Emerging Companies Fund

Monthly Update: October 2023

Dear Fellow Investors,

Our Emerging Companies Fund was down –1.8% in October vs –4.6% for the Emerging Companies Accumulation Index (XECAI) and –7.0% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +7.2% p.a. and a total return of +59.3% vs +51.3% for the XECAI and +21.5% for the XSIAI.

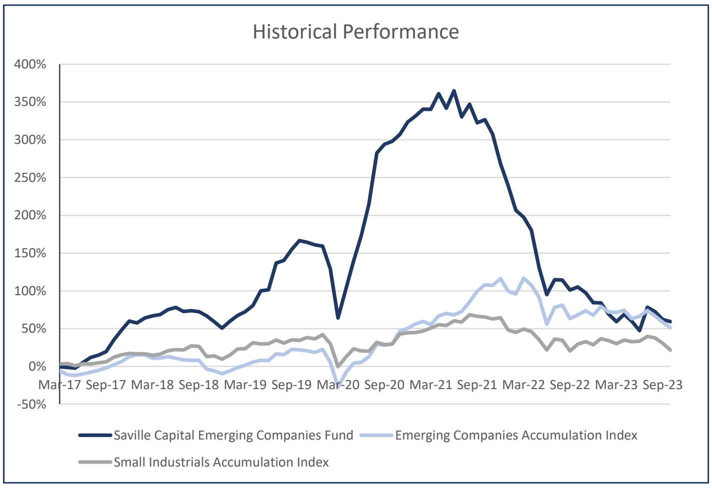
October was another very weak month for global markets, largely driven by a continued surge in bond yields (the Australian 10yr bond yield finished the month at ~5%, up from ~4.5% on 1 October) and heightened geopolitical tensions. Given these market headwinds, we were pleased (in a relative sense) that the Fund didn't suffer the same level of losses as the broader market, with news flow at the individual stock level helping to largely offset the macro weakness. In fact, we entered the final day of the month in positive territory (and to be clear our focus is absolute returns, not relative), but unfortunately a couple of significant share price declines late in the day on very light volumes pushed us below par.

Subsequent to month-end, we have seen the Fed decide to leave rates on hold, which has caused both short and long-term bond yields to retreat. If this trend in yields were to be sustained, then it would be supportive for equity markets and our Fund. But the catalyst for a more significant improvement in market conditions, particularly for growth/duration assets we typically hold in the Fund, would be a deterioration in economic data that gives rise to central banks deciding to cut rates during CY24. In the meantime, we eagerly await further news flow at the individual stock level within the portfolio to help ignite greater investor interest as/when the market for micro and small cap stocks inevitably rebounds.

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%	-5.6%	-1.8%			-13.9%	-10.7%	-22.6%

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



Performance commentary

The key positive contributors during October were Imricor (IMR, +23%), Pentanet (5GG, +11%) and Terragen (TGH, +8%). The key negative contributors were Bluechiip (BCT, -20%), FBR Limited (FBR, -19%) and Fleetwood (FWD, -12%).

IMR raised A$4.3m at $0.50/share (in which we participated) during the quarter, but more importantly received a Letter of Intent from the Pioneer Capital Fund (which is associated with the North Dakota government) to invest US$8m at a target price of US$0.60 (A$0.95) per share. Not only is this commitment at a significant premium to the prevailing share price, it would also see IMR fully funded through to the end of CY24. In addition, IMR announced that it is preparing the necessary pre-approval documentation and arranging pre-submission consultations with regulatory authorities to expedite the approval process for the sale of its proprietary 3D mapping software (NorthStar) to third parties. We understand that NorthStar garnered substantial interest during a recent demonstration at IMR's iCMR Design Centre, where it showcased its unique capacity to seamlessly communicate in real-time with MRI scanners and IMR's catheter devices through the Advantage-MR EP Recorder/Stimulator. This positions NorthStar as the central hub with a 3D user interface for guiding interventional MRI procedures, extending its capabilities beyond cardiac ablation. Finally, IMR is anticipating imminent TGA approval, with strong interest from a prominent Australian hospital that is eager to advance discussions.

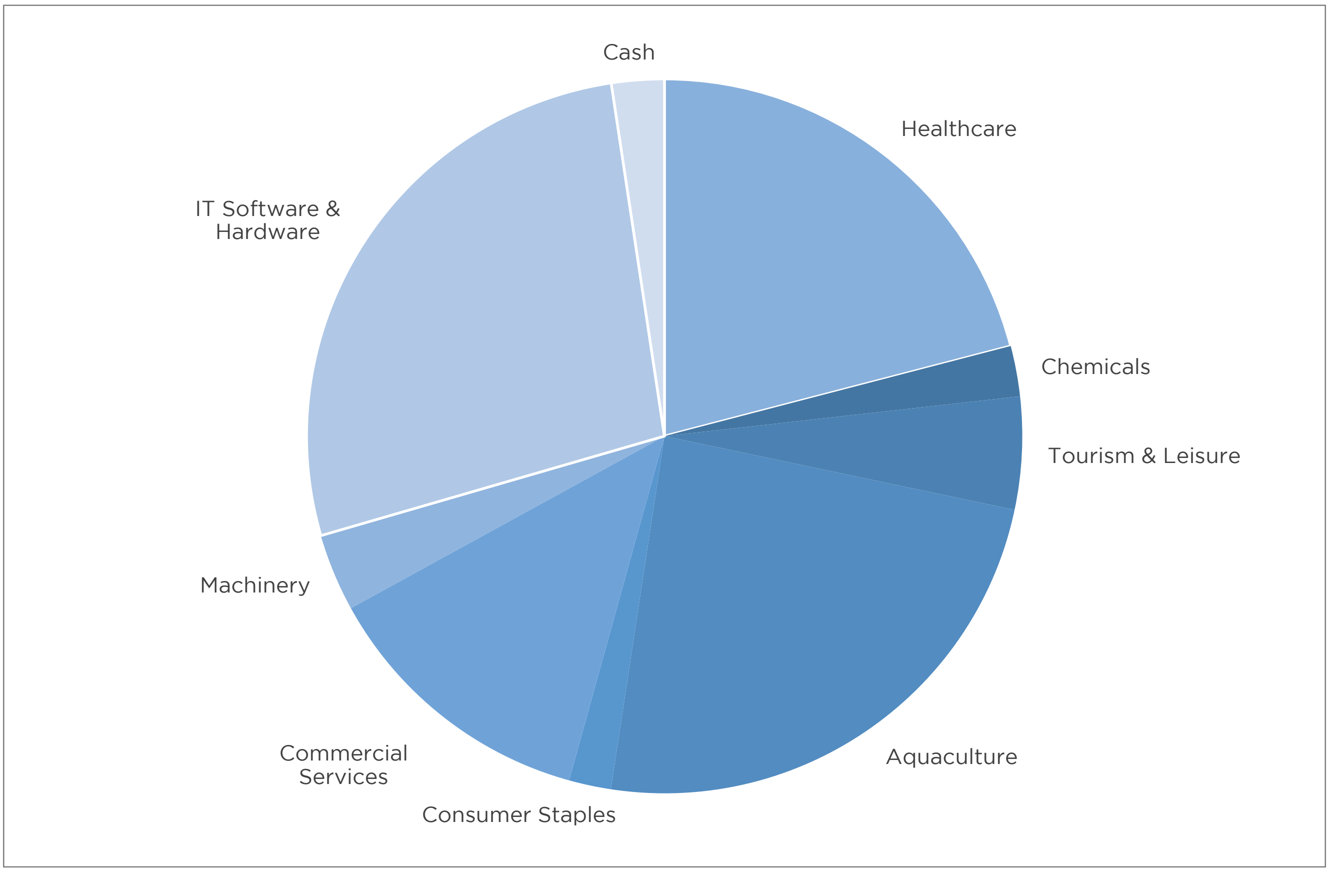
Pleasingly, subsequent to month-end, IDT Australia (IDT, -2%) announced that its strategic pivot continues to gain momentum with the Company's three business pillars recording significant growth in the September quarter. Preliminary unaudited revenue rose for the fifth consecutive quarter, up +300% on pcp to $3.0m. IDT also secured a further $2.1m in new contracts in the month of October and now has $4.2m at approval stage. Its sales pipeline continues to build with 75 leads generated and $11.3m in proposals submitted during 1Q FY24 alone. IDT's efforts to build an integrated value chain is the primary reason for the significant increase in demand for its services. This strategic move has allowed the Company to optimise its processes, enhance efficiency and provide a comprehensive solution to its clients, which are increasingly looking for partners that can provide a more complete (and localised) manufacturing offering. With its revenue now running at $12m annualised, and still growing rapidly via an expanding pipeline of opportunities, IDT appears firmly on track to return to profitability within the next few quarters.

While MCA continues to (deliberately) generate cash sales that are below the pcp to build its supply of larger fish, we were pleased to read in its latest quarterly update that this process has almost concluded. Accordingly, from 2Q FY24 onwards (particularly December onwards), we should start to see a significant improvement in supply and sales growth. In addition, unlike last year when central NSW experienced some unseasonal cool and wet weather, MCA has had an excellent start to its 2023 spawning season. We understand that spawning is now two-thirds complete and the Company is on track to achieve its planned spawning numbers. This will then underpin its FY26 volumes as it pushes towards its target of 10,000 tonnes by FY30. In other news, MCA has commenced work on the formation of a trust to be known as the Australian Sustainable Protein Fund (ASPF). Initially, 100% of the units in the fund will be owned by MCA, but the intention is to make investment available to parties interested in Australian agricultural property. It is anticipated that, should it be successful in attracting investors, ASPF will continue to purchase and develop properties that it leases to MCA for production sites. It is also examining the costs and benefits of selling properties owned by the Company to ASPF to release some capital for the business to fund its growth ambitions. As at 30 June 2023, MCA had over $25m of unencumbered property sitting on its balance sheet.

Finally, 5GG generated 1Q FY24 growth in revenue and gross profit of +10% and +24% respectively, culminating in a breakeven EBITDA result. With eight 5G towers now enabled, the Company is in the process of launching new plans coupled with a targeted marketing campaign that should drive an acceleration in Telco growth. Meanwhile, the Gaming business continues to perform strongly, with paid memberships up +38% QoQ.

Portfolio characteristics

We currently have ~98% of our capital invested in 15 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

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