

# Emerging Companies Fund

Monthly Update: August 2024



Dear Fellow Investors,

Our Emerging Companies Fund was down -3.1% in August vs +2.0% for the Emerging Companies Accumulation Index (XECAI) and -1.9% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +7.7% p.a. and a total return of +75.7% (or +129.4% if distributions have not been reinvested) vs +80.0% for the XECAI and +54.4% for the XSIAI.

While all of the ingredients were in place for another positive month, unfortunately we encountered the opposite. We didn't have any negative news flow specific to our stocks, in fact we had a few positive news flow items, but this was just more indiscriminate selling in the sub-\$250m market cap category that was catalysed by the broad (but brief) market meltdown on 5 August. While most stocks and indices fully recovered within the month from that day, the share prices of many micro-cap stocks, including several of ours, stayed lower for the remainder of the month. In particular, those companies which have raised capital in recent weeks or months seemed to struggle the most to rebound from this brief market shock, including FBR, IDT and IMR in our portfolio.

Since inception, this is probably the most irrational month we have encountered for our strategy. With the outlook for interest rates and bond yields now in reverse, it makes no sense for a persistent trend in equities over the past few years (i.e. prioritise size/liquidity at all costs) to continue when the opposite macro dynamic is now at play. Yet the >\$500m category within the XEC was up +4.3%, while the <\$250m category was inexplicably weak at -3.8%. Conversely, in the US market, the Russell 2000 again outperformed the NASDAQ during August, which should be flowing through to our market, but unfortunately to date still has not. Importantly, there is no logical reason why this should or will be the start of another negative period for the Fund. The macro backdrop suggests entirely the opposite, so August should prove to be an aberration and our Fund's positive performance in September (to date) supports that view. In fact, when compared with our intra-month low (at one stage the Fund was down more than 10% during August), the Fund has regained considerable momentum in the past couple of weeks. Putting the market to one side, we remain focused on optimising the portfolio for future growth, with the replacement of Dropsuite (DSE), which has been a strong performer for the Fund (~+100% return) since we added it in September 2022, with the addition of Wrkr (WRK, +36%), a Company we will discuss in more detail next month.

## Performance summary

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	3M	12M
<b>2017</b>		-3.2%	+2.6%	-0.6%	-1.0%	+7.6%	+6.4%	+2.7%	+4.0%	+13.2%	+9.5%	+8.1%	+60.1%		
<b>2018</b>	-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%		
<b>2019</b>	+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%		
<b>2020</b>	-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%		
<b>2021</b>	+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%		
<b>2022</b>	-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%		
<b>2023</b>	-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%		
<b>2024</b>	-0.9%	-4.8%	+1.1%	-5.6%	-5.4%	+8.1%	+15.9%	-3.1%					+3.4%	+21.4%	+2.3%

Returns are based on the Main Series only, net of all base fees, performance fees and expenses of the Fund

## Performance commentary

The key positive contributors during August were Terragen (TGH, +214%), Wrkr (WRK, +36%) and Vysarn (VYS, +9%). The key negative contributors were FBR Limited (FBR, -19%), Imricor (IMR, -12%) and Airtasker (ART, -15%).

FBR raised \$12.5m via a placement to fund its working capital while it continues to move through the phases required for the anticipated exercise of its US JV Option with CRH Ventures. Despite successfully completing its Site Acceptance Test at the Fort Myers facility in Florida (triggering another US\$600k payment) just following the completion of the placement, the stock still declined from ~\$0.05/share to its placement price of \$0.038 and stayed at that level for the rest of the month as we frustratingly go through another churn event of short-term investors. In the meantime, FBR has now commenced its US Demonstration Program, which involves the construction of five houses plus up to five more houses added to the program by CRH Ventures, with all houses to be certified by an independent structural engineer. Upon completion of the Demonstration Program, FBR will receive US\$400k from CRH Ventures and it will mark the commencement of a 45-day period for CRH Ventures to exercise the option to form a joint venture for the delivery of Wall as a Service® in the United States, which would be a significant event for FBR.

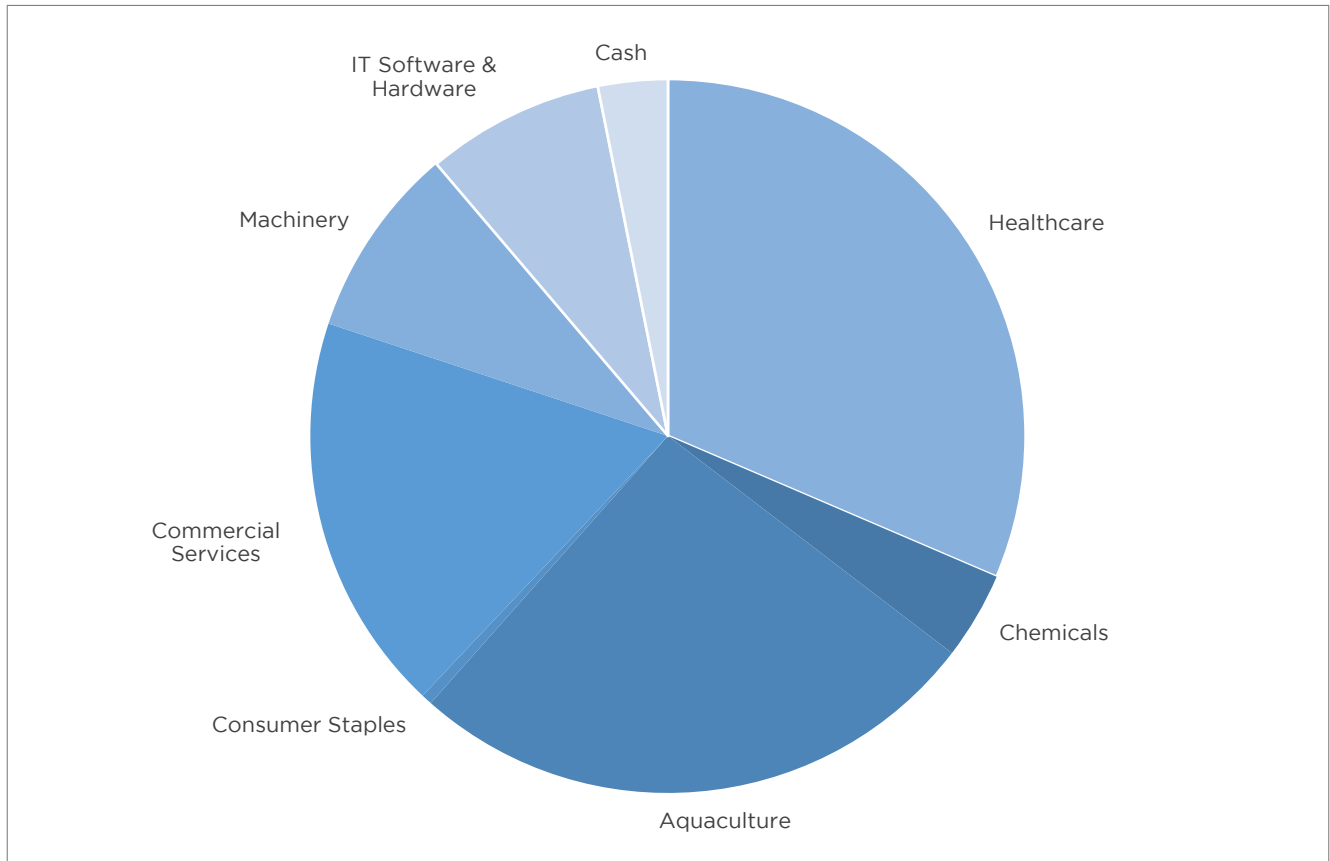
IDT (-8%) secured a follow-on contract with Sanofi worth between \$2.5m and \$4m for the preclinical formulation, development and manufacture of Sanofi's mRNA technology in its translational clinical program. The contract comes on the back of IDT being awarded a Master Service Agreement (MSA) with Sanofi, announced in April 2024. The MSA provides flexibility for Sanofi to choose services from IDT and allows for follow-on work packages. For context on the level of materiality, IDT generated \$13.5m of revenue in FY24, albeit ended the year with an annualised run-rate of \$18.4m, so this contract will help to underpin our forecast growth to >\$20m of revenue in FY25 (and achieve profitability).

TGH announced the results of research conducted by the Department of Energy, Environment and Climate Action (DEECA) at their Hamilton Smart Farm, Victoria as part of the Australian government's Methane Emissions Reduction in Livestock (MERiL) round 2 project. This project trialled a dry formulation of MYLO® and was led by Agriculture Victoria Research with the primary objective to test methane mitigating solutions in grazing livestock. The results showed that lambs supplemented with dry MYLO had an average daily weight gain ~25% higher than those not given the MYLO supplement and they produced ~10% less methane when compared with the control group. Given the significance of these results, particularly the weight gains, TGH is extending the dry MYLO trial to a much larger sample size of lambs, as well as into cattle. While TGH has had its challenges with commercialising its products due to a lack of scale and the shortcomings of using a liquid formula, with its dry formulation and new focus on commercial partnerships (as opposed to direct farm sales), we are becoming increasingly confident that the Company could finally be on the precipice of significant commercial success.

VYS reported yet another strong result, with FY24 revenue +17%, EBITDA +31% and NPAT +100% on pcp. Furthermore, as previously highlighted, the Company has also laid the early foundations to own and develop groundwater water resources for the potential supply of water to consumers in regional Western Australia via the establishment of its Water Asset Management business. While VYS's growth to date has primarily been underpinned by the iron ore sector in Western Australia, the Company is now actively pursuing various diversified growth opportunities across other water services, commodities, sectors and geographies. To this end, VYS also announced the acquisition of Waste Water Services (WWS) for \$7.5m, which implies an unaudited EV/EBITDA multiple of 3.27x and EPS accretion of >20%. Importantly, the Company has identified immediate organic growth initiatives for WWS, including the delivery of a growing pipeline of wastewater treatment plants for the resource sector, an increase in the number of wastewater rental units, and the development of municipal water treatment opportunities.

## Portfolio characteristics

We currently have ~97% 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 October on our performance during September.

Kind regards,

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