Emerging Companies Fund

Monthly Update: April 2024

Dear Fellow Investors,

Our Emerging Companies Fund was down –5.6% in March vs +2.8% for the Emerging Companies Accumulation Index (XECAI) and –5.0% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +6.1% p.a. and a total return of +53.0% vs +81.9% for the XECAI and +49.0% for the XSIAI.

Yet again the headline return for the XECAI is completely misleading when it comes to understanding the market backdrop we observed during April, particularly those conditions that are specific to our Fund and investment strategy. Firstly, as the table below shows, the incredibly divergent performance of companies with a market cap below $250m vs those that sit above that threshold continued unabated during April. Unfortunately, the broader market pullback (essentially in response to a data-driven jump in bond yields) translated into amplified weakness in most micro-caps, which paradoxically didn't participate in the market rally that preceded this reversal. Secondly, the index return was completely distorted by some huge positive share price moves in several resources stocks within the index, most notably those with exposure to gold.

XECAI	CY22	CY23	Jan-24	Feb-24	Mar-24	Apr-24
Actual	-22.5%	-0.4%	-5.2%	5.1%	6.3%	2.6%
Median	-30.5%	-9.6%	-3.5%	0.0%	3.5%	-1.8%
Median by Market Cap Segment						
>500m	-31.4%	44.2%	-1.3%	21.2%	3.8%	-1.3%
>250m	-22.2%	21.2%	-1.1%	3.1%	5.2%	-1.0%
<250m	-35.0%	-32.9%	-8.5%	-3.4%	0.7%	-3.1%
<200m	-35.7%	-43.1%	-9.2%	-3.6%	0.0%	-6.4%
<100m	-40.8%	-58.8%	-19.9%	-6.1%	0.0%	-7.4%
10yr Bond Yield at year-end	*4.1%* [1]	*4.0%*	*4.0%*	*4.1%*	*4.0%*	*4.4%*

*All median calculations are based on the XEC constituents and their market cap segment as at March 2024, which may create some biases in the historical data.
[1]Up from 1.7% at end of CY21

While institutional interest remains sporadic in the <$250m segment, it appears that retail investors are continuing to purge themselves of these stocks in response to persistent negative momentum (creating a self-perpetuating cycle). Another example of dislocation in the current market is that we have the S&P ASX200 now trading near all-time highs and yet the IPO market effectively remains shut. Regardless, the longer these abnormalities persist, the greater our confidence builds in the strength of the inevitable rebound, especially given the macroeconomic factors (e.g. inflation) that created this 'mess' are gradually trending in the right direction. In our view, those that continue to sell micro-caps (with sound business models) into this weakness will eventually look back with regret.

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%	+2.6%	-8.1%		
2024	-0.9%	-4.8%	+1.1%	-5.6%									-9.9%	-9.1%	-9.4%

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

Performance commentary

The key positive contributors during April were IDT Limited (IDT, +23%), FBR Limited (FBR, +8%) and Vysarn (VYS, +2%). The key negative contributors were Murray Cod Australia (MCA, -11%), Imricor (IMR, -11%) and Pentanet (5GG, -26%).

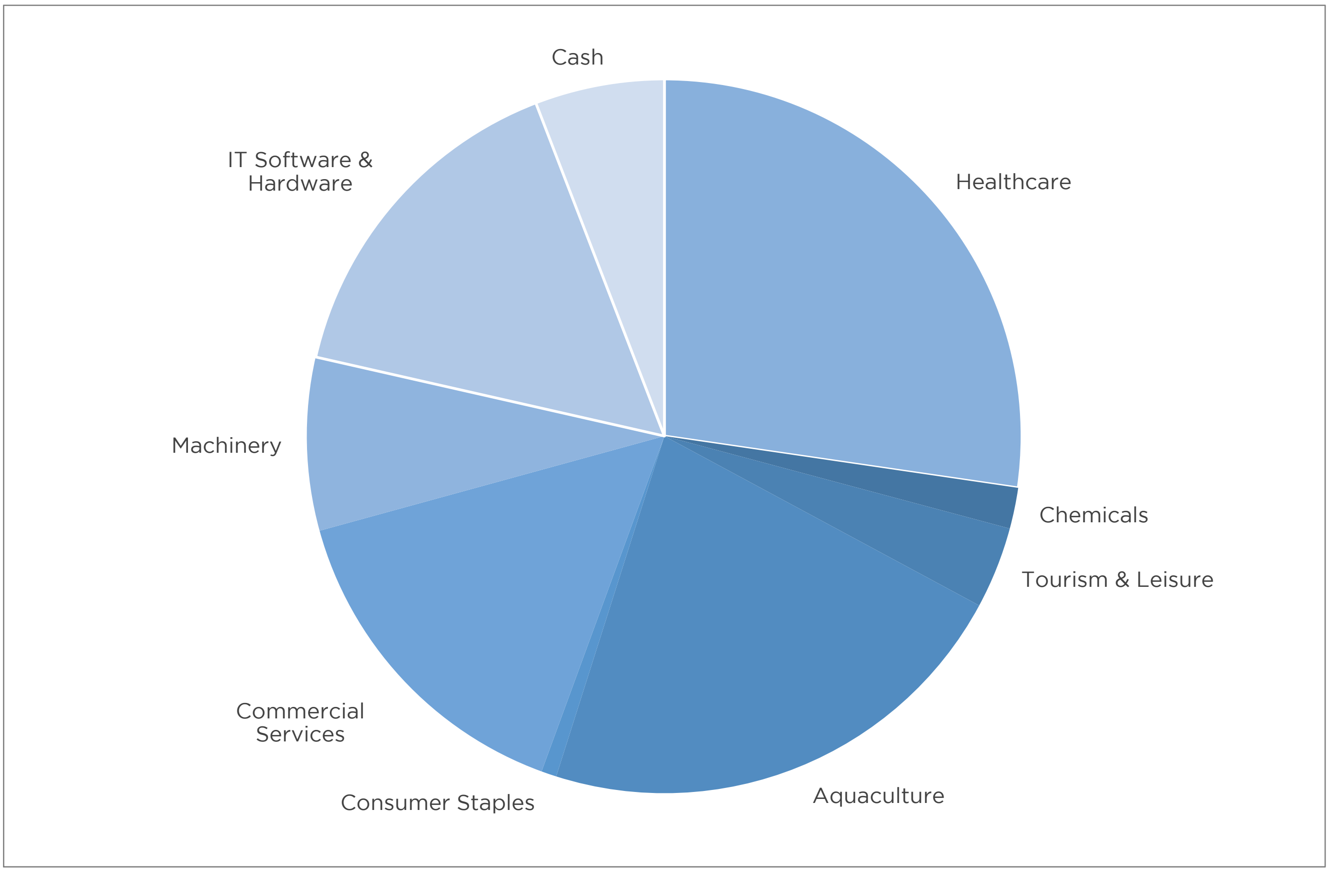
MCA provided an encouraging March quarter update, with receipts up +44% on the December quarter and +23% on pcp, thus continuing its gradual rebound in sales volumes, in line with an increased supply of fish. To that end, MCA also noted that it recorded a +44% increase in biomass for the quarter, which is the key to underpinning consistent growth in supply and sales over the next few years. Despite the positive quarterly update, MCA continues to face selling pressure, which we believe is due to a combination of specific market conditions as discussed on the previous page (noting that its market cap is <$100m) and concerns that it may need to raise equity soon. On the second point, the market seems to be dismissing the announcements it has made around its Australian Sustainable Protein Fund (ASPF), which MCA intends to establish with the sale of some of its own property and water rights, thus releasing additional capital into the business. In its update, MCA noted that discussions are underway with a number of potential Australian and international partners and that it is confident of reaching an agreement in the near to medium term. In the meantime, MCA has a debt facility in place to fund its working capital and the construction of new ponds.

IDT signed a Master Service Agreement with Sanofi Australia to support the cGMP manufacture of Sanofi's global mRNA assets under development. The contract entails collaboration between IDT and Sanofi to advance mRNA-based vaccine formulation, development, and manufacture clinical trial material, targeting various indications. Importantly, the agreement allows flexibility for Sanofi to choose services from IDT and allows for follow-on work packages. The value of the services to be provided under the initial order is estimated to be between $3m to $3.5m (which equates to >25% of IDT's current annual revenue run-rate) and we understand that there should be significant ongoing work to follow on an annual basis. The revenue from the contract falls under IDT's Advanced Therapies AT vertical and the contract with Sanofi supports the Company's strategic vision to pursue higher-value contracts that require more complex formulations. As a reminder, IDT has one of the few aseptic sterile fill (injectables) facilities to complete mRNA downstream processing in the Asia Pacific. IDT also released a 3Q FY24 update, highlighting continued strong growth across each of its three business pillars, with revenue of $3.2m, up +48% on pcp. It also secured $4.9m in new contracts (including the Sanofi contract) and its total current client proposals jumped by +17% to $26.6m by the end of the quarter. Given the current growth trajectory, industry tailwinds and sales pipeline, the Company remains firmly on track to become profitable in FY25.

Dropsuite (DSE, -11%) delivered yet another strong quarter of growth, with ARR of $37.6m, up +33% on pcp and +9% QoQ, with stronger ARPU a key driver. The Company noted that while it added 73k of new users during the period, it did see an increase in revenue churn to <5% (was <3%), driven by the EMEA region, with its weaker economy seeing greater price sensitivity. While this is still low in absolute terms, it is a trend which will need to be closely monitored. Accordingly, management stated that it has taken the necessary measures to address and mitigate churn going forward, including getting more customer service personnel to develop relationships with indirect partners (where churn is occurring) in order to highlight its product differentiation. Pleasingly, DSE continues to generate positive cash flow, albeit while investing most of its gross profit back into growth initiatives. To that end, we still don't expect DSE to demonstrate its operating leverage in the near term, with the focus remaining on generating continued strong growth. It also retains a healthy cash balance of ~$25m, which has been earmarked for strategic and accretive acquisitions. However, the challenge facing DSE in that regard is the persistent disparity in listed market valuations vs unlisted (which we understand are attracting a significant premium). While this is a frustrating element of current markets, it does serve to highlight another anomaly which history suggests is unsustainable.

Portfolio characteristics

We currently have ~94% of our capital invested in 13 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

Saville Capital

+61 3 9769 1789

jcollett@savillecapital.com

Important Information