Emerging Companies Fund

Monthly Update: February 2025

Dear Fellow Investors,

Our Emerging Companies Fund was down -3.7%* in February vs -2.0% for the Emerging Companies Accumulation Index (XECAI) and -2.5% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +11.9%* p.a. and a total return of +148.6%* (or +171.1%* if distributions have not been reinvested) vs +90.1% for the XECAI and +61.6% for the XSIAI.

February was a challenging month for most market indices and fund strategies, including ours unfortunately. Ironically, the much-anticipated commencement of the domestic rate-cutting cycle was greeted with pessimism as the RBA (predictably) did its best to temper expectations of future rate cuts. On the positive side, we are again seeing signs of a rotation out of expensive large caps into micro and small caps, as evidenced by the outperformance of the Emerging Companies Index vs the S&P ASX200, which were down -2.0% and -3.8% respectively during February. In addition, we are observing another sharp decline in the 10yr bond yield (both locally and in the US), as the market's attention shifts away from inflation and towards the implications of weakening economic indicators. This bodes well for our particular investment strategy given its relative sensitivity to long-term bond yields and relative insensitivity to the economic backdrop.

Notably, our Fund's concentration levels are the highest they have been since inception, which is due to a combination of factors. Firstly, our stocks with a larger position size and market cap are typically significantly outperforming those at the other end of the spectrum. Secondly, we have made a deliberate decision to not aggressively sell into stock-specific strength when the share price upside on these stocks remains so significant. In our view, in a prevailing market which we believe is filled with distortions, our potential for sustained strong performance is more likely to come from a few individual stocks than a rising tide that lifts all boats. Naturally, over time we will endeavour to spread the risk more evenly, but as previously mentioned, during this recovery phase we are going to be more tolerant of higher (and indeed lower) than usual portfolio weightings.

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%	+4.0%	+18.2%	+9.0%	+55.1%		
2025	+2.2%	-3.7%											-1.6%	+7.3%	+61.8%

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

*Past performance is no guarantee of future performance

Performance commentary

The key positive contributors during February were Imricor (IMR, +10%) and Wrkr (WRK, +6%). The key negative contributors were FBR Limited (FBR, -59%), Airtasker (ART, -15%) and IDT Australia (IDT, -15%).

Murray Cod Australia (MCA, -1%) reported an encouraging 1H FY25 result which highlighted the significant inventory build it has achieved over the past six months (+47% since 2H FY24), leading to a statutory profit for the half. Incredibly, since 31 December this inventory has grown a further 27% to sit at 2,002 tonnes, as at 26 February. Perhaps more importantly, the results commentary suggested that the Company is now finally able to begin crystalising this value from 2H FY25 onwards, leading to significantly (and sustainably) higher quarterly cash sales. As a consequence, MCA is focused on opening new sales channels (e.g. China) and re-opening prior sales channels to take up this supply.

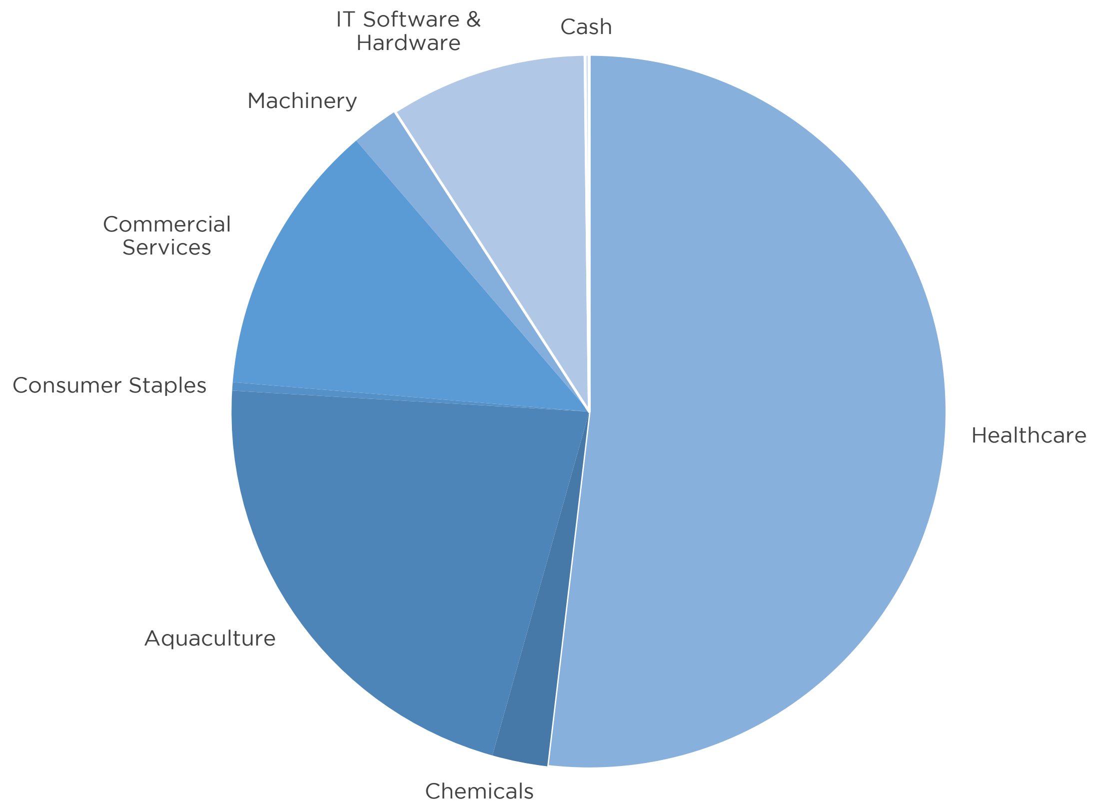
IMR announced that the 2nd generation Vision-MR Ablation Catheter has received CE mark certification under the new, more stringent, European Medical Device Regulation (MDR), for the treatment of type 1 atrial flutter (AF). The 2nd generation Vision-MR Ablation Catheter is the catheter involved in both the VISABL-VT clinical trial in Europe and the VISABL-AFL clinical trial supporting FDA approval in the US. With the successful CE mark certification under MDR, the Company now expects to submit the 2nd generation Vision-MR Ablation Catheter for approval by the Australian Therapeutic Goods Administration (TGA). In the meantime, IMR continue to activate (and re-activate) more sites in Europe and the Middle East for AF ablation procedures using this new catheter.

Despite completing the Demonstration Program to the satisfaction of all parties (including high praise from national builder, PulteGroup) and receiving US$2m in non-refundable payments, FBR did not receive formal notice from CRH for the exercise of the Option to form a JV in the United States. The only obvious reason we could identify as to why CRH decided not to proceed with the JV was the recent introduction of a new CEO at the Company, which can often lead to some abrupt changes in strategy. Regardless, it now means that FBR must pursue other potential partners in that market. Clearly this is a very disappointing, and unexpected, outcome for FBR and its shareholders, particularly given the money spent on adding sufficient resources so it would be ready to go live with the JV from March onwards. Importantly, Liebherr remains committed to being a manufacturing partner, however FBR still needs to find a partner that has a foothold in the US building sector and which can also be a source of funding. While FBR has now made significant progress in establishing credibility and valuable awareness in the US market, finding a new partner will still take more time and working capital. On the positive side, following almost 12 months of discussions, on 24 February FBR successfully completed a demonstration of its technology to Samsung Heavy Industries (SHI), as part of a technical and engineering study to assess the feasibility of applying FBR's robotic automation technology to the shipbuilding industry. SHI manufactures large size commercial vessels including crude oil tankers, container vessels, bulk carriers and offshore floating units such as FPSO, FLNG and drill ships. As a result of the successful demonstration of FBR's capabilities for this project, the parties are now planning to enter into business agreement negotiations under which FBR and SHI may jointly undertake development, engineering and prototyping of one or more automated solutions for the vessel industry in a stage gated manner.

Finally, ART's share price continues to be under significant pressure despite reporting solid revenue and cash flow results. While EBITDA in 1H FY25 took a step backwards, this was well-flagged by the Company as it seeks to utilise the advertising inventory acquired as part of the numerous deals it has signed with various media companies over the past six months. The impact of this is non-cash (ART remains cash flow positive) and should lead to accelerating top-line growth in all of its target markets as the significant brand investment drives increased awareness and customer engagement. Nonetheless, for whatever reason we are seeing some very aggressive selling from at least one party which is causing the share price to temporarily, but sharply, decline.

Portfolio characteristics

We currently have ~99% 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 April on our performance during March.

Kind regards,

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Important Information