

Emerging Companies Fund

Monthly Update: October 2021



Dear Fellow Investors,

Our Emerging Companies Fund was up +1.0% in October vs +4.2% for the Emerging Companies Accumulation Index (XECAI) and -0.6% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +35.7% p.a. and a total return of +326.5% vs +108.1% for the XECAI and +65.3% for the XSIAI.

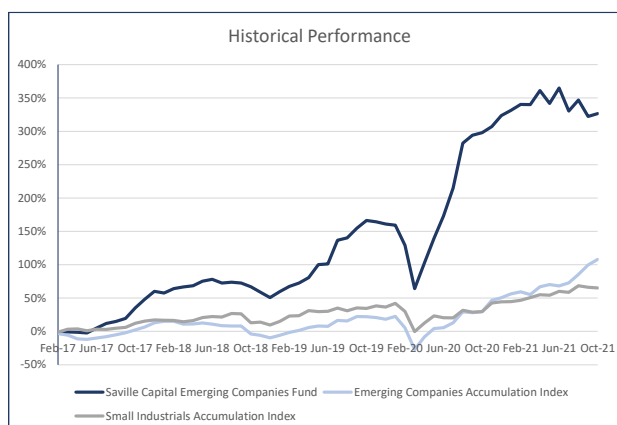
While it was pleasing to record a positive month during what continues to be a more challenging period for the Fund, it didn't feel particularly positive given that with only two days to go the Fund was up ~5% for October. Regrettably, the key cause of the Fund's weakness in recent months struck again, with Marley Spoon (MMM) declining >30% on the last day of the month following another quarterly which was below market expectations (albeit not materially below our own). It appears that the market's understanding of this business remains low (e.g. seasonal influences on margins, marketing spend and customer additions) and this is contributing to these wild share price fluctuations. However, the Company hasn't done its share price any favours by some inconsistent messaging on its financial guidance during CY21. Furthermore, its execution hasn't been as strong as we would have liked, particularly on marketing spend and managing its cash burn relative to the strength of its balance sheet, which has become a valid concern for investors.

Regardless, we must take responsibility for having retained such a high weighting in a stock that continues to exhibit such extreme share price volatility. While the declines in its share price have significantly reduced its weighting (it is now ~7.5% of the portfolio), for the first time in about 12 months we have purchased a material number of additional MMM shares. Despite some of the issues raised above, we believe its long-term potential remains firmly intact and its valuation metrics are beyond compelling. In our experience often the best investment decisions are those that feel the most uncomfortable at the time of execution. We are optimistic that this will prove to be another such example.

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%	+5.5%	-8.0%	+4.3%	-5.5%	+1.0%			+0.8%	-0.5%	+8.3%

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



Performance commentary

The three largest positive contributors comprised Imricor (IMR, +17%), Murray Cod (MCA, +12%) and Pro-Pac Packaging (PPG, +10%). The three largest negative contributors were Marley Spoon (MMM, -32%), IDT Australia (IDT, -14%) and Laybuy (LBY, -7%).

MCA reported 1Q cash revenue growth of +13% on pcp, which was hampered by the closure of restaurants across Victoria and NSW throughout the quarter. This situation has since changed as lockdowns ceased during October, with the Company noting “very strong growth in domestic sales” in the last two weeks. Meanwhile it is now expecting to roll out its product to Coles (in addition to its existing Woolworths footprint of 150 stores) in the coming weeks, which should underpin strong growth via this channel over the next 12 months and beyond. The Company has also entered into a 3-year agreement with Josh Niland to produce and market “value added” products derived from the processing of Aquana Cod. The partnership will add to the margin recovered from each fish, particularly now that filleting and processing for grocery channels has begun to change MCA’s sales mix. Josh is famous for his approach to sustainable use of seafood as highlighted in his book “The Whole Fish Cookbook” and via his business and restaurant ventures in Sydney.

IDT received its Sterile Licence from the TGA to enable it to manufacture sterile injection/sterile solution of dosage forms, signifying the completion of the Sterile Readiness Agreement with the Australian Government Department of Health to potentially produce a COVID-19 vaccine. Based on recent commentary from the Government, it appears that an announcement is imminent on what vaccine/s will be produced in Australia and which parties will be engaged to facilitate that production. The outcome of this process remains difficult to predict, especially given that politics are involved, but on face value IDT still appears very well positioned to secure a role in the production process. Regardless, we think the long-term prospects for IDT have been greatly enhanced over the past 12 to 18 months and don’t believe its future hinges on this.

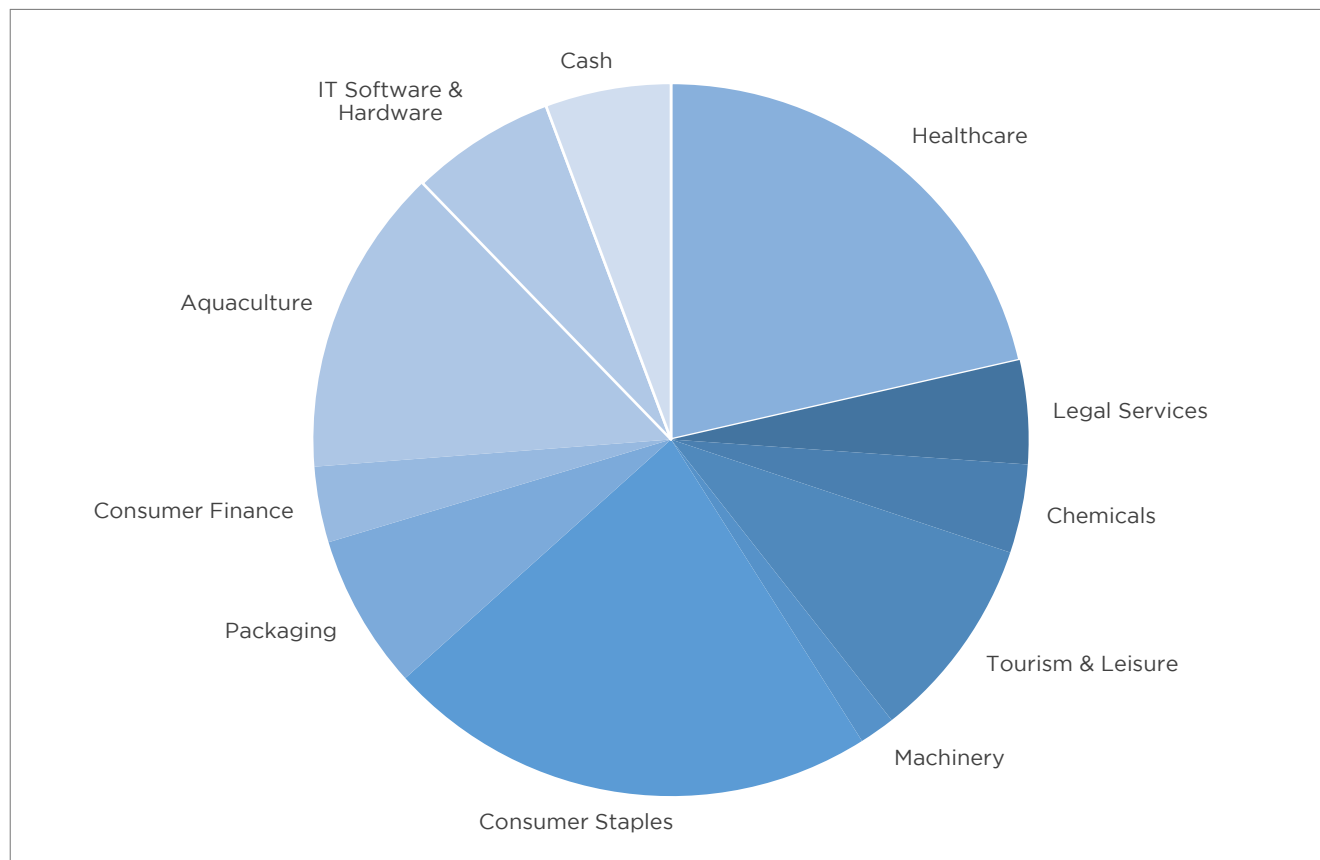
In a sign that conditions are slowly starting to return to normal, IMR announced that the prestigious Semmelweis University Heart and Vascular Centre in Hungary has signed a purchase agreement. This is the eleventh site to establish an iCMR lab, with Hungary representing a new geographical presence for IMR. Planning is underway for procedures to commence before the end of 2021 in an existing Cardiovascular Magnetic Resource (CMR) suite that will be outfitted to become an iCMR lab.

Universal Biosensors (UBI, -4%) had another busy month, signing distribution agreements for its wine testing platform device, Sentia, in both France and the US, including initial commitments to purchase volumes for Sentia devices and strips to be delivered during October. It also noted that it has achieved \$1m of sales of Sentia product since it was launched in March 2021. UBI now has 11 Sentia distributors around the world with access to more than 25,000 wineries. It also expects its Malic Acid, Glucose and Fructose tests to be launched before the end of 2021, positioning UBI for further sales growth in 2022.

Finally, Bluechiip (BCT, +40%) announced that it had signed a two-year Licence and Development Agreement with California-based FUJIFILM Irvine Scientific (FISI). FISI is a worldwide leader in the innovation and manufacture of cell culture media, reagents, and medical devices for researchers and clinicians. The Company supports scientists working in cell therapy and regenerative medicine, assisted reproductive technology (ART/IVF) and cytogenetics for the large-scale production of biotherapeutics and vaccines. Under the agreement, FISI will pay BCT initial licence and development fees over the next 18 to 24 months. BCT will customise and develop a range of Bluechiip Enabled technologies for the ART market segment, designed to improve traceability of samples and simplify workflows. During this period, BCT and FISI will negotiate a supply agreement for customised products including minimum volumes, pricing and detailed commercial terms. Following what has been a lean period for the Company (largely due to COVID), this agreement with FISI represents a significant opportunity for BCT while providing further validation of its technology, and our patience as genuine long-term investors.

Portfolio characteristics

We currently have ~94% of our capital invested in 15 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

Saville Capital

+61 3 9769 1789

jcollett@savillecapital.com

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