Emerging Companies Fund

Monthly Update: August 2023

Dear Fellow Investors,

Our Emerging Companies Fund was down –3.7% in August vs –4.2% for the Emerging Companies Accumulation Index (XECAI) and –1.5% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +8.7% p.a. and a total return of +72.4% vs +66.7% for the XECAI and +37.6% for the XSIAI.

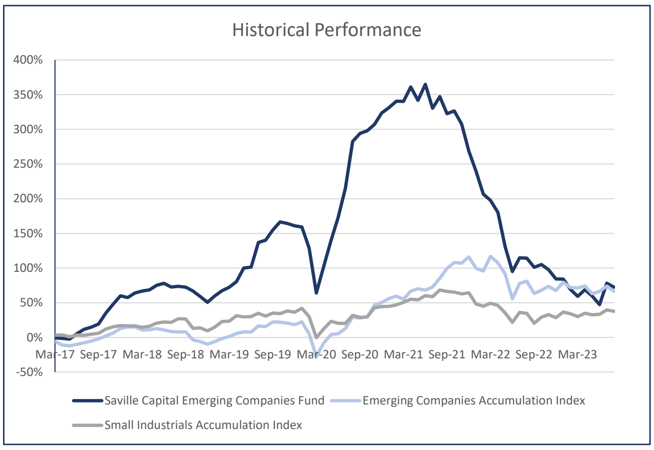
Despite spending much of the month either neutral or positive (against a persistently weak market), in the final week of trading the Fund played catch-up as several of our stocks saw their share prices drop sharply (most notably IMR, which went from a peak of +67% for the month to +34%). When we look back over the past 12 months, it is interesting (and pleasing) to note that the Fund is generally performing very well during months when quarterly results are released (i.e. July, October, January and April), as this is when the market focuses on what actually drives long term value for individual stocks. We also think our performance during July highlights that the Fund will perform very strongly when concerns about higher rates permanently abate, but in the meantime those headwinds were back with a vengeance in August as the narrative of higher rates for longer again gathered momentum. Bond yields climbed sharply for much of the month (moving from ~4% to a peak of ~4.3%, which is never good for microcap performance), before, ironically, several macro data points in the last couple days of the month suggested that the case for persistently high rates is becoming weaker, not stronger.

Our view remains that this period presents an opportunity to buy stocks at very attractive prices while we wait for the macro data to build the case for rate cuts, at which point the market will be selling cyclicals and chasing stocks that offer both growth and duration.

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%	+21.2%	-3.7%					-7.1%	+7.5%	-20.0%

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



Performance commentary

The key positive contributors during August were Imricor (IMR, +34%), Dropsuite (DSE, +6%) and FBR Limited (FBR, +10%). The key negative contributors were Pentanet (5GG, -27%), Bluechiip (BCT, -13%) and Murray Cod Australia (MCA, -9%).

While BCT's financial results remain modest as it drives customer adoption of its new Bluechiip Enabled products through a land and expand strategy, we were encouraged by the commentary in its FY23 Annual Report. The Chairman stated that "we are very close to completing the two-year license and development agreement with FujiFilm Irvine Scientific (FISI)" and "the directors are now very confident that a long-term agreement with FISI will be concluded shortly. This provides the Board with the confidence that the Company has now established a solid customer base from which to grow sales and cash flow." BCT's Managing Director also noted in his commentary that it has "more than 50 new customer opportunities in its pipeline", including "half a dozen of the world's top pharmaceutical companies". As many of our investors will be aware, we have been long-term shareholders in BCT, but recent developments have increased our confidence that our patience and conviction will be well-rewarded over the next 12 months or so.

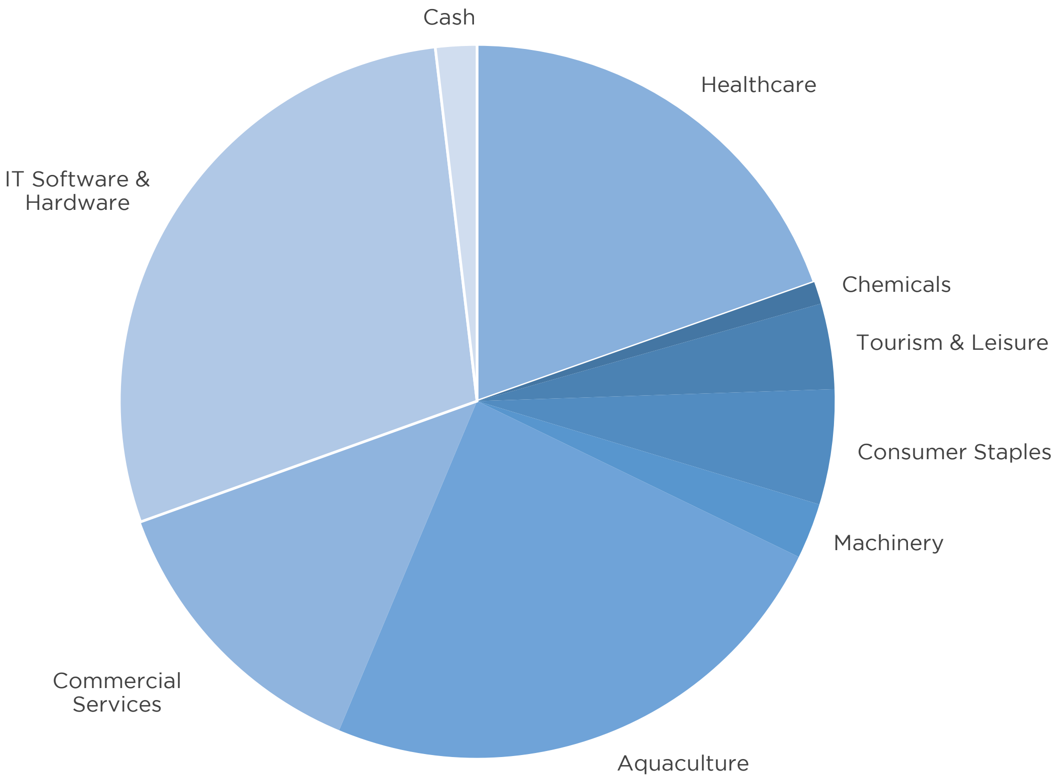
Similarly, IDT's financial results in FY23 were nothing to get particularly excited about, notwithstanding that underlying revenue (excluding Government payments) was up +25% on pcp (off a low base). More importantly, the outlook commentary was very positive, referring to IDT's recent capital investments enabling it to "substantially grow the pipeline of potential sales leads", underpinning its belief that it is "well placed to return to a period of sustained growth" with a "clear pathway back to profitability from leverage to several fast-growing markets." Despite the setbacks relating to missing out on potential COVID vaccine contracts and Government funding initiatives over the past couple of years, IDT is still operating in a very attractive industry with substantial tailwinds. These include an increased desire from various industry stakeholders to build and support our sovereign manufacturing capability (especially in the pharma industry), which is also helped by a weaker AUD. Given that IDT is currently trading at a ~25% discount to its NTA and is fully funded following its recent $7m capital raising, we think the share price upside from current levels is significant, especially if it can demonstrate that it is on track to become sustainably profitable under the leadership of its (relatively) new CEO and Board.

Fleetwood's (FWD, -2%) FY23 results demonstrated that its turnaround strategy, particularly within its Building Solutions division, is now delivering significant incremental improvement in its earnings (as evidenced by the reinstatement of its dividend). This should only accelerate into FY24, underpinned by a growing order book ($127m, up from $87m at 1H FY23) of small to medium sized projects that meet its margin criteria, as well as significant further growth in Community Solutions driven by the ramp-up of its Rio Tinto contract and likely demand from the WeBuild construction contract at Perdaman.

Finally, IMR had yet another month of positive news flow, securing all-important ethics approval for its VISABL-VT trial at Haga Hospital in The Hague, Netherlands. As a reminder, the VISABL-VT trial is a prospective, single-arm, multi-centre investigation of the safety and efficacy of radiofrequency (RF) ablation of ventricular tachycardia (VT) associated with ischemic cardiomyopathy performed with the Vision-MR Ablation Catheter 2.0 in the iCMR environment. The study calls for treating 64 patients and includes a six-month follow-up for each patient. The study is intended to support CE mark certification of the Vision-MR Ablation Catheter 2.0 for treating VT, which will be a key driver of increased adoption of IMR's technology (as well as generating much higher revenue and margin per procedure). The first patient to be enrolled in VISABL-VT is identified, and the first procedure was expected to take place in mid-August. Following this announcement, IMR raised another ~$3m from a select number of US, Australian and New Zealand investors at its prevailing share price of $0.61/share (subject to a 12-month escrow period). We continue to be encouraged by the support IMR is receiving from existing and new investors as it progresses towards increased commercial penetration of its technology, which we expect to underpin a significant and highly profitable business.

Portfolio characteristics

We currently have ~98% 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 October on our performance during September.

Kind regards,

Jonathan Collett

Principal

Saville Capital

+61 3 9769 1789
jcollett@savillecapital.com