Emerging Companies Fund

Monthly Update: May 2026

Dear Fellow Investors,

Our Emerging Companies Fund was down –14.6%* in May vs +1.0% for the Emerging Companies Accumulation Index (XECAI) and +1.7% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +5.3%* p.a. and a total return of +62.5%* (or +126.4%* if distributions have not been reinvested) vs +161.6% for the XECAI and +56.0% for the XSIAI.

While there are several factors currently working against micro-caps, most notably three consecutive rate hikes from the RBA, the share price performance across our portfolio during May was as remarkably bad as it was uniform. Once again, our strategy to hold a portfolio of micro-cap industrial growth stocks with a typical market cap of ~$100m was unilaterally punished. Given I have all of my superannuation invested in the Fund, plus significantly more capital that sits outside of super, no one is more frustrated by the renewed (and profound) weakness being experienced by this part of the market. Again, it wasn't just specific to our portfolio, as when we broke out the constituents of the XEC by market cap bands, we saw incredible dislocation. Industrial stocks within that index with a market cap of <$250m were (on average) down -6% (median -10%) for the month, while stocks >$500m were up +8% (median +1%). Within our own portfolio, and bearing in mind we had no material stock-specific news flow during the month, we had three stocks down by more than -20% for the month (BIO, MCA and WRK), two stocks down by more than -15% (ART and TGH) and two further stocks down by more than -10% (IMR and MVP).

On face value, it appears that we have been caught up in another spate of tax loss selling, an artificial phenomenon we have repeatedly observed at this time of year, especially when specific sectors/stocks are already under pressure coming into this period. If there is a silver lining, the macro backdrop finally improved for our sector during May, which does bode well for another sharp rebound over the next six months. By that I mean that the Australian 10yr bond yield declined from ~5.1% at the end of April to ~4.8% at the end of May, largely due to a weak unemployment print and the latest inflation data showing some encouraging signs of moderation in several key items. If these trends persist, which all evidence to date suggests they will, then the market could quickly tilt back in our favour once the tax loss selling season is complete (normally by mid-June).

At the portfolio level, it probably didn't help that two of our largest stocks (IMR and MCA) undertook capital raises at the end of last month, which even though both transactions were well-supported, can often result in some initial register churn and share price weakness. But other than tax loss selling, we have no explanation for why stocks such as ART, BIO and WRK experienced such heavy selling during the month. Despite delivering some excellent results during this period, both ART and BIO have now halved over the past ~8 months, MVP is down 45% over the same period and WRK has declined by 45% in the last four months. These are extraordinary moves, largely catalysed by the surprisingly high inflation data released in October last year, that has led to multiple subsequent rate hikes in early 2026, culminating in a final capitulation trade this month. In many cases, these stocks are now trading on EV/Sales and EV/GP multiples that are at an all-time low and completely dislocated from their larger peers, simply due to a difference in size and liquidity. Consequently, we added to our investments in ART and MCA, knowing that while momentum is clearly against them, this will turn around, as it has in the past. As an example, we first added ART to the portfolio in early 2024 when it was trading in the mid $0.20 range, before it doubled to a peak of $0.50 over the subsequent 10 months.

*Past performance is no guarantee of future performance

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%	-10.8%	+8.7%	-1.3%	-4.2%	-1.4%	+6.3%	-0.4%	+0.4%	-3.8%	+1.1%	-8.1%		
2026	+2.0%	-6.5%	-10.7%	-3.7%	-14.6%								-30.0%	-26.6%	-31.7%

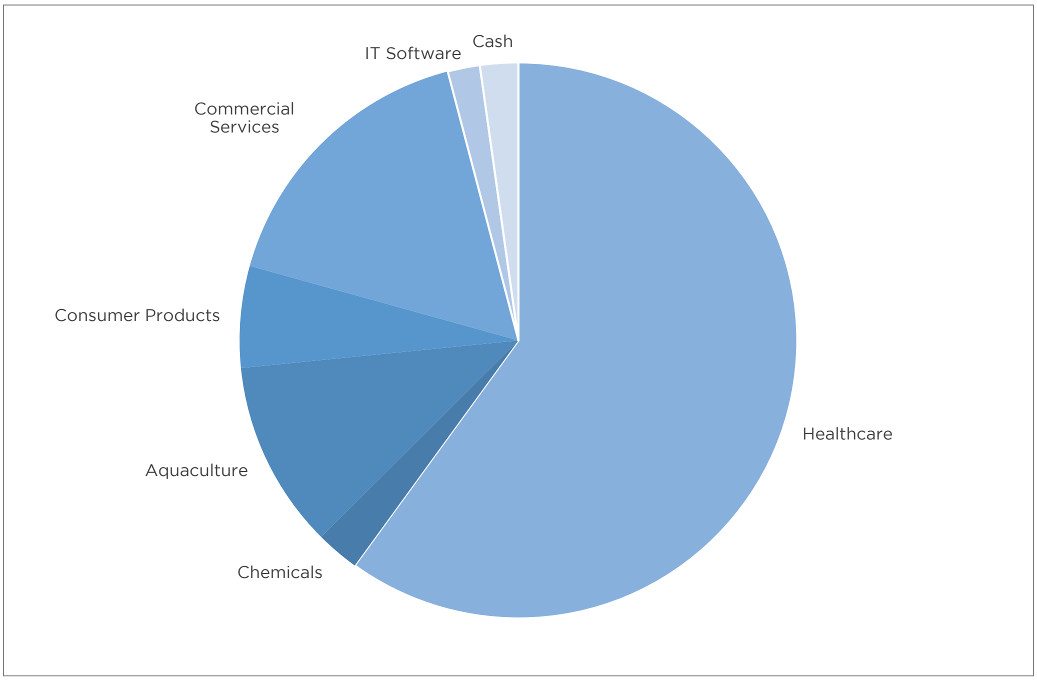
Returns are based on the Main Series only, net of all base fees, performance fees and expenses of the Fund

Performance commentary

As mentioned, we have no material stock-specific news flow to report on from the month and there were no positive contributors.

Portfolio characteristics

We currently have ~98% of our capital invested in 10 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 July on our performance during June.

Kind regards,

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*Past performance is no guarantee of future performance

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