Emerging Companies Fund

Monthly Update: June 2024

Dear Fellow Investors,

Our Emerging Companies Fund was up +8.1% in June vs -3.7% for the Emerging Companies Accumulation Index (XECAI) and +1.4% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +6.2% p.a. and a total return of +56.5% (or +119.9% if distributions have not been reinvested) vs +76.2% for the XECAI and +49.8% for the XSIAI.

While it was well overdue, the Fund bucked the index trend in June with a few of our key stocks finally gaining some support from the market. This was despite a significant headwind for micro-caps yet again, with the median performance of the <$250m market cap segment in the XEC delivering -7.4% (mean was -6.9%), while the <$100m segment was -11.3% (mean -9.0%). Given we think the recent weakness in that part of the market has been exacerbated by tax-loss selling, we expect this headwind will become a tailwind from now onwards (and to that end, the early signs in July for the Fund are encouraging). Similar to what we did with our own investment at the end of May, we think that for anyone who has been considering adding to their investment in the Fund (or to any micro-cap strategy for that matter), we believe that now could be a very opportune time.

Should this be the start of a sustained rebound for the Fund, which we expect, then it is worth touching on our planned approach during this period. As you will have noted, we have made the Fund more concentrated in recent months. This has been a deliberate decision to remove any cyclical or defensive exposure and focus on those stocks we think are not only most likely to deliver positive catalysts, but also best positioned to attract institutional interest (that being structural growth in a weakening domestic economy) as other fund managers begin to shift their focus back into our target market cap segment.

As a consequence, some of the weightings of our key stocks will be higher than normal, which we intend to accept for a period of time as their share prices recover towards more rational levels. The recovery in the portfolio will not be spread evenly, nor linear, so specific stock weightings may be temporarily higher or lower than our long-term preference, but we will initially let the market correct this, as opposed to immediately intervening (by adding or trimming). Given the significant de-rate we have endured in so many of our key positions, we don't see a lot of merit in selling them into some initial strength just to balance the portfolio in the short-term, especially when they are still trading significantly below our view of fair value (and previous highs) and desperately need to show some sustained share price momentum to attract genuine buying interest.

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%	-5.4%	+8.1%							-7.9%	-3.4%	+6.3%

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

Performance commentary

The key positive contributors during June were Murray Cod Australia (MCA, +32%), Imricor (IMR, +9%), IDT Limited (IDT, +10%). The key negative contributors were Terragen (TGH, -29%), Vysarn (VYS, -6%) and Bluechiip (BCT, -10%).

IMR had a very active month in terms of news flow and key milestones being met. Firstly, it announced that VISABLAFL, the global clinical trial supporting US FDA approval, commenced with two procedures being successfully performed at the Cardiovascular Institute of South Paris. As a reminder, the study will include four sites across the US and Europe with a sample size of 91 patients and the Company expects to complete trial enrolment before the end of this year. It also announced that the Dubrava University Hospital in Zagreb, Croatia, performed their first iCMR-guided atrial flutter ablation (using IMR's products) during the month. Additional procedures are now being scheduled on a regular basis, with the hospital already ordering an additional 10 catheter kits from IMR, as the site meets their growing demand for ablations. Finally, IMR announced that it had added Semmelweis University in Budapest, Hungary as a new client. Pleasingly, the initial purchase not only included IMR's Advantage-MR EP Recorder/Stimulator (and enough IMR consumable products for the first 15 procedures), but also several third-party capital devices sold by IMR, including the Osypka HAT-500 RF Ablation Generator, NordicNeuroLab in-room monitors, and an Optoaccoustics communication headset system. Installation of the iCMR lab equipment is planned for this month, with the first cases expected to commence in early 4Q CY24.

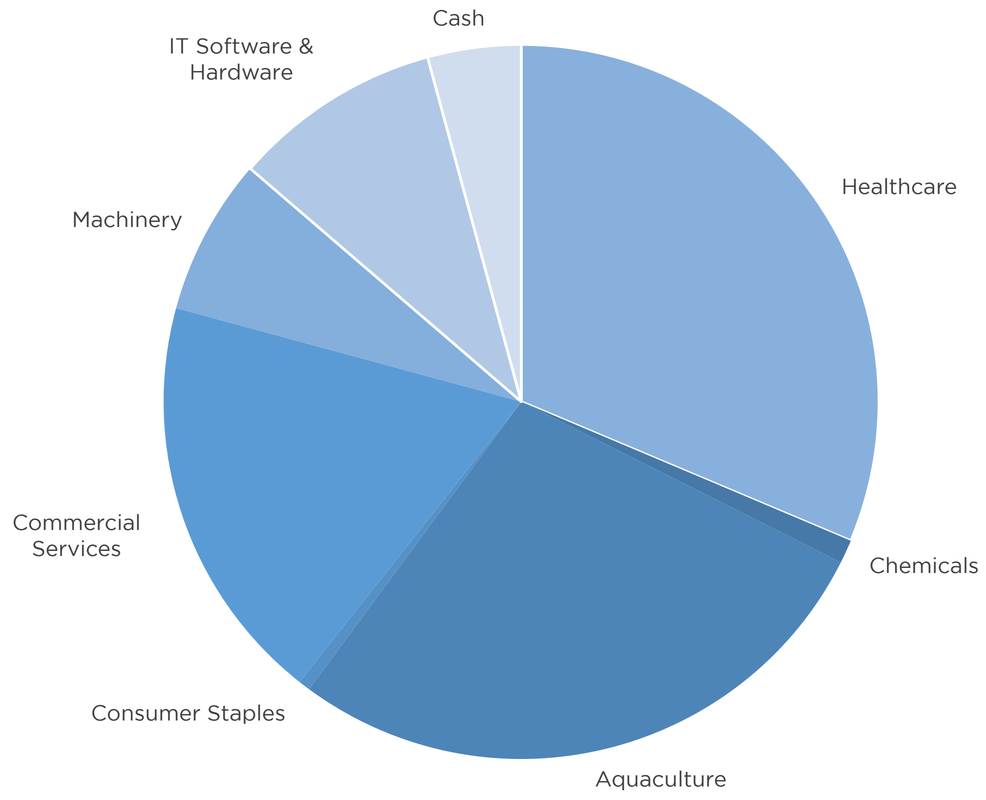
Airtasker (ART, 0%) announced a $6m media partnership with Australian outdoor media company oOh!media Limited (OML) to ramp up its investment in brand awareness across Australia. The partnership enables ART to scale in a capital efficient manner through access to OML's >35,000 sites across Australia, including billboards, street furniture, airports, office towers and retail centres. The terms of the partnership provide ART with $6m in OML inventory in exchange for a 2-year $5m convertible note with a 5.8% coupon rate (Note). At maturity, ART has the option to convert the outstanding Note and coupon into ordinary shares at a 10% discount to ART's 30-trading day volume-weighted average share price or repay the outstanding Note and coupon in cash. While ART already enjoys 64% brand awareness and a cash balance of ~$20m, we think this is a smart deal for the Company. Firstly, while it has strong brand recognition in Australia, it remains its largest market by far and growth has stalled since it pulled back on marketing. This is no surprise, given that ongoing marketing/brand is required for almost any business to activate both existing and new clients, especially one without much recurring revenue. Secondly, we would rather ART preserve its cash balance (perhaps for strategic M&A) and remove any potential requirement for expensive equity in the future to fund any operating losses.

With regards to MCA's share price appreciation during June, this was largely just an unwind of the artificial decline we observed during May due to its $20m capital raising that was done at $0.07/share. Furthermore, as we stated at the time, we think the completion of the capital raising will now allow the market to shift its focus away from MCA's funding position and back towards its significant production and sales growth over the next few years as it moves to profitability.

BCT undertook a placement (in which we participated) and obtained a shareholder loan to raise ~$0.7m during the quarter. These funds are being used to enable it to conduct a thorough strategic review, which will comprise a significant cost-out program and the exploration of strategic partnerships, investments or a possible sale of the business, targeting interested parties across North America and Europe. While we remain firm believers in BCT's patented technology and its commercial potential, its persistent weak funding position and elongated sales cycle (exacerbated by COVID interruptions and some failed partnership negotiations) has, in the absence of significant market support, placed the Company in an untenable position. As a consequence, we are supportive of its approach to find a potential buyer or corporate/strategic investor in the business which, given the strength of its technology, should lead to a superior outcome for investors.

Portfolio characteristics

We currently have ~96% of our capital invested in 11 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 August on our performance during July.

Kind regards,

Jonathan Collett

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