Emerging Companies Fund

Monthly Update: April 2023

Dear Fellow Investors,

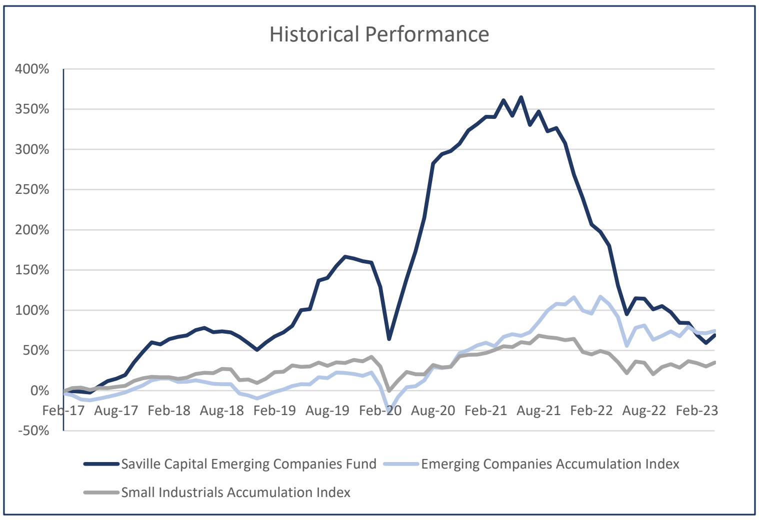
Our Emerging Companies Fund was up +6.1% in April vs +1.5% for the Emerging Companies Accumulation Index (XECAI) and +3.6% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +8.8% p.a. and a total return of +68.9% vs +74.1% for the XECAI and +34.9% for the XSIAI.

Pleasingly, the Fund was finally able to deliver positive performance again (off a very low base) driven by a combination of some good quarterly results, promising stock news flow and improving market sentiment/liquidity within micro and small cap industrials. On the latter point, it was interesting to read during the month that the $200 billion Future Fund has decided to invest some of its capital with domestic small cap managers as part of a multi-year process to reposition its portfolio to capitalise on a “richer universe for active management” based on their view that we are exiting a period where equity market returns have been “largely responsive to central bank policies”. Any infusion of capital into the small cap market that has been so starved of attention for the past 18 months can only be positive for our strategy. It helps to underpin improved liquidity, remove the industry overhang of larger small cap managers being net sellers to fund significant redemptions, while also potentially creating much-needed positive momentum to restore confidence among the retail investment community. The only caveat being that ongoing rate hikes by the RBA are clearly placing pressure on retail investors, as evidenced by the erratic selling activity we continue to see, particularly after each increase has been announced. As such, we look forward to seeing the end of the rate hike cycle, which may already be upon us.

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%	-3.8%	-6.7%	-49.9%		
2023	-0.2%	-8.1%	-6.1%	+6.1%									-8.7%	-8.5%	-39.9%

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



Performance commentary

The key positive contributors during April were Dropsuite (DSE, +29%), Ansarada (AND, +18%) and Fleetwood (FWD, +24%). The key negative contributors were Hydration Pharmaceuticals (HPC, -24%), Pentanet (5GG, -24%) and Mighty Craft (MCL, -6%).

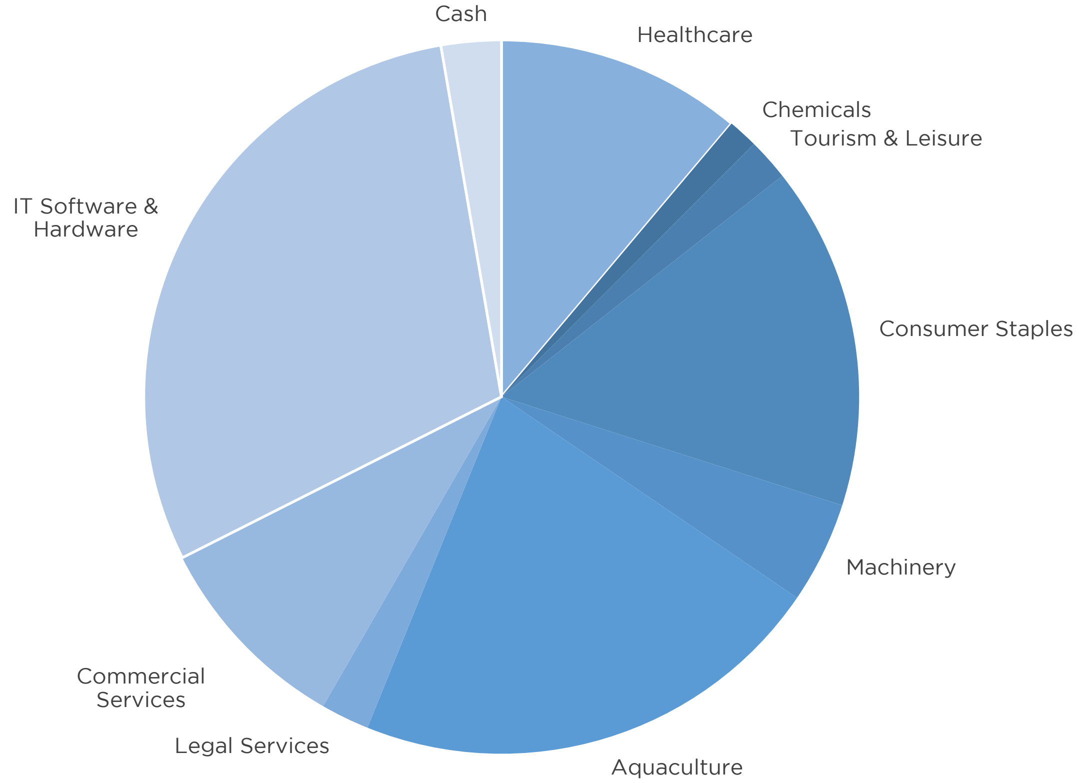
DSE delivered another outstanding quarterly result with 1Q CY23 ARR of $28.2m, up +11% QoQ and up +66% on pcp. It also generated positive operating cash flow of $0.28m and reiterated that CY23 will be cash flow positive. Monthly ARPU of $2.31 continues to grow (up +2% QoQ) and +18% on pcp) while product gross margins of 69% were consistent with the prior quarter. DSE ended the quarter with $22.7m in cash and remains well funded to progress on strategic acquisitions and internal reinvestment opportunities to drive growth. The numerous structural tailwinds (e.g. SME migration to the cloud, increasing focus on cybersecurity risks etc) underpinning growth in DSE's business remain firmly intact. This is being complemented by opportunities for DSE to reinvest gross profit back into the business to acquire more market share through new products as well as existing product enhancements, which are likely to be augmented through some targeted acquisitions. With such a significant growth runway, coupled with undemanding valuation metrics and a strong balance sheet, DSE is one of the highest conviction positions in our portfolio.

IDT Australia (IDT, +33%) provided a very positive update on its current business activities and outlook (albeit coming off a low base), highlighting that sales in 3Q FY23 were $2.1m, up +26% QoQ and up +168% vs 1Q FY23. IDT noted that the improving sales trajectory is being driven by growth in its medicinal cannabis customers and the opening of the psychedelics market. In the first of two recent positive developments, new manufacturing standards mandated by the TGA from 1 July 2023 will require all Australian medicinal cannabis manufacturers to comply with one of the Good Manufacturing Practice (GMP) standards for medicines and be licensed by the TGA. Furthermore, any importers of medicinal cannabis will need to show evidence of GMP compliance at the manufacturing site. Not only does this lock low-cost manufacturers out of the Australian market, it may encourage more medicinal cannabis growers to use IDT's service given it is already GMP certified and holds all of the necessary TGA licenses (both of which are time consuming and costly to acquire). The second positive development is that the TGA will permit authorised psychiatrists to prescribe two types of psychedelics (MDMA and psilocybin) for specific mental health conditions from 1 July 2023. Importantly, IDT has all the necessary licences and manufacturing facilities required and has already secured manufacturing contracts to produce oral doses of both drugs, with more contracts expected to follow.

Following the completion of a strategic review to try and arrest the persistent decline in its share price on the ASX and unlock shareholder value, Marley Spoon (MMM, -3%) has entered into a Business Combination Agreement ("BCA") with 468 SPAC, which is listed on the Frankfurt Stock Exchange and is related to MMM's largest shareholder, 468 Capital. Approximately 70% of the Company's existing shareholders have agreed to transfer their holdings in consideration for new shares in 468 SPAC at an exchange ratio equivalent to A$0.21/share, which was a 45% premium to the last close. In addition, MMM is undertaking a concurrent capital raising of A$52m from new and existing investors at $0.17/share, all of whom have agreed to transfer their holdings to 468 SPAC, meaning approximately 83% of the Company's shareholders are supportive of the BCA with 468 SPAC. All remaining shareholders (including our Fund) will have the same opportunity to exchange their ASX shares for equity in 468 SPAC, at the same exchange ratio, under a separate direct offer which will be made if the BCA is successfully completed. In addition, we understand that it is possible that those minority shareholders who do not wish to exchange their ASX holdings for scrip in 468 SPAC may be offered cash consideration instead. As such, we will await further communication from the Board before deciding how and when we will exit our stake in the Company. But suffice to say it is ultimately a disappointing conclusion to an investment that was initially a great contributor to the Fund, but has now become a significant detractor. The silver lining is that we should soon be free to redeploy those funds elsewhere in a market which remains littered with compelling opportunities, hopefully generating far better share price performance than what MMM was delivering.

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 June on our performance during May.

Kind regards,

Jonathan Collett

Principal

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