcare facilities around the world by increasing the success rates and bringing down the overall costs of cardiac catheter ablation procedures.

The Vision-MR Ablation Catheter is the Company's prime product offering, specifically designed to work under real-time MRI guidance, with the intent of enabling higher success rates along with a faster and safer treatment compared to conventional procedures using X-ray guided catheters. The Vision-MR Ablation Catheter has been approved by regulators in the EU with an indication for treating type 1 atrial flutter and IMR intends to seek approval for expanded indications in the future (atrial flutter only comprises 23% of ablation procedures in the EU) as well as moving into other areas such as diagnostics. The Company is also in the early stages of pursuing the required regulatory approvals to offer its key products in Australia and the US, which should occur over the next few years.

IMR sells its products to hospitals and clinics for use in Interventional Cardiac Magnetic Resonance Imaging (iCMR) labs, in which ablation procedures using the Vision-MR Ablation Catheter can be performed. An iCMR lab is an interventional lab that is fitted with MRI equipment for use in cardiac diagnostic and interventional procedures. The installation of iCMR labs is driven by MRI equipment vendors working collaboratively with IMR. Vendors such as Philips and Siemens (who also own 6.7% of IMR) help to target certain sites and support the design and construction of iCMR labs for those sites.

Currently, cardiac catheter ablations are typically performed using X-ray guidance and involve inserting a catheter and guiding it to the heart to destroy malfunctioning tissue. However, due to lack of visualisation, first time success rates for X-ray guided procedures are low (atrial fibrillation first time success rate is ~50%) and exposes both the patient and physician to high levels of radiation. MRI-guided ablations have the potential to improve outcomes through: (1) no radiation exposure; (2) better visualisation; (3) permanent lesion verification during the procedure (leading to increased single procedure success rate); and (4) reducing procedure time by half (currently around 48 minutes per procedure).

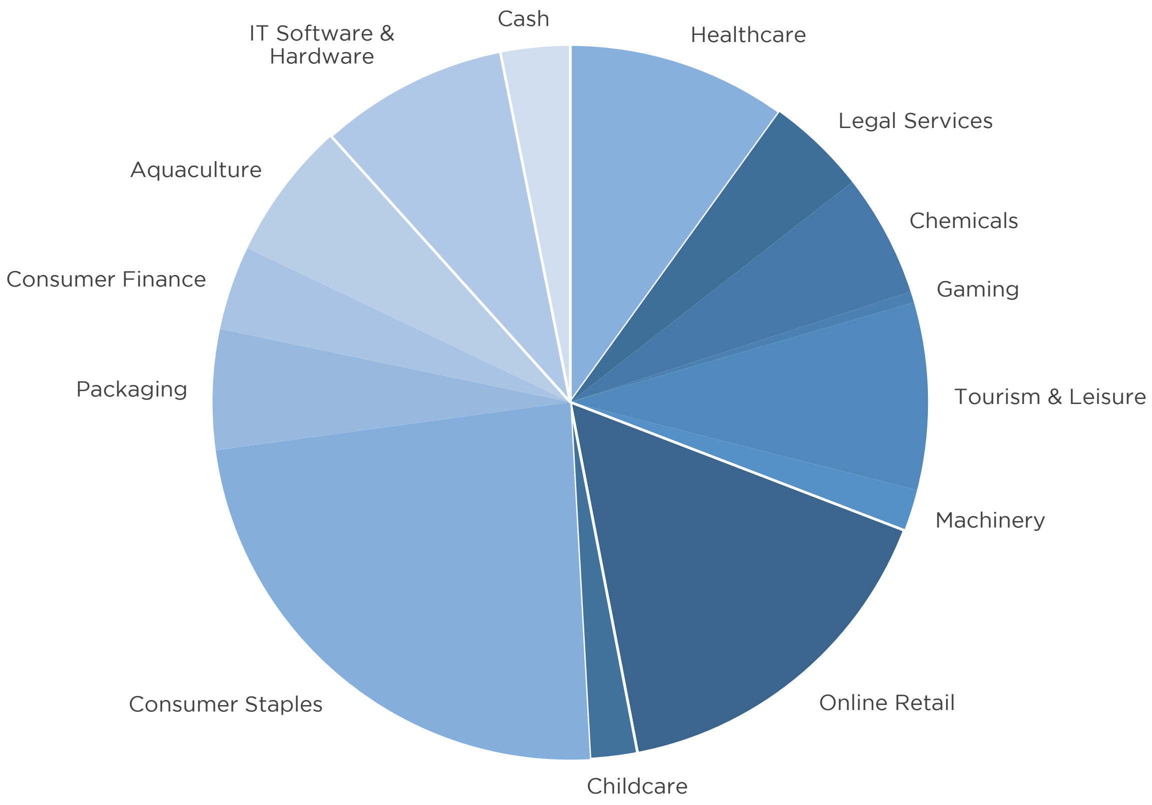
IMR has an attractive revenue model as it sells both upfront capital equipment for ~US$180,000 and a consumable kit (can only be used one procedure) for ~US$4,300. We understand that the margins on the consumable product are ~70%, while the margins on the capital equipment are even higher. Priced in line with existing X-ray consumable kits, the annual addressable market for this product is ~US$1.1bn in the EU and ~US$1.7bn in the US for the consumable revenue alone. Furthermore, this market is forecast to grow at over 8% p.a. driven by increased incidence of cardiac disease and a shift towards minimally invasive procedures which also help to minimise cost through greater surgical accuracy.

Following receipt of CE mark approval in late January 2020, MRI-guided procedures were already being performed within a week. However, COVID-19 significantly disrupted the ability of hospitals to perform these procedures over the last 12 months while also slowing the rollout of its products to new hospitals. Nonetheless, IMR now a total of 9 sites across Europe with signed agreements to purchase its products with a strong short-term pipeline to significantly increase this number early in 2021. IMR has 18 issued patents, 40 corresponding granted foreign patents and 2 foreign patent applications that have been allowed, with the oldest patent expiring in 2030. It also has 17 pending patent applications worldwide and is continuing to develop new products for potential patent.

With a market cap <$300m, IMR is still flying under the radar despite the quality of its technology and significant earnings potential. It possesses many of the attributes that we seek in companies (market leading/patented technology, recurring revenue with high margins, significant growth options, robust balance sheet, strong board/management) combined with significant share price upside based on our DCF valuation.

Portfolio characteristics

We currently have ~97% of our capital invested in 18 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 February on our performance during January.

Kind regards,

Jonathan Collett

Principal

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