

Emerging Companies Fund

Monthly Update: October 2022



Dear Fellow Investors,

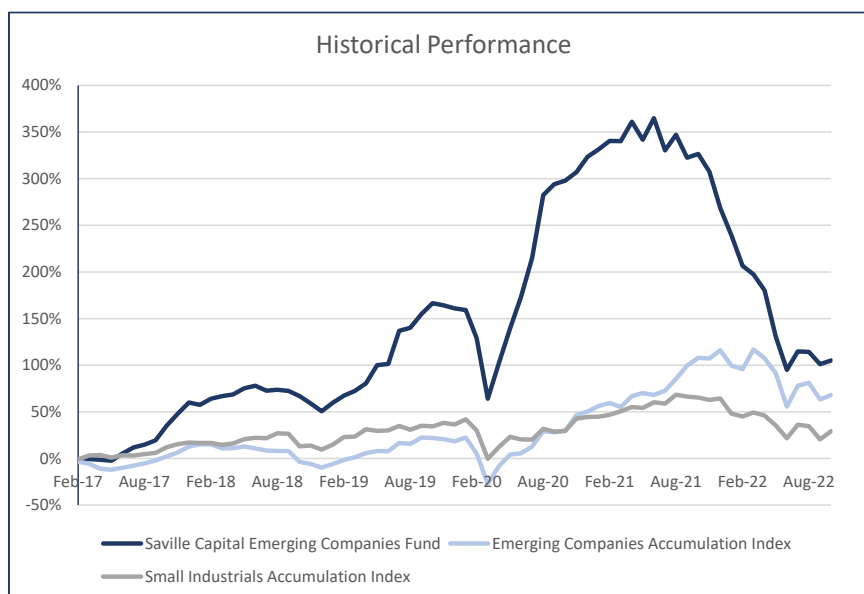
Our Emerging Companies Fund was up +2.0% in October vs +2.9% for the Emerging Companies Accumulation Index (XECAI) and +7.4% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +13.3% p.a. and a total return of +105.3% vs +68.1% for the XECAI and +29.4% for the XSIAI.

Having spent the majority of the month in negative territory, it was pleasing to finish slightly up following a spate of good updates in the final week of the month. However, it does serve to highlight to us the unfortunate headwind we still face at the micro end of the industrials market. That is, in the absence of positive stock-specific news flow, the general market momentum within microcap industrials remains more biased towards the negative. It is no longer panicked selling like we saw in the first half of the year, but the damage to investor confidence (and patience) caused by that period is still weighing on sentiment. This not only sees stocks without news flow often drift lower, but stocks that report positive news flow are generally met with considerable selling pressure not long after the price has started to re-rate. As we stated last month, we are still reasonably confident that the Fund's unit price has bottomed, but the timing of when we will return to a period of more rational investor behaviour and stronger investment returns remains uncertain. It feels like the cleansing process may still have a few months to run before we see some sustained positive momentum, but we expect patience to be well-rewarded.

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%	-5.8%	-17.6%	-15.5%	+10.1%	-0.3%	-6.1%	+2.0%			-44.3%	-4.5%	-51.9%

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



Performance commentary

The key positive contributors were Tourism Holdings (THL.NZ, +32%), Mighty Craft (MCL, +50%) and The Hydration Pharmaceuticals Company (HPC, +65%). The key negative contributors were Murray Cod (MCA, -16%), Imricor (IMR, -31%) and Terragen (TGH, -19%).

Following on from obtaining competition clearance for its proposed merger with Apollo Tourism & Leisure (ATL) during September, THL upgraded its NPAT guidance for FY23 from between \$17.0m and \$30.2m to “above \$30m”, including the impact of an estimated \$3.5m in Apollo-related transaction costs in FY23. The improved outlook is primarily a result of performance in 1Q FY23 exceeding earlier expectations and greater certainty on forward rental revenue for the upcoming high season in Australia and New Zealand. Demand and rental yields have been above prior expectations, with yields (across the financial year to date and current summer bookings) up by more than +35% on FY19 levels in New Zealand and up by more than +70% on FY19 levels in Australia. Vehicle sales also continue to perform well from a margin perspective in all markets, with supply chain issues in motorised RVs now expected to continue deeper into 2023, resulting in a continuing shortage of sales stock in the market that is holding up sales margins.

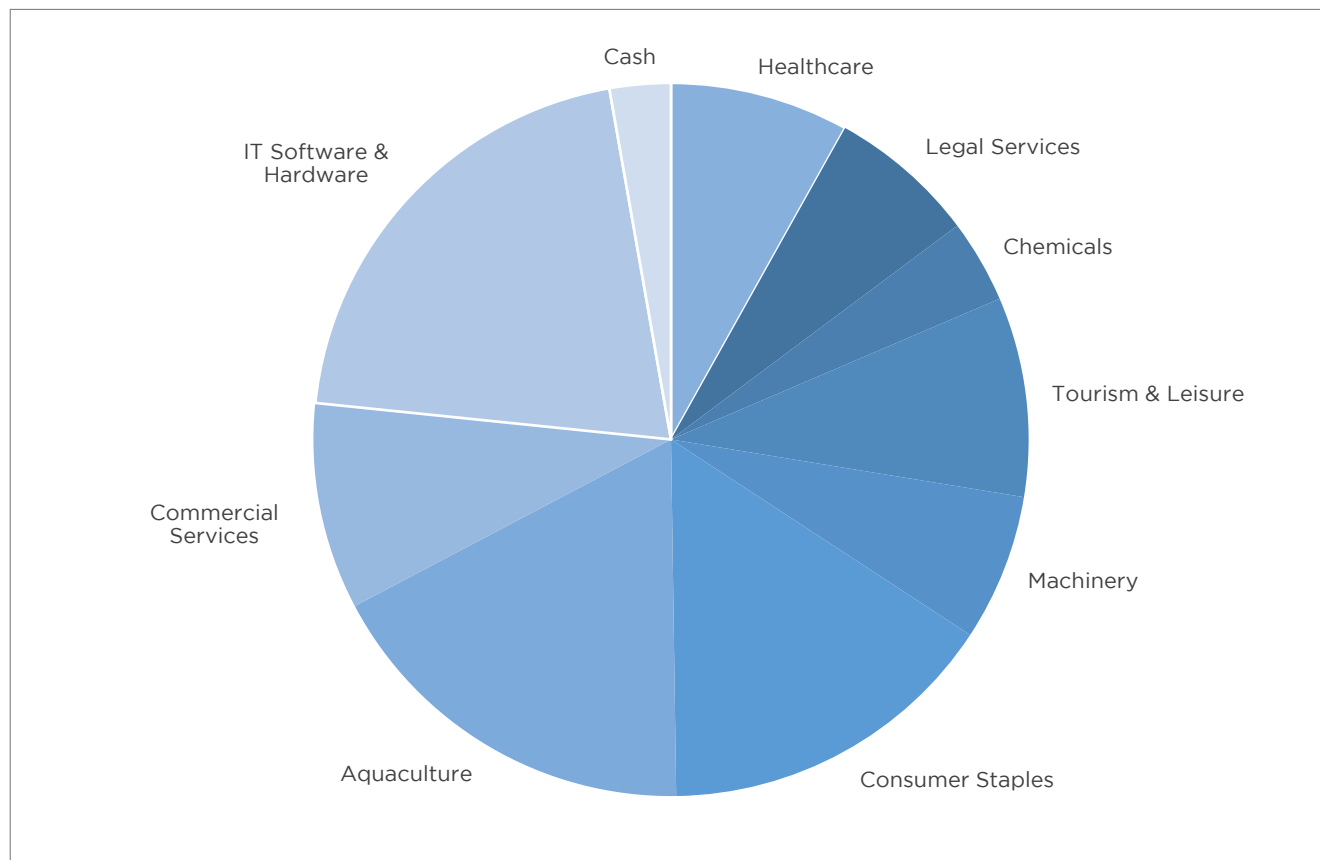
MCA had another solid quarter, with customer receipts up +144% on a pcp that was impacted by lockdowns. As already flagged by the Company, volume growth will be slower for the remainder of FY23 as MCA seeks to build its stockpile of larger fish, which is where they are seeing the highest demand/margins. However, the constrained supply is enabling MCA to push through substantial price increases in the meantime (e.g. live fish are now selling at \$24/kg vs \$19/kg in 2020), with current demand indicating more price rises will occur in the next six months. Aquana Cod is also appearing on an ever-increasing number of restaurant menus around Melbourne, while also noting that it is now stocked at both of our local Coles and Woolworths stores. Unfortunately, the clear and demonstrable improvement in distribution points and the bullish outlook for its near-term pricing and medium-term volumes is not translating into positive share price performance (in fact, frustratingly, it has been quite the opposite). Based on broker data, it appears that a single large institutional seller has been putting significant pressure on the stock for several months now, which at some point will obviously reach its completion. MCA is certainly not alone in this regard, with many illiquid stocks suffering as some larger institutions decide (or are forced) to pivot away from holding these smaller stocks in their portfolios.

Marley Spoon (MMM, +16%) delivered another pleasing quarter despite a challenging environment (particularly the floods in Australia). Revenue in 3Q CY22 was up +26% on pcp and contribution margin was 28.8% (up +160 bps vs 2Q and +70 bps on pcp). All of this culminated in an Operating EBITDA loss of -€1m, up from -€3m in 2Q and -€13m in the pcp. The positive earnings momentum underpins MMM's guidance of +€2m to +€4m EBITDA in 4Q, which would complete a welcome turnaround in the earnings trajectory of the business. With that as the foundation, including a cash balance of €22m, we would expect MMM to be comfortably EBITDA and operating cash flow positive in CY23, thus allaying fears that it will be forced into an emergency equity raising. A key driver of further improvement in MMM's earnings profile will also be the turnaround plan underway in its European business, which has been a drag on the overall performance of the business (both Australia and the US are now profitable). Unfortunately, like many other microcap stocks, the improving performance/outlook for MMM is yet to be recognised by the market, with the share price still languishing despite significant gains being made on a range of key performance metrics. Based on our forecasts, MMM is likely trading on <10x CY23 EV/EBITDA and <5x in CY24. We would expect that as the market gains comfort that MMM will indeed generate positive EBITDA in CY23 (and beyond), these multiples will expand quite considerably, underpinning a potentially significant share price re-rating.

Finally, HPC announced that it has secured a \$12m loan facility to support its growth objectives, removing the need to raise equity at depressed prices. With October sales running at +80% on pcp, ongoing margin improvements and the new co-branded product launch with Shay Mitchell imminent, the business looks set for a very strong end to CY22.

Portfolio characteristics

We currently have ~97% 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 December on our performance during November.

Kind regards,

Jonathan Collett

Principal

Saville Capital

+61 3 9769 1789

jcollett@savillecapital.com

Important Information

One Funds Management Limited ("OFML"), ACN 117 797 403, AFSL 300337, is the issuer and trustee of the Saville Capital Emerging Companies Fund. The material contained in this communication is general information only and was not prepared by OFML but has been prepared by Saville Capital Pty Ltd ("Saville Capital"), a Corporate Authorised Representative of One Investment Administration Ltd ("OIA"), ACN 072 899 060, AFSL 225064. Saville Capital has made every effort to ensure the accuracy and currency of the information contained in this document. However, no warranty is made as to the accuracy or reliability of the information. Investors should consider the Information Memorandum ("IM") dated 23 December 2016 issued by OFML before making any decision regarding the Fund. The IM contains important information about investing in the Fund and it is important investors obtain and read a copy of the IM before deciding about whether to acquire, continue to hold or dispose of units in the Fund. You should also consult a licensed financial adviser before making an investment decision in relation to the Fund. Past performance is no guarantee of future performance. This report does not take into account a reader's investment objectives, particular needs or financial situation and is general information only to wholesale investors and should not be considered as investment advice and should not be relied on as an investment recommendation.