Emerging Companies Fund

Monthly Update: January 2021

Dear Fellow Investors,

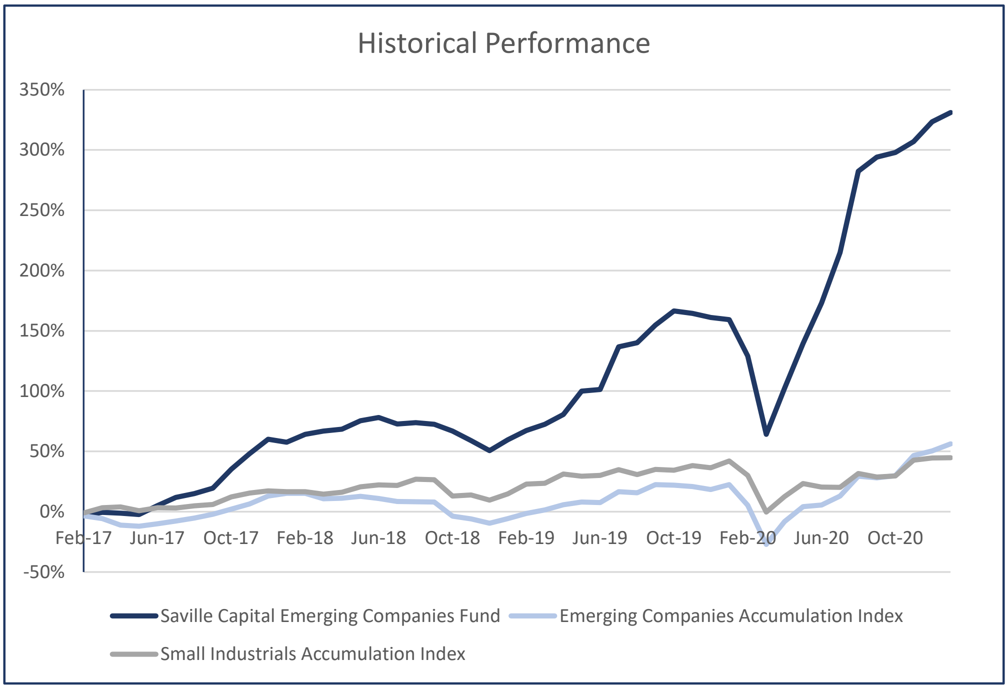
Our Emerging Companies Fund was up +1.9% in January vs +3.9% for the Emerging Companies Accumulation Index (XECAI) and +0.2% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund is +331.1% (assuming distributions are reinvested) vs +56.3% for the XECAI, +44.7% for the XSIAI and +16.4% for our cash-based benchmark. On an annualised basis, the Fund has generated a return of +44.1% p.a. since inception.

Our Fund got off to a solid start to 2021, albeit materially lagging the Emerging Companies Index, which surprised us somewhat. While we are typically not particularly focused on our relative performance to the various indices, we were perplexed as to why the XECAI was so strong this month compared with our portfolio and the market indices. However, upon further investigation, we discovered that the top five stocks (in terms of market capitalisation) in the index were up an average of 33% in January, including one stock up 115%. If we merely exclude that one stock as an outlier, the average performance of all other stocks in the index was +1.9%, which is in line with our own results for the month. Interestingly, the largest stock (by market capitalisation) in the XECAI is currently Redbubble (RBL, +21%), which not only helped contribute to the strong index performance for January, but more importantly to that of our own portfolio. It currently sits as our second largest position in the Fund, behind Marley Spoon (MMM, -6%).

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%		
2021	+1.9%												+1.9%	+8.4%	+66.4%

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



Performance commentary

The three largest positive contributors comprised Redbubble (RBL, +21%), Terragen (TGH, +8%) and Laybuy (LBY, +10%). The three largest negative contributors were Tourism Holdings (THL.NZ, -13%), Marley Spoon (MMM, -6%) and Catapult (CAT, -10%).

MMM delivered another strong quarter of growth, with 4Q CY20 revenue up +95% on pcp (+103% in constant currency), with the US market remaining the standout performer at +146% growth on pcp. Combined with a 4Q CY20 Contribution Margin (CM) of 29%, MMM was able to report its third consecutive quarter of positive Operating EBITDA, while ending the year with a healthy cash balance of €34.4m. As a consequence of ongoing strong global growth in online meal kit adoption and the retention of customers it acquired in CY20, MMM is already guiding to revenue growth of 25-30% in CY21 and for its CM to improve to 30-31%. While it is a great signal to the market for management to be providing guidance at such an early stage in a year that will be cycling an unusually strong pcp, we actually think this guidance will prove to be conservative. We expect many of the industry tailwinds that accelerated in CY20 to continue into CY21, which when combined with MMM's operational initiatives and expansion plans, should see the Company continue to materially outperform the market's expectations this year.

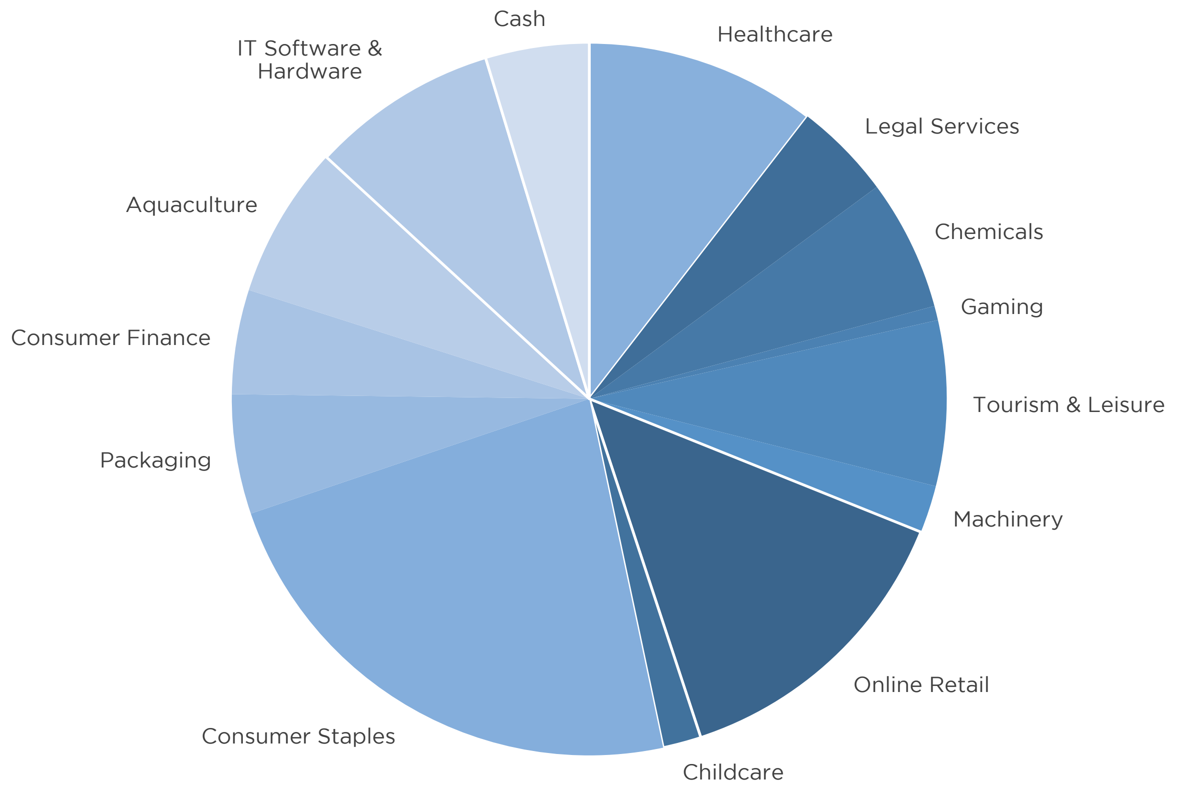
Murray Cod Australia (MCA, +3%) produced a stellar 2Q FY21, with sales growth of +128% over 1Q FY21 (i.e. QoQ). Furthermore, it has had a record hatchery season with 1.5m Murray cod fingerlings stocked into the Bilbul nursery system and a further 400,000 expected before the end of the season. MCA noted that 2020 saw excellent growing conditions that have allowed stock to perform well, with fish growth and health in the ponds in line with Company expectations. MCA has recently added three new domestic sales representatives in NSW and Victoria, who will be focused on expanding its sales into regional high-end restaurants and retail outlets across Australia. Not surprisingly, export sales remain minimal (some small shipments to the USA only) given the ongoing impact of COVID-19, however domestic growth has replaced these sales to date, with export sales due to resume as and when international flights recommence. Finally, significant progress has been made on stage one at the new Whitton site, with the first four ponds fully stocked and the construction of eight ponds now complete. The Company reiterated that its plans are on track to meet its expansion target of 10,000 tonnes by 2030.

Lark Distilling (LRK, +2%) reported a very strong preliminary 1H FY21 result, with Net Sales up +73% and Gross Profit up +78% on pcp. This generated a positive EBIT result of $0.6m vs an EBIT loss of $0.7m in the pcp. Importantly, LRK has increased its whisky litres under maturation by 15% during the past six months, with the Company now holding whisky inventories that at maturation would be valued at $113m (liquidation value today is $57m). Whisky production is forecast to increase materially in 2H FY21 as the full impact of outsourcing takes effect, with LRK anticipating it will be holding in excess of 1m litres of whiskey under maturation by the end of FY21. We are impressed by the number and range of operational initiatives the Company is undertaking to drive higher sales and margins, the results of which we expect to see as we move through FY21 and beyond. As just one example, we understand that early sales results and feedback from its re-launched Forty Spotted Gin has been very positive, with the new packaging and product innovation (e.g. Half Strength Rasberry & Rose) gaining the attention of trade buyers and consumers.

Finally, Think Childcare (TNK, +23%) received a revised indicative proposal from Busy Bees with an offer price of $2.10, compared with its previous offer of $1.75 (which was subsequently matched by Alceon Group, who have now also acquired 19.23% of TNK via on-market buying). Pleasingly, the stock is now trading at the current offer price, with the market appearing to take the view that another/higher offer remains possible. We have trimmed our position into the share price strength as we look to deploy our capital into more compelling opportunities, but we retain some exposure to the potential for a higher bid to emerge. Despite testing our faith and patience, TNK has now turned into a very solid investment for the Fund, with a total return of >35% relative to our initial cost base.

Portfolio characteristics

We currently have ~95% 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 March on our performance during February.

Kind regards,

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