Emerging Companies Fund

Monthly Update: March 2024

Dear Fellow Investors,

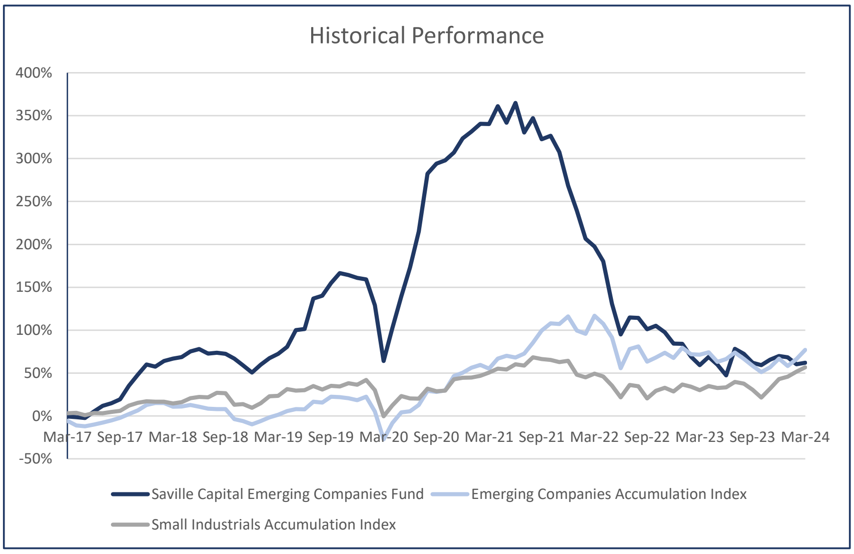
Our Emerging Companies Fund was up +1.1% in March vs +6.3% for the Emerging Companies Accumulation Index (XECAI) and +3.5% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +7.0% p.a. and a total return of +62.0% vs +77.0% for the XECAI and +56.9% for the XSIAI.

While it is frustrating to have materially lagged our most relevant index (XECAI) as it starts to rebound strongly, yet again the headline performance of that index was heavily weighted towards those companies with a market cap in excess of $250m. As an example, the median March performance for that segment was +5.2%, meanwhile the median performance of those companies at <$100m was 0.0% (i.e. flat). As a reminder, the average market cap within our portfolio is ~$100m, which is broadly consistent with our investment approach since inception. The encouraging aspect of this is that we are starting to see institutional interest slowly cascade down towards our end of the market. In terms of evidence that interest is picking up in micro-caps, the average and median turnover in our portfolio stocks for the March quarter in 2024 vs the pcp was +293% and +78% respectively (noting that the AND takeover bid lifted the average significantly). Furthermore, as we have seen in past cycles, when the micro-cap segment rebounds, it tends to rally much harder than what the small cap segment has delivered in advance of it. So if these trends continue, then a very strong rebound for micro-caps should follow suit.

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%										-4.6%	-4.6%	+1.8%

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



Performance commentary

The key positive contributors during March were Imricor (IMR, +12%), Pentanet (5GG, +18%) and Dropsuite (+5%, DSE). The key negative contributors were IDT Limited (IDT, -15%), Camplify (CHL, -14%) and Terragen (TGH, -5%).

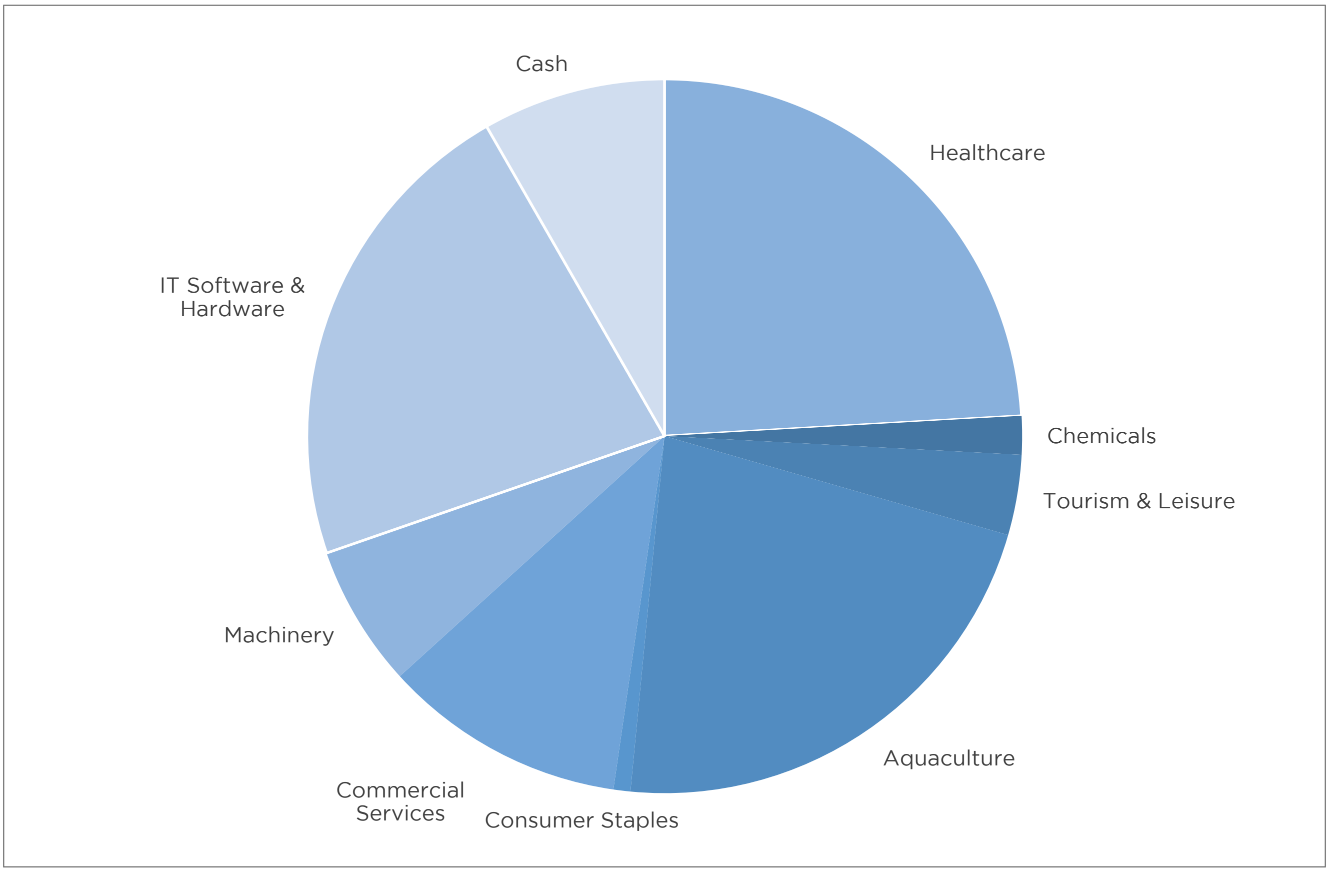
5GG had a busy month, with two announcements regarding its commercial relationship with NVIDIA. Firstly, it signed an extension to its existing GeForce NOW (GFN) Alliance Partner Agreement, while also adding New Zealand as a serviceable territory, with a pathway to adding other neighbouring territories, such as Indonesia. This is the agreement through which 5GG exclusively sells its cloud gaming services, which currently has over 530,000 members and continues to grow strongly. It has also reached the point where it has a sufficient base of paid memberships to cover the fixed monthly costs of operating that business. The second announcement related to its inclusion into the NVIDIA Graphics Delivery Network (GDN). Available in over 130 countries, GDN taps NVIDIA's global cloud-to-edge streaming infrastructure to deliver smooth, high-fidelity, interactive experiences. By utilising GDN, businesses can bring websites to life in 3D and engage customers with interactive experiences like product configurators and virtual try-on solutions. Joining the NVIDIA GDN will help 5GG expand its compute capabilities beyond just cloud gaming and enable the Company to take advantage of additional industrial and commercial opportunities with its cloud infrastructure, operated out of Perth and Sydney. Following these announcements, 5GG undertook a ~$4m capital raising to primarily fund the capex required for the new NVIDIA cloud servers and infrastructure. We continue to see opportunities for significant earnings growth via 5GG's relationship with a behemoth such as NVIDIA, but we expect the market will need to see further financial details and tangible evidence before allowing a more sustained re-rating of the stock.

MCA provided a broad company update and presentation to the market during the month, with detailed numbers behind its existing fish stocks, capacity and projections for the future. As we have previously mentioned, significant sales of larvae and smaller fish during the COVID lockdowns (when restaurants weren't open) has had a substantial knock-on effect on MCA's saleable fish stocks in CY23 and CY24. Fortunately, the effect of this is now rapidly unwinding and the Company estimates that it will have 3,000 tonnes of biomass by the end of FY25 and >5,500 tonnes by FY26 (vs 535 tonnes as at FY23 and ~825 tonnes as at 15 March 2024). Obviously this amount of growth in a relatively short space of time will require significant capex (hatchery/ponds) and working capital (mainly fish feed). The Company is seeking to fund this via external investment into the Australian Sustainable Protein Fund (ASPF), which MCA intends to establish with the sale of some of its own property and water rights (currently held on balance sheet at a value of >$40m). We view the successful establishment of the ASPF (once seeded via external investors) as a key catalyst for the stock, enabling the market to focus on the significant upcoming growth outlook, as opposed to being more concerned with how it will be funded.

Following on from its entitlement offer during February, IMR received a number of key approvals to commence its clinical trials to obtain FDA approval for its devices. It also obtained CE Mark approval for its new Vision-MR Diagnostic Catheter, with manufacturing to being in April. Currently, IMR customers purchase a kit of two Vision-MR Ablation Catheters for each atrial flutter procedure in Europe. One ablation catheter is used for ablating, and one is used as a diagnostic (reference) catheter. The kit is sold at a price reflecting what an ablation catheter plus diagnostic catheter would cost. The lower cost Vision-MR Diagnostic Catheter will replace the second ablation catheter in the kit, thereby improving margins for each procedure. The Company estimates the cost to manufacture the Vision-MR Diagnostic Catheter is approximately 35% less than manufacturing the Vision-MR Ablation Catheter. Finally, we note that subsequent to month-end, IMR completed the placement of its entitlement offer shortfall, raising a further A$6.5m, bringing the total funds raised to ~A$15m. Following on from a difficult few years due to COVID, we are very excited about the upcoming period for IMR, both from the perspective of its improving revenue profile, but also the potential share price re-rating as the market revisits what we believe is a compelling healthcare investment proposition.

Portfolio characteristics

We currently have ~92% 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 May on our performance during April.

Kind regards,

Jonathan Collett

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