Emerging Companies Fund

Monthly Update: March 2021

Dear Fellow Investors,

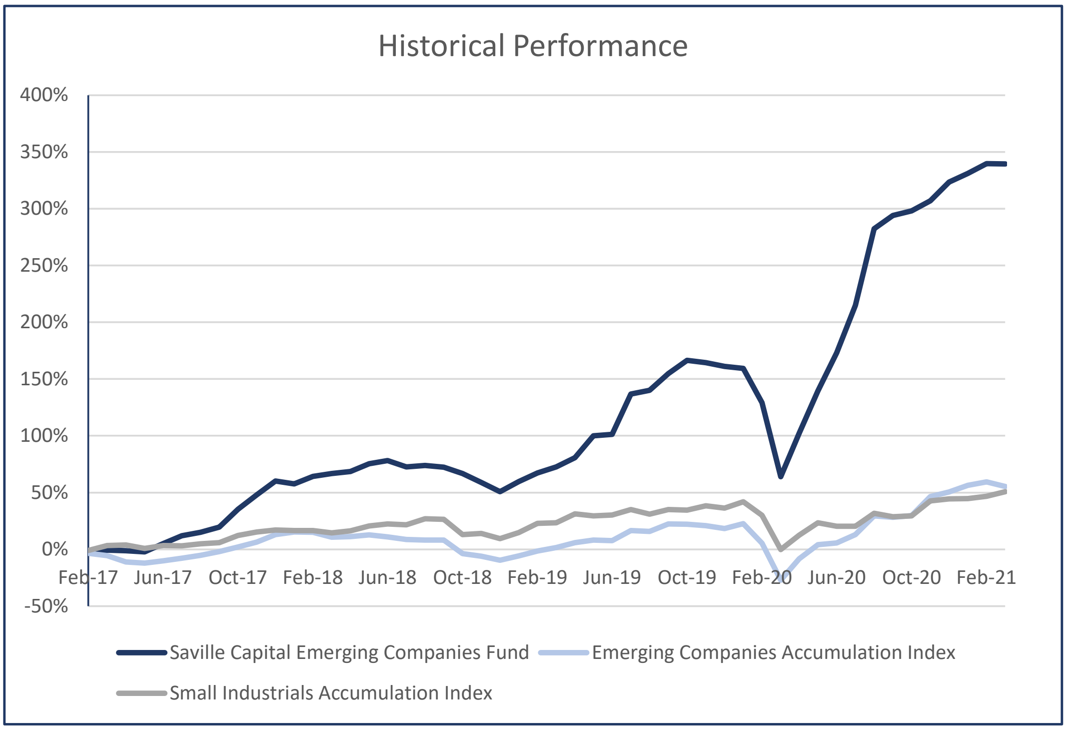
Our Emerging Companies Fund was down -0.1% in March vs -2.6% for the Emerging Companies Accumulation Index (XECAI) and +2.7% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund is +339.5% (assuming distributions are reinvested) vs +55.3% for the XECAI, +50.7% for the XSIAI and +16.9% for our cash-based benchmark. The Fund has generated a return of +42.7% p.a. since inception.

March was another volatile month for both our Fund and the micro/small cap universe, with the general trend being skewed to the negative. Furthermore, it appears that investors continue to be particularly nervous about how the basket of 'COVID winners' will cycle their strong performance in 2020, both from an operational and share price perspective. On that front, we maintain our view that while the vast majority of these companies (e.g. online businesses) will experience much slower growth than last year, the results will generally exceed market expectations, particularly given many of these stocks now seem priced for disappointment. The best example of this within our portfolio is Marley Spoon (MMM, -21%), which remains incredibly volatile as it approaches a period where we will see whether the customer and revenue gains it made last year have been retained in a more open global economy, and how quickly it can then grow off that base.

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%	+2.1%	-0.1%										+3.9%	+3.9%	+168.3%

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



Performance commentary

The three largest positive contributors comprised IDT Australia (IDT, +141%), Murray Cod Australia (MCA, +38%) and Lark (LRK, +32%). The three largest negative contributors were Marley Spoon (MMM, -21%), Laybuy (LBY, -36%) and Terragen (TGH, -19%).

IDT announced that, at the request of the Federal Government, it is undertaking a feasibility study to assess the possibility of utilising the Company's sterile manufacturing facility to supplement the production capability for a COVID-19 vaccine. Given the facility is already compliant with both TGA and FDA standards, it is difficult to envisage why this wouldn't proceed to a formal contract to produce a vaccine. Should that be the case, it not only would be a significant source of revenue (and possibly recurring revenue if vaccine booster shots are required annually), but it may also pave the way for IDT to engage with the Government to use other parts of its facility to manufacture a range of pharmaceutical products considered to be of national importance. As such, we think the substantial increase in IDT's share price is warranted, in fact we took the opportunity to add to our position when it was still trading below $0.30 following the announcement. Even at its current market cap of ~$94m, it is trading broadly in line with what we understand to be the replacement value of the facility (management has previously indicated that the likely figure is between $70m and $100m). Furthermore, if that facility was able to secure a contract with the Government with the potential for it to be recurring, then the likely multiple ascribed by the market to those earnings would be high.

Company in focus: Lark Distilling Company Limited (LRK)

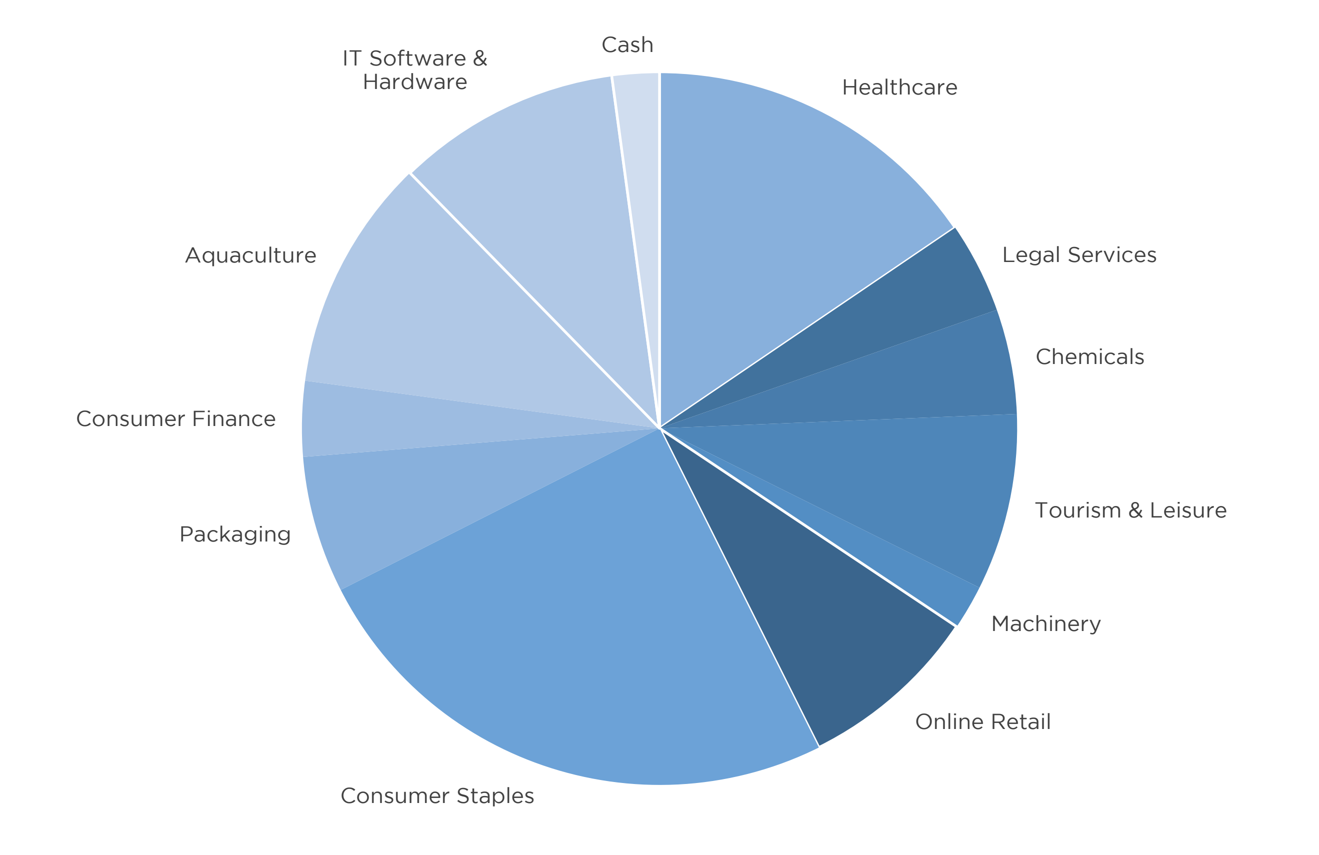
LRK, established in 1992 by Bill Lark in Tasmania, produces a range of premium whiskies (under the brands of Lark and Nant) and gins (under the brand of Forty Spotted). In order to maximise its addressable market and optimise its price per litre, LRK offers whiskies across a range of price points, from blends (~$140 per bottle) to limited releases (~$200 to ~$2,000 per bottle). Similarly, it is using innovation in its gin portfolio (such as a Raspberry and Rose Half Strength Gin) to broaden its customer appeal and optimise volume and value from its production capacity. While the quality of the product is exceptional within each of their categories (validated by multiple industry awards), we think the bottle branding/presentation is also unique and visually appealing to potential consumers.

LRK is currently forecasting to grow revenue by 100% in FY21 and we expect it to remain on a strong growth trajectory into the foreseeable future. The earnings growth in the business is coming from a range of areas including: 1) adding to its already substantial inventory investment (LRK currently has 818,000 litres of whisky under maturation, valued at $113.6m vs current Company enterprise value of ~$150m); 2) improving its price per litre by leveraging alternative finishing methods, ingredient profiles and ageing (LRK typically ages its whisky for between five and eight years); and 3) introducing more innovation into its product suite, most notably its Forty Spotted Gin. In addition, increasing scale across the business should lead to improving gross margins and significant operating leverage, particularly as the business has only recently become EBITDA positive.

Given LRK currently holds <0.5% share of the Australian whisky and gin markets, there is still significant scope for growth even in markets that are relatively mature. Furthermore, this doesn't contemplate the potential to expand further into offshore markets (e.g. Asia) where other products from Tasmania have already achieved significant recognition and success. We acquired our stake in LRK via a $8.85m placement in September 2020 at a price of $1.10. While the investment has already been a stellar performer for the Fund (its current share price is $2.50), we are confident that there is further upside to come through a combination of strong earnings growth and the potential for LRK to attract corporate interest from overseas suitors looking to add premium brands to their own product portfolios. We note that Ord Minnett recently initiated research on the stock (it is the first broker to do so) with a Buy rating and price target of $3.18/share. With what we regard as an exceptional management team and well credentialed Board, we think that the evolution and execution of its growth strategy is in a very safe set of hands.

Portfolio characteristics

We currently have ~97% of our capital invested in 17 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 May on our performance during April.

Kind regards,

Jonathan Collett

Principal

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