Emerging Companies Fund

Monthly Update: May 2021

SAVILLE CAPITAL

Dear Fellow Investors,

Our Emerging Companies Fund was down -4.4% in May vs +2.0% for the Emerging Companies Accumulation Index (XECAI) and -0.6% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund is +341.1% (assuming distributions are reinvested) vs +70.2% for the XECAI, +54.2% for the XSIAI and +17.4% for our cash-based benchmark. The Fund has generated a return of +40.9% p.a. since inception.

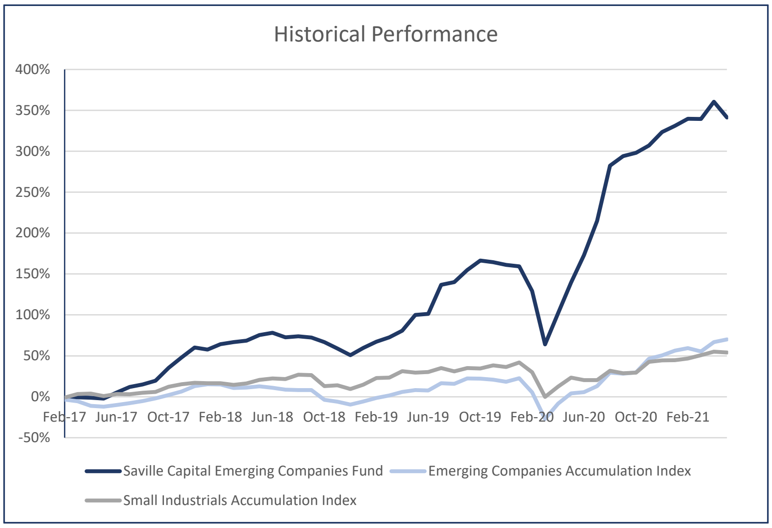
As we (reluctantly) foreshadowed in our April Update, the switch from structural growth/industrial to cyclical growth/commodity stocks continued into May, which has been going on since late February. But, unlike April, we didn't have any significant news flow or earnings results specific to our stocks to offset the broader sentiment trade which continues to work against us. While it is frustrating to observe these trends in the short term (note that almost half of the stocks in our portfolio are down at least ~25% since late February), these are the periods where we cultivate our sustained medium to long term gains. Whether it be entering into a new stock position at an attractive price, selectively adding to existing positions or, most importantly, resisting the natural urge to sell/trim when others are falling into that emotional trap, these are the periods where we build and consolidate the foundations for future strong performance. It is uncomfortable standing still when others are running, let alone running in the oppositive direction, but in the absence of any new information specific to our companies that undermines our original investment thesis, this is the right course of action.

While he may not be noteworthy for his investment philosophy, Mahatma Gandhi summed it up well, "to lose patience is to lose the battle". We pride ourselves on being patient.

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%	+5.0%	-4.4%								+4.3%	+0.3%	+84.5%

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



Performance commentary

The key positive contributors comprised Class Limited (CL1, +9%), Catapult (CAT, +7%) and Lark (LRK, +2%). The key negative contributors were Imricor (IMR, -18%), Murray Cod (MCA, -11%) and Marley Spoon (MMM, -8%).

Laybuy (LBY, -13%) announced a $35m capital raising to support its ongoing growth in the burgeoning UK BNPL market. This came as no surprise given all BNPL providers will periodically require additional capital to support their high growth rates, however the timing (and therefore pricing) for LBY was unfortunate. In our view, LBY waited too long to execute this transaction, in the hope that its share price might rally, when the root cause of its decline was the gradual realisation that with each passing month a deeply discounted capital raising was becoming more likely (and imminent). As such, we are hopeful that this will prove to be somewhat of a circuit breaker and enable the market to switch its focus away from LBY's capital requirements to the stellar growth it is generating with the use of that capital. In our view, it remains completely mispriced vs not only its listed peers, but even when compared with private transaction multiples. For example, Z1P just paid more for Twisto (a small European BNPL) than LBY's enterprise value, despite Twisto currently generating about one-third of LBY's GMV and Revenue.

MMM held an investor strategy day in which it outlined its ambition to reach €1B of sales (currently ~€300m) by 2025 and €5B by 2030, both of which are well ahead of our, and consensus, forecasts. MMM expects this growth profile to be underpinned by four pillars: 1) grow base business in a massively underpenetrated market (meal kits are currently only 0.1% of global grocery); 2) grow its service offering and basket size; 3) grow via adjacent categories; and 4) grow by entering new markets. With a footprint that can already reach 190 million households (vs 252,000 active subscribers), MMM is well positioned to capture this opportunity should it continue to execute well. In the meantime, unfortunately its share price continues to significantly underperform its closest peer, HelloFresh (HFG), further widening the gap between their valuation metrics (MMM CY21F EV/Sales of 1.1x vs HFG at ~2.5x) despite similar growth profiles and target markets, albeit HFG is currently a much larger company in revenue terms (~10x MMM).

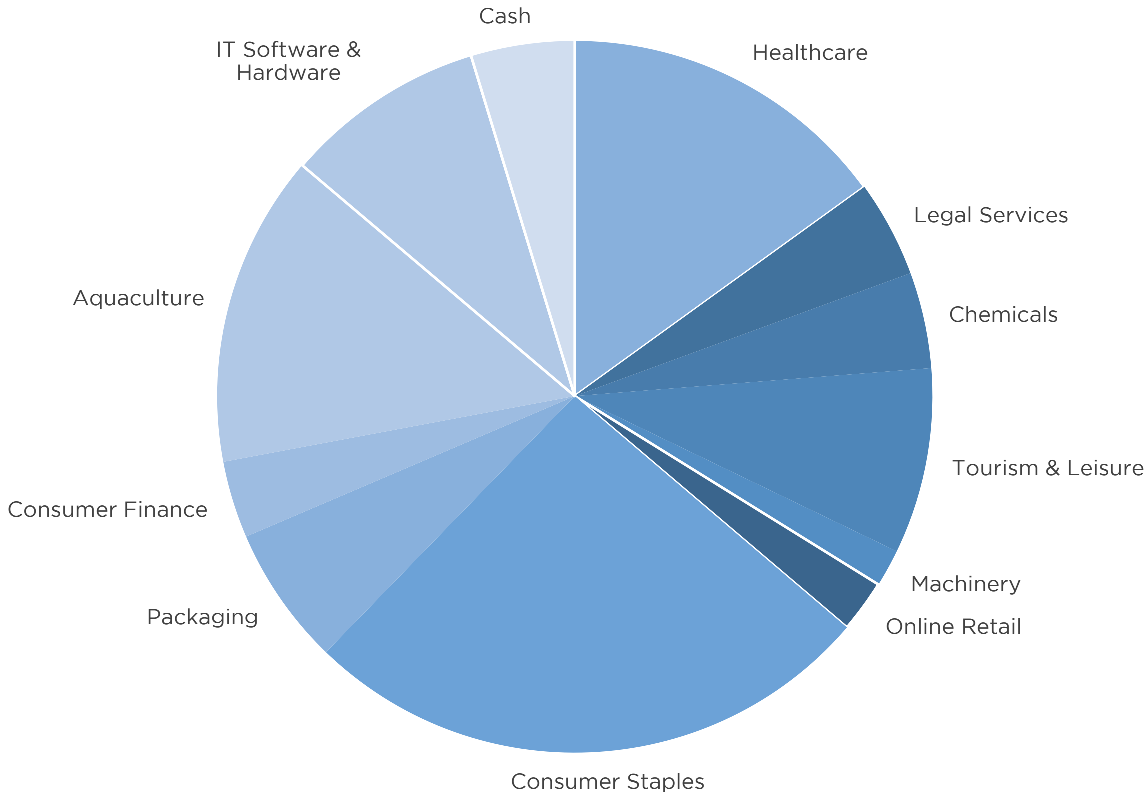
CL1 also held an investor day during the month, outlining the opportunities it is exploring to grow its TAM (Total Addressable Market) in FY22 and beyond. These include adjacencies where complex administration rules exist and can be automated by technology; data aggregation and analytics; and offshore opportunities (e.g. Canada). We continue to view CL1 as a relatively cheap and low-risk investment in the technology space with upside via the disciplined pursuit of organic and inorganic growth options.

CAT announced that it had achieved a $3.9m increase in its Annual Contract Value (ACV) over the three-month period ending 31 March 2021, equating to an annualised increase of 34.6%. This result has been achieved as sports have gradually returned to play, consistent with CAT's belief that the short-term impact of COVID would not lower medium-term growth rates. The growth in ACV, the key SaaS metric used by CAT to measure growth, over the 12-month period was 16.5%. Supporting the strong growth result, ACV Churn remained at 5.5%, with the usage of CAT's software products continuing to prove resilient through the pandemic. A strong improvement in cross-selling was also achieved in the March quarter, with the number of multi-solution customers increasing at an annualised rate of 18.3% since 31 December 2020.

Finally, IMR announced that Helios Hospital Berlin-Buch in Germany has signed a purchase agreement, making it the tenth site to establish an iCMR lab to perform cardiac ablations with IMR's products. Installation and training at the hospital are being scheduled presently, and the Company expects procedures to begin there shortly. Despite being a clear beneficiary of Europe gradually re-opening its hospital systems to other procedures due to increasing vaccination rates, curiously IMR's share price has come under significant pressure in recent weeks. It appears to be another victim of money flowing away from longer duration stories like IMR to fund buying of stocks exposed to the economic cycle.

Portfolio characteristics

We currently have ~95% of our capital invested in 16 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 July on our performance during June.

Kind regards,

Jonathan Collett

Principal

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