Emerging Companies Fund

Monthly Update: July 2024

Dear Fellow Investors,

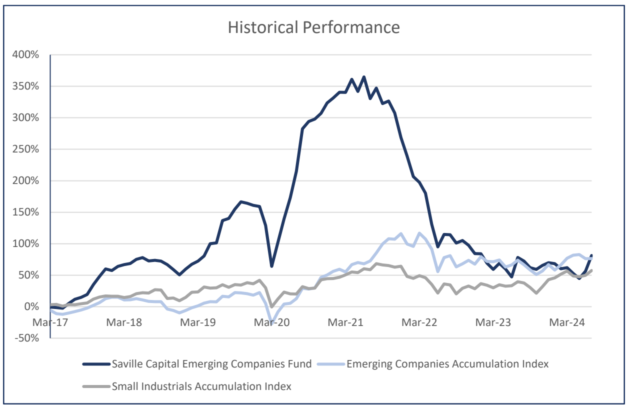
Our Emerging Companies Fund was up +15.9% in July vs +0.2% for the Emerging Companies Accumulation Index (XECAI) and +5.1% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +8.3% p.a. and a total return of +81.4% (or +132.3%) if distributions have not been reinvested) vs +76.6% for the XECAI and +57.5% for the XSIAI.

The momentum the Fund started to build in June accelerated in July, with all (except one) of our stocks delivering a positive return for the month. The key macro driver of this is the changing outlook for interest rates (i.e. moving from potential further hikes to now likely imminent cuts) and the consequent retreat in both short and long-term bond yields. This is leading to what is being dubbed as the 'Great Rotation', which is the shift of some capital away from large caps that have outperformed over the past few years into small caps that have significantly underperformed during that period. As is to be expected, Australian micro-caps are lagging during the initial part of this recovery phase, but therein lies the opportunity to still invest in micro-caps with attractive business models at compelling prices. Furthermore, the extreme market volatility we have observed in early August, while frustrating, provides a fantastic opportunity. The correction in large (and mega) cap companies that are heavily overbought and exposed to a deteriorating global economy appears warranted. The fact that already oversold small and micro-cap stocks are being caught up in the sell-off is as predictable as it is illogical, particularly for the style of companies we own which generally have minimal exposure to the economic cycle. As the dust settles, we expect these particular stocks to resume their positive re-rating on the back of significantly lower bond yields and the start of a US rate cutting cycle.

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%	+15.9%						+6.8%	+18.6%	+1.7%

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



Performance commentary

The key positive contributors during July were FBR (FBR, +100%), Vysarn (VYS, +31%) and IDT Australia (IDT, +14%). The only negative contributor was Pentanet (5GG, -15%).

FBR surged upon confirmation that the Hadrian X® had arrived in Florida in preparation for the imminent Site Acceptance Test and Demonstration Program. While it seemed like a strange catalyst for a significant re-rating, we view it as a delayed (but inevitable) reaction to the positive developments announced earlier this year, which were coupled with a capital raising in very challenging markets that likely attracted short-term investors just to get the deal done. As a reminder, in January this year FBR announced a binding suite of agreements for a US Demonstration Program (to construct the external walls of 10 single storey houses in Florida) with CRH Ventures Americas, Inc. and the exclusive Option to then trigger a US joint venture. CRH is listed on the NYSE with a market capitalisation of ~US$55B and is one of the largest construction materials companies in the world. Once the Option is exercised, a US$40m rolling loan facility will be established to fund construction of the Hadrian X® units and the JV will execute a binding conditional purchase order for 20 units. Two further conditional purchase orders of 39 and 40 Hadrian X® units will be placed subject to meeting utilisation and gross margin metrics (neither of which are onerous) on preceding orders, followed by options for a further 200 units. CRH subsidiaries will become the exclusive concrete block suppliers to the US JV and the parties will share in the profits generated from the JV as the units are hired out to US builders. To put all of this into context, the revenue potential of 300 units being deployed at 70% utilisation is >US$1.1B pa, with target gross margins in excess of 50%. Unfortunately, FBR will need to raise further capital to continue to fund its operations while the Demonstration Program is completed. But assuming this hurdle is cleared and the JV Option is exercised, we believe that FBR's value on the listed market (and also to potential suitors) could increase significantly from current levels.

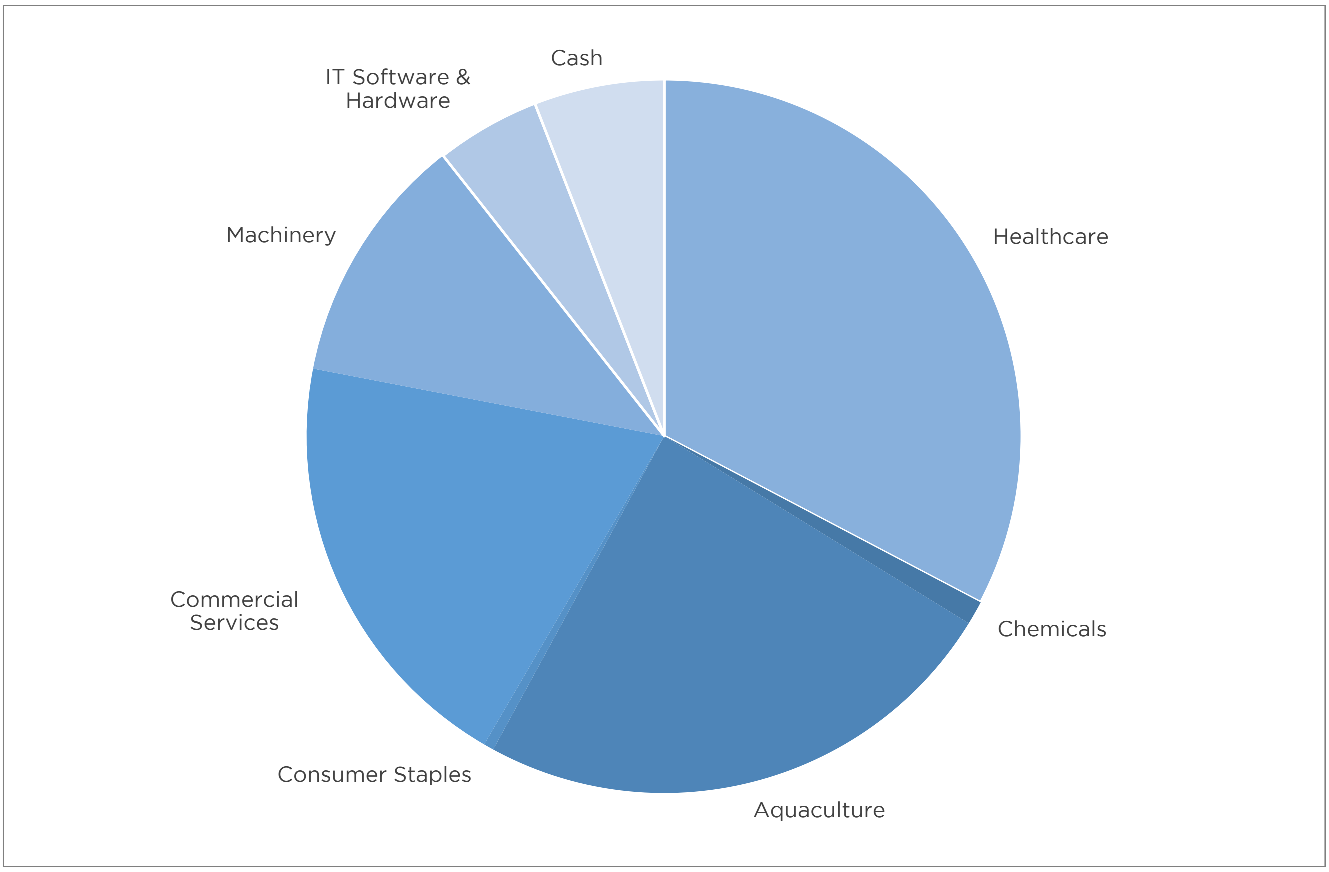
Imricor (IMR, +9%) raised $35m via an institutional placement, in which we participated, which included the addition of several new institutions based domestically and offshore. Proceeds from the placement will be focused on three key areas: 1) completing the US FDA Clinical Trial; 2) expanding treatments with the VISABL-VT Trial and further commercialisation, including activating additional sites in Europe and the Middle East to grow the installed base; and 3) expanding into Australian and NZ once TGA approval is obtained (should be imminent). This capital raising removes a significant overhang for the stock as it will fund the business through the next couple of years, which is a pivotal period for the Company, setting it up for sustained profitability. As such, with the anticipated US$8m investment from North Dakota's Pioneer Capital Fund still to come, this capital raise should now see the Company through to being self-funding.

IDT had a very strong finish to FY24, with 4Q revenue up +87% on pcp and the FY24 revenue coming in at $13.5m, up +92% on pcp and ahead of guidance. Pleasingly, growth in 4Q largely came from its higher margin divisions, most notably Advanced Therapies which is leveraged to some of the fastest growing areas in medical technology, namely Antibody-Drug Conjugates (ADC) and mRNA. Accordingly, the Company is confident that it will continue to generate strong revenue growth into FY25. Furthermore, IDT's pipeline remains very robust, with $24.7m worth of proposals under active consideration, mostly for the Advanced Therapies business. In addition, there was a notable surge in the number of sales leads in the month of June 2024, rising to 114 compared with 29 in April and May combined. There was no update on the non-binding indicative proposal from Myndbio to acquire IDT for $0.15/share, however we expect further news on this in the near future.

Airtasker (ART, +19%) had a solid finish to the FY24, with 4Q revenue growth of +76.3% in the UK being the highlight as it seeks to monetise its advertising campaign with Channel 4. Meanwhile, GMV growth in Australia remains subdued, but we expect this to improve in FY25 on the back of its recently agreed marketing deals with ARN and OML that are scheduled to commence from September onwards. In addition, we see further upside to ART's monetisation rate as it rolls out more changes to grow this key business metric.

Portfolio characteristics

We currently have ~94% 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 September on our performance during August.

Kind regards,

Jonathan Collett

Principal

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