Emerging Companies Fund

Monthly Update: November 2021

Dear Fellow Investors,

Our Emerging Companies Fund was down –4.5% in November vs -0.4% for the Emerging Companies Accumulation Index (XECAI) and -1.4% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +33.8% p.a. and a total return of +307.5% vs +107.2% for the XECAI and +62.9% for the XSIAI.

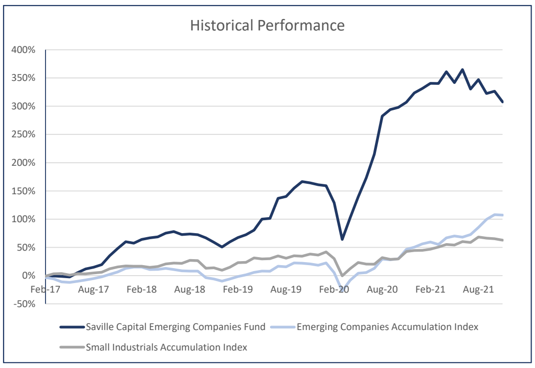
Frustratingly, the trend of the last six months continued, with numerous stocks delivering further significant share price declines, in spite of some incrementally positive developments pertinent to their underlying businesses. While it is disconcerting to watch our invested capital decline, we would encourage investors to step back from the monthly noise to see the bigger picture. The Fund has been through periods like this before (e.g. late 2018/early 2020) and we were rewarded for staying true to our investment style and research process. We cannot expect the market opinion to always be positively disposed towards the particular types of stocks we own and must accept that no matter how well researched and justified our investment positions might be, the market will go through periods where the nature, size and liquidity of companies we hold move temporarily out of favour. Unfortunately, this is the situation we have now faced for much of 2021.

It is during these periods where we need stock specific news flow to help alter the share price trading momentum. There was no better example of this during November than IDT Australia (IDT, +9%) which was down a staggering -30% for the month prior to announcing that it had successfully completed production of Australia's first ever mRNA vaccine, in collaboration with the Monash Institute of Pharmaceuticals (MIPS), to be used in an upcoming clinical trial. While this news didn't come as a particular surprise to us, it clearly served as a timely reminder to the market that IDT's recent share price movements had disconnected from the reality of its business progress. To that end, we are optimistic that early 2022 will see better Fund performance, as we expect several companies to provide updates that should help capture (or recapture) the market's attention.

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%	-4.5%		-3.8%	-8.8%	+0.1%

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



Performance commentary

The three key positive contributors were Bluechiip (BCT, +48%), Universal Biosensors (UBI, +20%) and IDT Australia (IDT, +9%). The three key negative contributors were Marley Spoon (MMM, -20%), Pro-Pack Packaging (PPG, -14%) and Murray Cod (MCA, -11%).

MCA completed an institutional placement to raise $30m in order to materially de-risk its growth strategy and provide confidence in meeting and exceeding its 2030 production target of 10,000 tonnes per annum. It will also allow further investment in vertically integrated processing facilities (e.g. feed production and filleting) and value-added products, driving production efficiencies and enhancing the revenue per kilogram from each fish (up from ~$20/kg to $25/kg) as well as its gross margin (up from ~55% to ~65%). While we have always been very attracted to its significant growth prospects, there was always a lingering query around MCA's funding position that made it vulnerable to weak equity markets, so to have the business now fully funded is a significant de-risking event.

Shine Justice (SHJ, +6.%) announced that Johnson & Johnson's application for special leave to appeal against the mesh case decision in the High Court was refused. This brought to an end all avenues of appeal in the matter and paves the way for SHJ to secure damages for all group members in the coming months. As a result of this decision, SHJ will receive payment in respect of the balance of its unpaid fees (we understand this is ~$20m). In addition, SHJ will now commence the group assessment phase of the matter, which is expected to run for several years, generating significant further fee income for the Company. We note with interest that following this decision, both the CEO and Chairman purchased more shares on market, which is a solid endorsement of its future.

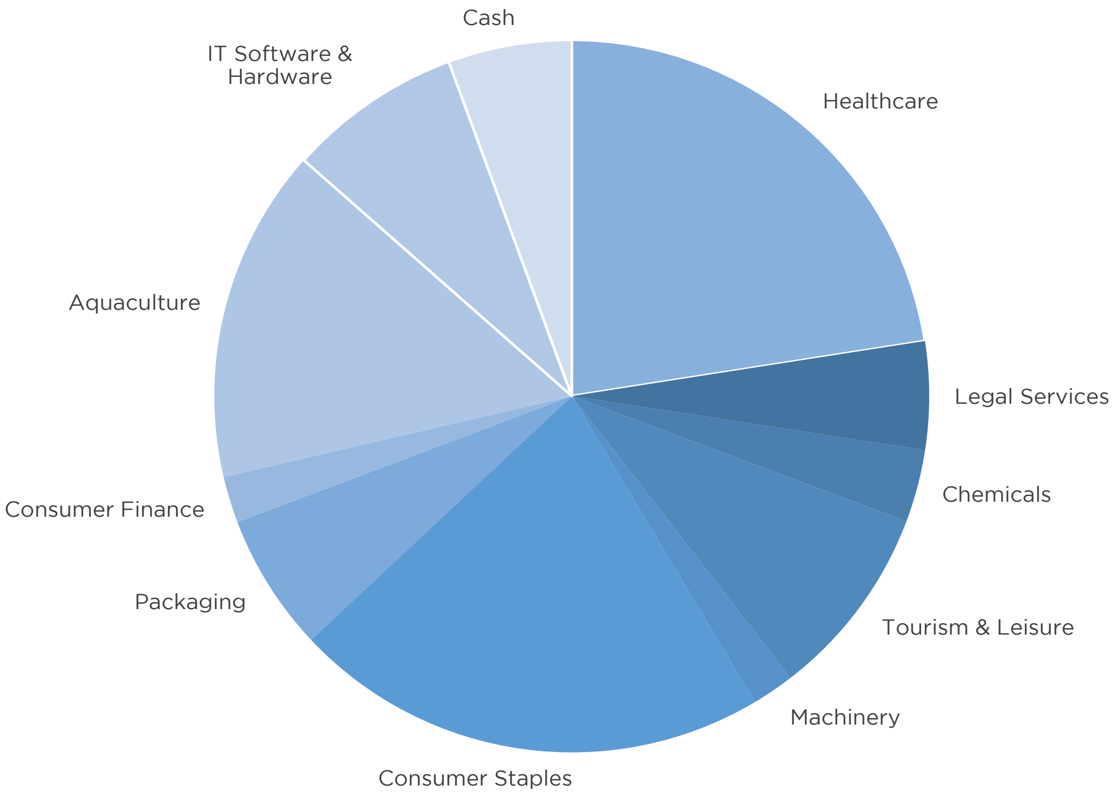
IDT announced that it had successfully created Australia's first mRNA COVID-19 vaccine candidate, enabling clinical trials to begin in the new year. IDT manufactured 450 doses in its Boronia facility, which will enable 150 people to take part in Phase 1 clinical trials run by the Doherty Institute, with results expected later in 2022. As a reminder, during early October IDT entered into a Master Services Agreement with Monash Institute of Pharmaceutical Sciences (MIPS) to provide cGMP manufacturing services to produce drug product for MIPS's mRNA COVID-19 receptor binding domain vaccine clinical trial. Successful manufacture signifies the completion of the material elements of the agreement. While it remains to be seen if this vaccine is approved for clinical use, given its unique ability to more readily adapt to new variants (unlike existing COVID-19 vaccines) it would certainly be in high demand should it complete its clinical trials with success. In the meantime, we would expect that IDT has now further enhanced its prospects of being part of the Federal Government's manufacturing solution for existing COVID-19 vaccines.

FBR Limited (FBR, +12%) announced that it has executed a term sheet with GP Vivienda to supply Wall as a Service® for between 2,000 and 5,000 homes in Mexico using FBR's Hadrian X® construction robot, subject to a number of milestones that must be completed within the first 24 months. In the meantime, FBR continues to engage with local builders, having entered into a contract with a prominent Perth builder to supply Wall as a Service® and concrete slabs for 16 townhouses in a development in WA. While still modest in revenue terms, FBR now has a confirmed pipeline of 27 jobs and anticipates that this will continue to grow in the coming months. To that end, FBR raised $10m via a placement to fund ongoing working capital and to continue its pathway to full commercialisation of its technology. We supported the capital raising as our view remains that FBR's technology is revolutionary and will be in high demand (whether it be directly or via a global OEM) once the machines are optimised for full commercial rollout.

Finally, PPG provided a trading update in which it noted the effects of global input cost inflation (container freight and resin supply), site closures from COVID-19 shutdowns as well as consequent increased labour costs to clear production backlogs. None of this came as particularly surprising, but as a result of these factors PPG now expects its 1H22 underlying PBT to be $7.1m (vs $11.7m in pcp), well below its initial expectations. Pleasingly, PPG is now implementing price increases to help offset these impacts in 2H22.

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 January on our performance during December.

Kind regards,

Jonathan Collett

Principal

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Important Information