Emerging Companies Fund

Monthly Update: September 2024

Dear Fellow Investors,

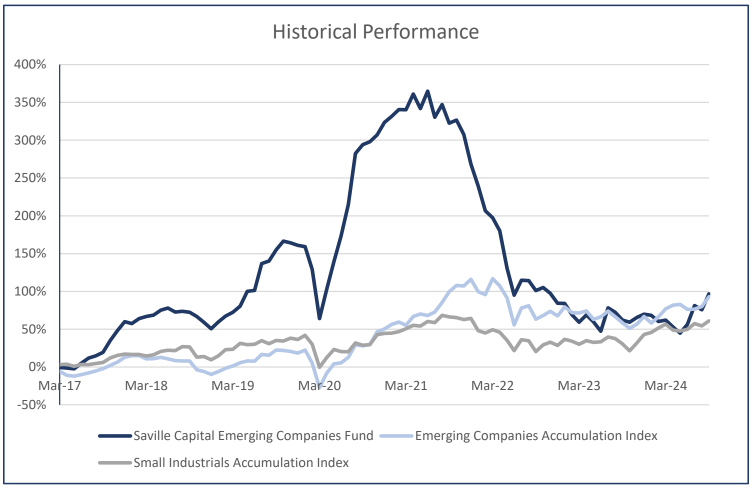
Our Emerging Companies Fund was up +12.0% in September vs +7.2% for the Emerging Companies Accumulation Index (XECAI) and +4.3% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +9.2% p.a. and a total return of +96.8% (or +139.9% if distributions have not been reinvested) vs +93.0% for the XECAI and +61.1% for the XSIAI.

During September, markets were buoyed by the commencement of the rate cutting cycle in the US, with the Fed delivering an initial cut of 50bps. Given the sensitivity of small and micro-caps to interest rates/bond yields, and in particular the higher growth/longer duration stocks we typically like to hold in the portfolio, our Fund enjoyed another strong month – aided by some stock-specific positive catalysts. It is widely expected that the RBA will follow the Fed with the commencement of rate cuts in Australia within the next six months, which should provide a further boost to our part of the market. While it is pleasing to see a positive trend forming over the past four months, we see this as just the beginning of a sustained rebound for the Fund as more market participants rotate some capital away from large caps/private credit back into the smaller end of the market. This is also starting to manifest itself in the flow of funds for institutional mangers in the small and micro-cap space, including us, which will help provide the Fund with the flexibility to potentially add some new positions, as and when the right opportunities arise.

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%	-3.1%	+12.0%				+15.8%	+25.8%	+21.3%

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 September were Wrkr (WRK, +44%), FBR Limited (FBR, +28%) and Murray Cod Australia (MCA, +16%). The key negative contributors were Terragen (TGH, -23%), Bluechiip (BCT, -25%) and Pentanet (5GG, -13%).

FBR formally commenced its US Demonstration Program, completing the walls of its first home in Florida and having them certified as compliant with the design and building code. This marks a significant milestone in the commercialisation of FBR's technology, being the first build ever completed by the Hadrian X® in an international market. The build was completed with Florida builder New Century USA, one of the participating builders in the US Demonstration Program which will include builders across a spectrum of size, volume and style of homes to demonstrate the versatility and adaptability of the Hadrian X®. FBR will build the walls of four more homes for New Century in the Demonstration Program (of which we understand some are already now complete). Two of the other homes in the Demonstration Program will be built for Christopher Alan Homes, another Florida-based builder. Importantly, Christopher Alan Homes is known as the largest local and private homebuilder in Southwest Florida based on single-family residential permits in 2023.

Airtasker (ART, +13%) announced that its US operating company, Airtasker USA, raised a combined US$9.75m (~A$14.4m) in media capital from America's no.1 audio company, iHeartMedia (listed on the NASDAQ) and the world's leading Spanish language content and media company, TelevisaUnivision. These combined media partnerships, which provide access to 276 million monthly iHeart audio listeners and 100 million daily TelevisaUnivision TV, digital and audio users – are designed to rapidly, and significantly, raise ART's brand awareness in the United States. The multi-year partnership with iHeart will provide ART with US$5m (~A$7.4m) in advertising inventory in exchange for a 4-year convertible note with a 5.0% coupon. Meanwhile the partnership with TelevisaUnivision will provide ART with US$4.75m (~A$7m) in advertising inventory in exchange for a 17.1% equity stake in Airtasker USA. We see these deals as both strategically and financially savvy, as they create a partnership mentality with key US media organisations that are heavily incentivised to see ART's advertising campaigns succeed, while preserving cash and avoiding equity dilution when the listed stock still remains significantly undervalued.

Following on the from the acquisition of Waste Water Services in late August, Vysarn (VYS, +20%) announced another, more substantial, deal during September. It has agreed to acquire CMP Consulting Group Pty Ltd (CMP), a consulting engineering company with a specific focus on the water industry, for an upfront cash consideration of $24m and 10m VYS shares. Further deferred consideration, of up to 30m VYS shares over three years, is subject to CMP achieving EBITDA targets. To help fund the deal, VYS raised ~$38m via an institutional placement at an issue price of $0.40/share, in which we participated. Based on CMP's unaudited FY24 accounts, VYS will pay an upfront EV/EBITDA multiple of 4.6x, excluding any deferred consideration shares, delivering earnings per share accretion of greater than 20%. In our view, while the deal is financially compelling, it has the added benefit of continuing to diversify VYS away from its capital intensive (and concentrated) water drilling business. Furthermore, the capital raising has materially increased the market cap and liquidity of the stock, substantially raising the level of institutional interest. Having first acquired our initial interest in VYS at $0.15/share over 12 months ago, which we understand was its first investment from an institutional investor, it has been a stellar performer for the Fund to date and will remain a core holding into the foreseeable future.

Finally, BCT updated the market on its strategic review process, stating that it remains engaged in detailed discussions with a number of international companies, aimed at formalising proposals for its board to review in the coming weeks. In addition, BCT announced the addition of another significant customer in the US market, with an initial contract being executed during the month. We remain cautiously optimistic that there will be a successful outcome to this strategic review, which should enable BCT to still make a meaningful positive contribution to the performance of our Fund.

Company in focus: Wrkr Limited (WRK)

During August, we added WRK to the Fund via a $6.6m placement at $0.025/share (it ended September at $0.049/share). WRK is a regulatory technology business helping Australian employers to simplify workforce compliance from hire to retire. WRK's integrated applications, being served from a single platform, digitally solves the compliance moments from onboarding (ID, credentials, bank account, tax details, Super Fund choice & stapling, contract terms and pay requirements) to processing pay and super contributions. WRK clients are Super Funds, payroll & HRM providers and businesses (every industry and size). Key features/attractions of its business are that it generates SaaS and transaction revenue from long-term contracts, it facilitates regulatory compliance that require significant licences (ATO, DSP, GNGB, AFSL) and its advanced technology is highly integrated within its growing (and high quality) customer base.

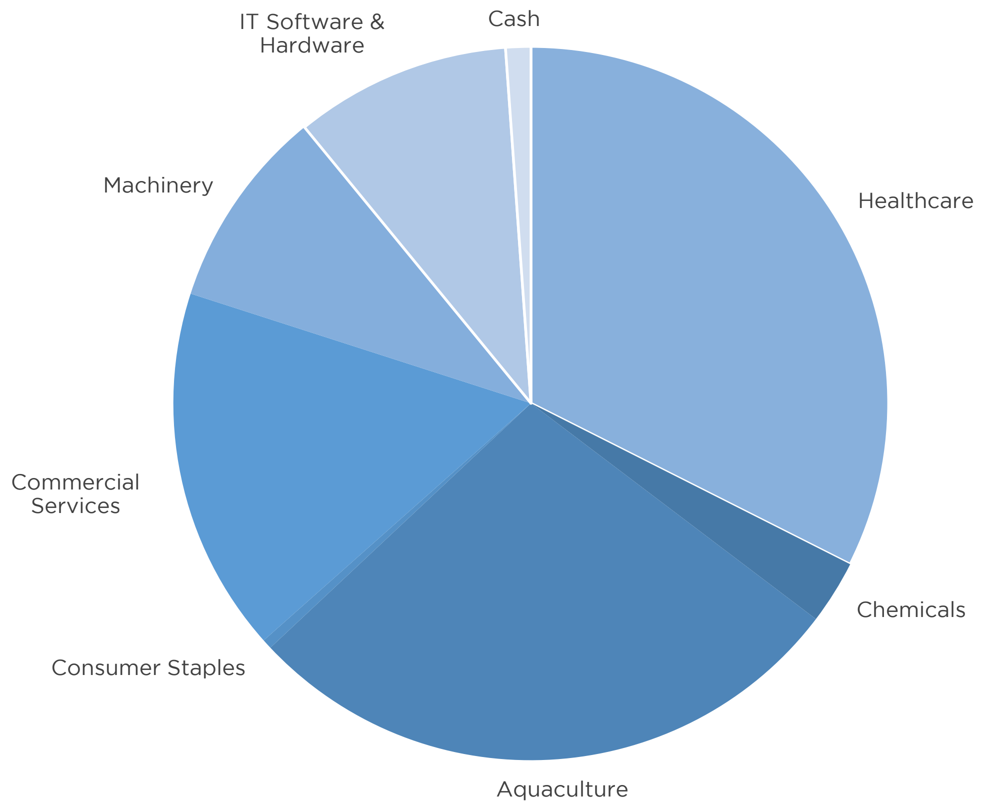
In FY24, WRK reported substantial growth and strategic advancements, driven by its expansion in service offerings and strengthened partnerships. It achieved a +45% increase in revenue, reaching $9.6 million in FY24, fuelled by both its SaaS licensing and transaction-based services, particularly through its SMSF Hub and contracts with large superannuation funds. Furthermore, for the first time since its 2016 listing, WRK reported a positive EBITDA (of $0.5m), reflecting improved cost management and revenue growth from significant contracts. Given the substantial growth opportunity sitting in front of it (see below), WRK's near-term focus will remain on re-investing gross profits to augment its accelerating growth profile, as opposed to trying to generate operating leverage.

One of the key attractions of this business is its recently extended (and expanded) partnership with MUFG Retirement Solutions (formerly Link). This involves the integration of WRK's platform with MUFG's administration tools, enhancing its potential reach to major Australian super funds that are customers of MUFG, such as AustralianSuper, Hostplus and Rest Superannuation. This integration helps WRK align with regulatory reforms and increase transaction volumes from high-frequency users. While WRK already has over 500k direct users on its platform (generating ARPU of ~$8 per annum), the contract with MUFG provides access to a potential 7m users (Australia has 22m super members in total), 2m of which WRK hopes to add during FY25 alone. Furthermore, the Australian payroll and superannuation industry is experiencing increased regulatory scrutiny and reform, particularly PayDay Super (starting from 1 July 2026), which will mandate that employers pay their employee's super contributions at the same time as their salary and wages. WRK is positioned to materially benefit from these changes as it will increase the number of transaction volumes to be processed and the need for even greater compliance automation, leading to much higher potential ARPU for the business.

The funding secured from its recent raising will help accelerate contract delivery for MUFG Retirement Solutions, support working capital and provide resources for other organic growth opportunities. To that end, WRK plans to leverage its recent capital infusion to drive accelerating growth, particularly in recurring revenue from SaaS licenses and transaction fees. The Company has set a target of achieving sustainable positive cash flows by FY26, underpinned by a continued expansion of its customer base in Australia and internationally through its partnerships and new product offerings. We understand that the capital raising introduced three new institutions to the WRK register (including ourselves), which was a first for the Company, highlighting that it has been flying well under the institutional radar. So while we see significant share price upside from the growth that underpins our valuation, with a market cap that is now >$100m we can also see WRK benefitting from increasing levels of institutional attention. Aided by a strongly aligned Board/management team, a favourable competitive landscape and long-term industry tailwinds, we think WRK is well positioned for a period of sustained success.

Portfolio characteristics

We currently have ~98% 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 November on our performance during October.

Kind regards,

Jonathan Collett

Principal

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