Emerging Companies Fund

Monthly Update: March 2022

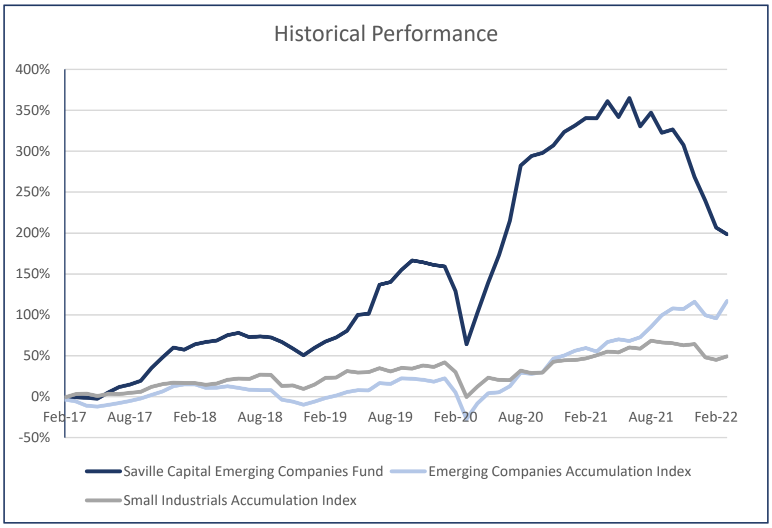
Dear Fellow Investors,

Our Emerging Companies Fund was down –3.0% in March vs +10.6% for the Emerging Companies Accumulation Index (XECAI) and +3.0% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +23.6% p.a. and a total return of +198.5% vs +116.7% for the XECAI and +49.3% for the XSIAI.

March was a tale of two halves for our Fund, with the first fortnight being a continuation of the incessant selling pressure in microcap industrials of the past few months, followed by a solid rebound during the second fortnight. To put it into context, the Fund was down almost 13% by the middle of the month, before improving sharply to finish down 3%. While we would much rather have recorded a positive result for the month, it was at least refreshing to have a couple of positive weeks. Whether this is the end of the purge in our market segment remains to be seen, as unfortunately the factors (elevated inflation, rising bond yields) driving the rotation out of microcap industrials into commodities remain largely intact for now. As we have stated previously, in the meantime we must rely on our companies to deliver news flow/earnings that help their share prices to buck the market trend. To that end, April should provide that opportunity given the number of quarterly results that are released, albeit the impacts of Omicron were (and still are) being felt in numerous industries during the quarter so while we should see improvement, many businesses are still facing some challenges due to factors completely beyond their control. Our mindset remains to look beyond these unique near-term operating and share price performance headwinds and be positioned for a return to more normal conditions.

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%	-9.6%	-13.0%		
2022	-7.9%	-9.6%	-3.0%										-19.2%	-19.2%	-32.4%



Performance commentary

The key positive contributors were Hydration Pharmaceuticals (HPC, +29%), Lark Distillery (LRK, +15%) and Tourism Holdings (THL, +9%). The key negative contributors were Pro-Pac Packaging (PPG, -17%), FBR Limited (FBR, -19%) and Redbubble (RBL, -15%).

Mighty Craft (MCL, flat) announced that it had increased its total distribution points by +8,516 in the March quarter, now totalling 33,266 across the country. The expansion was across a range of products and channels, highlighting the benefits of their portfolio approach when dealing with customers who are prioritising simplicity and breadth. MCL also announced its participation in a funding initiative that will allow the Company to accelerate whisky production and the spirits growth agenda in a capital efficient manner, effectively by putting the inventory off balance sheet until it is mature and ready for sale. The barrels of whisky will be owned by a Whisky Development Syndicate (WDS), but managed under contract with MCL until it is sold to them on maturation.

HPC announced the signing of prominent North American actress, model and entrepreneur Shay Mitchell as a partner and brand ambassador. Shay has over 32.5m Instagram followers, 3m Twitter followers, 4.23m YouTube subscribers and over 6.8m followers on TikTok. Being Canadian born and a young mother, HPC believes Shay offers a unique relationship in one of its key operating markets, with a follower base focused across the Company's target demographic, providing considerable opportunity to tap into new customers. HPC will also work with Shay to develop a custom flavour specifically designed to her specifications. Under the agreement, Shay will promote the Company's products across social media channels, conduct promotional appearances and attend meetings with retailers. Shay will also become an investor in the Company through the grant of shares and we look forward to the positive contribution she will make to HPC.

Company in focus: Ansarada Limited (AND)

AND has developed a SaaS platform that helps users to govern their information and processes in deals and transaction management, board management, compliance and tenders. It is also launching a new product to help companies to manage, rate and report on ESG performance. Across its target markets and geographies, AND has a growing TAM of >$50bn vs its current revenue of ~$50m pa. AND has over 150 employees across its offices located in Sydney, Chicago, London, Amsterdam, Johannesburg and Vietnam.

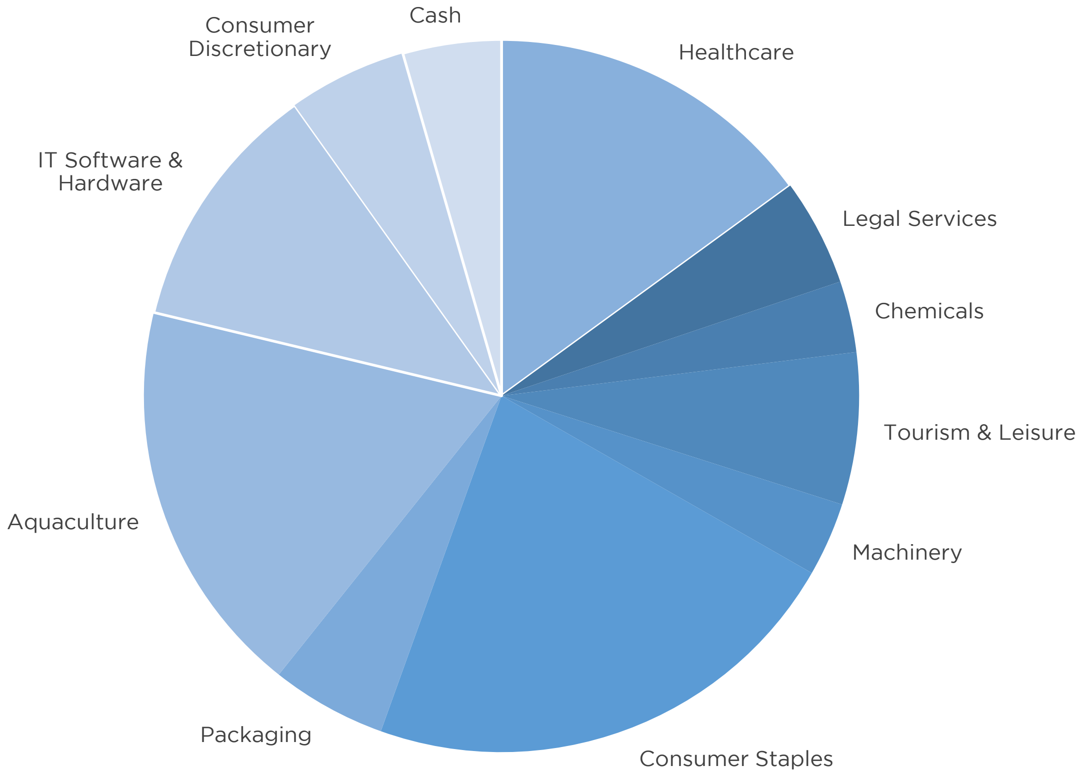
AND has 3,670 active customers with 603,000 unique users across 180 countries including all of the major investment banks, legal and accounting firms, and many of the top 100 ASX listed companies. While over half of its revenue is still from Australia and New Zealand, where it is the dominant service provider in its sector, AND is slowly scaling its operations across the globe in a disciplined manner. Importantly, our industry feedback is that AND's product offering is best in class and therefore should be able to continue to build market share (off a low base) in key geographies such as North America and Europe.

At its 1H FY22 result, AND delivered revenue growth of 52% underpinned by customer growth of 21%, subscriber growth of 35% and ARPA growth of 29% (due to new pricing and packaging). Like most SaaS businesses, AND operates with very attractive gross margins, running at ~95%, but unlike many peers, it also has a disciplined and self-funding approach to achieving its growth ambitions, ensuring that it generates positive EBITDA and cash flow, with over $20m in net cash and no debt. Nonetheless, AND will continue to invest much of its excess earnings back into driving revenue growth, specifically marketing to overseas markets and investment in digital acquisition channels.

Given its scalable and high margin business model, combined with a significant addressable market opportunity that continues to evolve, we see AND's FY22 valuation metrics as very undemanding (EV/Revenue 3.5x and EV/EBITDA 20.0x), underpinned by our own DCF valuation which is well above the current share price. There is also strong alignment from the board/management with investors via significant shareholdings.

Portfolio characteristics

We currently have ~96% 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 May on our performance during April.

Kind regards,

Jonathan Collett

Principal

Saville Capital

+61 3 9769 1789

jcollett@savillecapital.com