Emerging Companies Fund

Monthly Update: June 2023

Dear Fellow Investors,

Our Emerging Companies Fund was down –7.8% in June vs +1.9% for the Emerging Companies Accumulation Index (XECAI) and +0.5% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +6.2% p.a. and a total return of +47.2% vs +66.3% for the XECAI and +33.3% for the XSIAI.

The selling in our "tax-loss candidates" (of which, unfortunately, there were many) continued largely unabated during June with 11 of our 16 stocks declining further, including seven that fell by -10% or more. The good news is that because of the artificial nature of the decline, we have already recovered all of our June negative performance (plus considerably more) in the July month to date. We were recently sent a table (see below) showing the FY23 performance of each sector by market cap range, highlighting the enormous dispersion based on size/liquidity. We have observed the same trend within our portfolio where individual stock performance has not been driven by sector exposure, news flow or fundamental valuation support, but largely by market cap size and liquidity. This is a classic example of market inefficiency driven by flow of funds into perceived areas of safety (i.e. large caps/defensives) due to rising interest rates. As this process inevitably concludes, it should create the foundation for a period of significant outperformance by those smaller companies which have continued to be able to access capital (if required), as ours have done, while also delivering on their growth potential.

FY23 ASX Performance - by Market Cap/Sector

	<$20m	$20m - $100m	$100m - $1B	>$1B
Communication Services	-23.5%	-18.8%	-17.0%	11.1%
Consumer Discretionary	-50.4%	-18.6%	0.0%	4.8%
Consumer Staples	-50.0%	-24.4%	-16.3%	-1.3%
Energy	-31.4%	-13.0%	-10.6%	10.2%
Financials	-25.9%	-18.9%	-10.1%	5.6%
Health Care	-44.4%	-23.2%	7.0%	10.7%
Industrials	-30.8%	3.4%	4.9%	16.1%
Information Technology	-40.3%	-20.8%	5.6%	17.8%
Materials	-36.5%	-16.7%	-2.1%	20.2%
Real Estate	-32.1%	-8.7%	-8.8%	-3.6%
Utilities	-47.0%	91.5%	16.0%	15.7%
Overall	**-37.5%**	**-16.7%**	**-2.9%**	**8.0%**

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%	-5.4%	-7.8%							-20.4%	-7.5%	-24.7%

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

Performance commentary

The key positive contributors during June were Fleetwood (FWD, +26%), Imricor (IMR, +12%) and Pentanet (5GG, +7%). The key negative contributors were Murray Cod Australia (MCA, -20%), IDT Australia (IDT, -30%) and Mighty Craft (MCL, -27%).

Early in the month, IDT raised $5m at $0.065/share via a placement (with a further ~$2m to be raised via an SPP), with the proceeds intended to be used for capital equipment upgrades, as well as additional working capital, in order to service and fund anticipated significant volume growth. IDT has substantially increased its business development activity since the appointment of its new CEO in September 2022. This has resulted in strong quarter-on-quarter growth throughout FY23, with unaudited revenue in 4Q up 12% on 3Q, while the quarterly run-rate is now up 200% on 1Q. Given the strength of its sales pipeline, the Company expects this trajectory to continue into FY24.

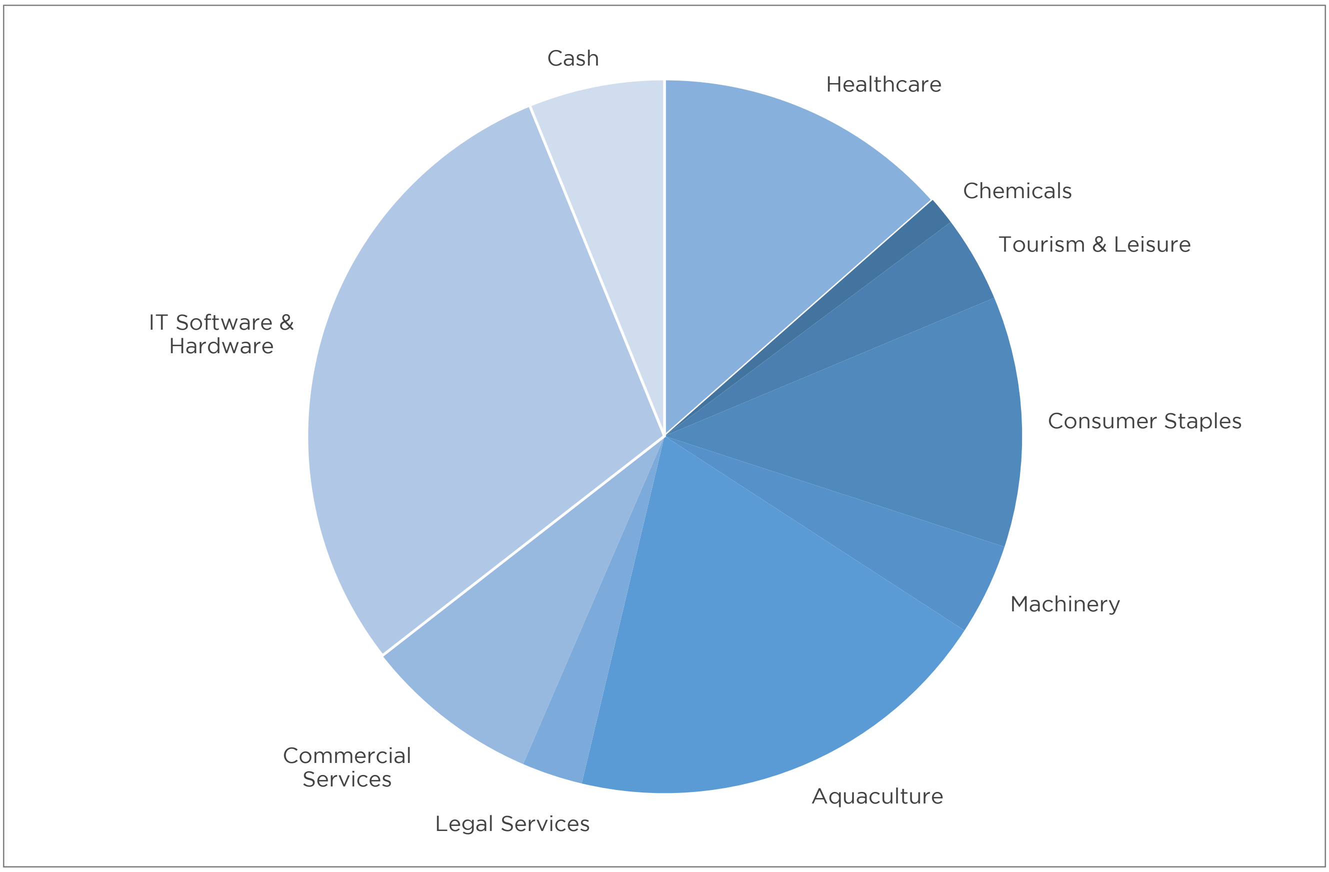
FWD announced that Rio Tinto has exercised its right to secure additional rooms at FWD's Searipple Village in Karratha. The additional booked rooms are secured on a take or pay basis, with a rebate provided if the rooms are not occupied. The additional rooms are expected to generate a further $100m to $120m in revenue for FWD from 1 April 2024 until the end of the term, expiring on 30 April 2027. To put this into context, the consensus revenue forecasts for FWD's entire business are $373m in FY23, $393m in FY24 and $421m in FY25, so this contract represents a significant amount. We now await news on whether the construction contractors for the Perdaman Urea Project sign an agreement to utilise Searipple, which would further strengthen the utilisation/earnings of the village over the next few years and add to FWD's growing revenue/earnings base.

Hydration Pharmaceuticals (HPC, -8%) announced that the Company generated US$1.7m in unaudited net sales during the first two months of Q2 CY23, a +31% increase on the pcp. This included monthly sales of US$1m in May 2023, a 42% uplift on the pcp. Importantly, this has been achieved during a period where HPC has continued to focus on the consistent reduction in marketing costs, which were 23% below pcp across April and May 2023. In fact, marketing spend of $0.4m during May 2023 was the lowest monthly spend since the Company's IPO in December 2021. HPC will continue to leverage the brand awareness established through its marketing program to-date and maintain revenue growth with a material reduction in costs.

Finally, at the beginning of July, Marley Spoon (MMM, -8%) announced that 468 SPAC received support from its shareholders for its proposed business combination ("Business Combination") with MMM, with 100% of 468 SPAC's shareholders attending the EGM voting in favour of the Business Combination. The total funding of the combined entity in connection with the Business Combination amounts to ~€44.9 million, including €35 million that MMM received from the pre-SPAC Placements in connection with the Business Combination. The SPAC's shareholders also approved the renaming of 468 SPAC to Marley Spoon Group SE. As a result of the Business Combination, 468 SPAC will now acquire approximately 84% of the outstanding German shares in MMM. Now that the Business Combination is complete, as soon as practicable 468 SPAC intends to make a direct tender offer of $0.21/share (vs current share price of $0.115) to acquire the outstanding ~118 million CDIs from the remaining shareholders of MMM. While we can understand the reticence of some ASX holders of MMM to want to hold scrip in a new vehicle listed on the Frankfurt Stock Exchange, and as such may be keen to sell on the ASX prior to its eventual delisting/transfer, we remain completely perplexed by the size of the discount (~45%) MMM continues to trade at vs the price of the direct tender offer. We expect that this discount may start to close once the direct offer is made, especially now that Marley Spoon (ticker: MS1) has commenced trading on the Frankfurt Stock Exchange.

Portfolio characteristics

We currently have ~94% 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 August on our performance during July.

Kind regards,

Jonathan Collett

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Important Information