Emerging Companies Fund

Monthly Update: November 2023

Dear Fellow Investors,

Our Emerging Companies Fund was up +3.9% in November vs +3.7% for the Emerging Companies Accumulation Index (XECAI) and +8.6% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +7.8% p.a. and a total return of +65.6% vs +56.8% for the XECAI and +31.9% for the XSIAI.

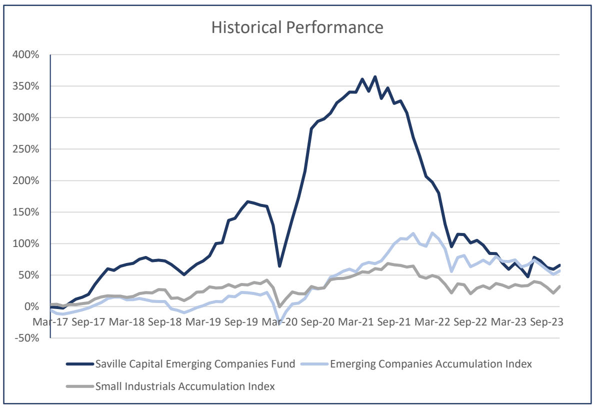
Despite the more buoyant overall market conditions, driven by a significant reversal in global bond yields, it still felt like we were sailing into a headwind within micro-caps during November, as evidenced by the fact that half of our portfolio declined during the month. We think the primary reason for this was the rate rise implemented by the RBA early in November, which was unexpected for some, but more importantly further increases the holding/opportunity cost for so many retail investors that currently dominate the micro-cap sector. Interestingly, within segments of the market where institutions are far more prominent (e.g. the Small Industrials and Small Ordinaries), the performance was far stronger with the XSIAI up +8.6% and the XSO up +7.0%. Furthermore, key indices we follow in the US, including the NASDAQ and Russell 2000, were up +10.8% and +9.1% respectively. The good news is this divergence in performance inevitably corrects over time, with micro-caps almost always lagging the larger sectors.

Consequently, we took the opportunity to significantly increase our personal investment in the Fund at the end of November, driven by our optimism that if current macro trends continue, CY24 should see much improved performance for micro-caps, aided by many catalysts at the individual stock level within our portfolio. To that end, thankfully we had two stocks in the portfolio (IDT and VYS) that provided particularly encouraging updates at their AGMs, helping to underpin our positive November performance.

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%	+3.9%		-10.5%	-3.6%	-16.4%

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



Performance commentary

The key positive contributors during November were IDT Australia (IDT, +83%), Vysarn (VYS, +54%) and Ansarada (AND, +14%). The key negative contributors were Terragen (TGH, -36%), Murray Cod Australia (MCA, -7%) and Imricor (IMR, -6%).

Following on from its recent quarterly update, IDT highlighted at its AGM that it had won an additional ~$7m of contracts during October and November alone (vs $1.2m in 1Q FY24). The majority of this new work is coming via its Advanced Therapies division, which we believe generates higher margins than its Specialty Orals and API Manufacturing divisions. With accelerating operating momentum, and its share price having only just surpassed its NTA, we still view IDT as compelling value. It is also a timely reminder to persist with long-term portfolio holdings, despite share price weakness, when the investment thesis remains intact, or indeed improves, as it has with IDT in the past year. To borrow from the infinite wisdom of the late Charlie Munger, "the big money is not in the buying or selling, but in the waiting". As such, where it is appropriate, we will continue to wait for our key holdings to realise their potential and generate our forecast returns.

VYS provided a trading update for the four months to end of October as part of its AGM during the month, highlighting that it continues to generate strong revenue growth, coupled with expanding margins (both ahead of our previous forecasts). Consequently, VYS provided guidance for "material year on year growth" in FY24, "supported by the current run rate achieved in the first four months of operations" and "up to three drill rigs double shifting by the end of FY24" (currently just one). Having only added VYS to the portfolio back in July of this year, following a research trip to Perth, it is particularly pleasing to have already generated a return in excess of +50% on our investment.

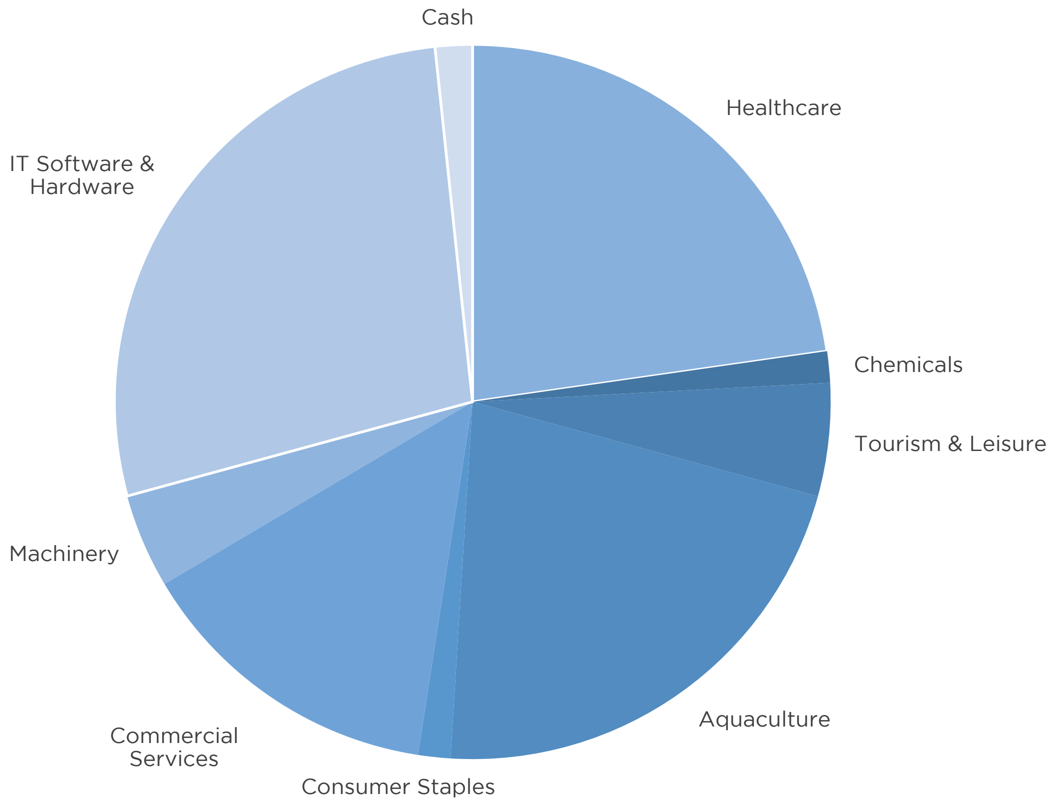
Bluechiip (BCT, +10%) received an initial order from another global top-20 pharmaceutical company based in California and a market leader in drug discovery and manufacture. BCT noted that this increases its customer numbers to 17 and its laboratory numbers to 28 (vs an addressable market of 130 within its existing customer base alone). It also stated that its pipeline remains strong, with more than 50 new customer opportunities in a global marketplace of more than 10,000 laboratories. While the market is, rightly or wrongly, still fixated on BCT securing a supply agreement with Fuji, the progress it is making with these large pharmaceutical customers is more important for the Company's future earnings given the industry validation it provides, but also the embedded laboratory pipeline.

Later in the month, we took the opportunity to drive up to Griffith (NSW) for an updated tour of MCA's operations. As you would expect, we observed plenty of work being undertaken at its Stanbridge site where it is building 50 new grow-out ponds. Given the recent favourable weather conditions, it appears that they are making excellent progress. Speaking of weather, it was clear in our discussions that the warmer conditions this spring have been fantastic for both its spawning season and the recent growth of its fish already in the ponds. As water temperatures heat up, the fish become increasingly active and feed/grow more. The operations staff were also busy at other sites transporting juvenile fish from the hatcheries to existing grow-out ponds. It is these fish that will underpin the significant supply (and sales) growth we expect to see at MCA over the next few years. While the COVID period was an untimely setback for MCA's growth trajectory, like it was for many other early-stage companies, we remain as excited as we have ever been about the potential of this business, both in terms of earnings growth and share price upside.

At its AGM, FBR Limited (FBR, +0.0%) highlighted that it had recently achieved the laying performance component of its internal US deployment criteria, producing an effective lay rate (inclusive of any down time) exceeding 300 blocks per hour across the build of a 750 block structure, demonstrating reliability and uptime at a high lay speed. It also noted that significant works are underway to determine scope and execute necessary activities in preparation for US market entry. These include Hadrian X shipping and logistics, workshop site, operating infrastructure and HR requirements. All of this is aimed at putting FBR in a position to imminently secure commercial partnerships in the US, particularly Florida.

Portfolio characteristics

We currently have ~98% of our capital invested in 14 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 January on our performance during December.

Kind regards,

Jonathan Collett

Principal

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