

Emerging Companies Fund

Emerging Companies Fund commentary for the financial year ended 30 June 2023.

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The Emerging Companies Fund (Wholesale) (the 'Fund') returned 9.2% net of fees in the financial year ended 30 June 2023, compared to the benchmark which rose 9.5%. The Emerging Companies Fund (Retail) grew by 8.6% net of fees in the quarter, underperforming the benchmark.

The Fund's underweight exposure to Consumer Discretionary and the Industrials sector detracted from investment performance, while being nil-weighted in the poor-performing Real Estate Investment Trust sector added to performance.

The Fund's small and microcap holdings performed strongly in the final quarter of 2023 as investor interest returns to this part of the market. The Fund benefited from takeover interest with vitamin company Blackmores, wellbeing software company Limeade, and telematics software company Eroad, receiving bids from strategic and private equity buyers.

Emerging Companies (Wholesale) Fund Performance

As at 30 June 2023*

	fund	benchmark [^]
3 months	6.3%	2.3%
1 year p.a.	9.2%	9.5%
3 years p.a.	8.4%	3.4%
5 years p.a.	11.0%	1.7%
since inception p.a.	12.4%	5.8%

^Benchmark: S&P ASX Small Industrials Index. Past performance is not a reliable indicator of future performance.

Inception date: 30/06/2015. Source: FE fundinfo.

Emerging Companies (Retail) Fund Performance

As at 30 June 2023*

	fund	benchmark [^]
3 months	6.1%	2.3%
1 year p.a.	8.6%	9.5%
3 years p.a.	7.9%	3.4%
5 years p.a.	10.4%	1.7%
since inception p.a.	11.7%	5.8%

^Benchmark: S&P ASX Small Industrials Index. Past performance is not a reliable indicator of future performance.

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Contributors and detractors

Top 3 contributors to Fund return

+205%

Gentrack (GTK.NZX)

+195%

Impedimed (IPD)

+79%

Helia Group (HLI)

Top 3 detractors to Fund return

-67.1%

EML Payments (EML)

-57.9%

Bravura Solutions (BVS)

-41%

Symbio (SYM)

Contributors

- **Gentrack (GTK)** returned 205% for the year as the management team continued to execute on a strong turnaround story. GTK has been able to successfully navigate additional investment into improving its technology stack while delivering strong revenue growth and positive free cash generation. Momentum in the business enabled GTK to upgrade its revenue and earnings guidance throughout the year, with further growth expected in the coming years as its new G2 solution gains traction with customers.
- **Impedimed (IPD)** returned 195% for the year. IPD benefitted from the inclusion of its Bioimpedance Spectroscopy (BIS) device into the National Comprehensive Cancer Network (NCCN) survivorship guidelines in Mar-23. This has already achieved new reimbursement relationships in the US, with further opportunities expected over the next 12 months.
- **Helia Group (HLI)** returned 79% for the year. During the year, Helia experienced an unusually low claims environment and announced new customer contract wins. Helia returned excess capital to shareholders through special dividends and share buybacks, with further capital returns are expected in the next 12 months.

Detractors

- We divested our stake in **EML Payments (EML)** due to lack of progress made with the Central Bank of Ireland, which has imposed growth restrictions on the Irish subsidiary. The divestment reflects concerns around timing of a resolution, significant management turnover and a reduction of growth expectations.
- **Bravura (BVS)** undertook a recapitalisation during the year to fund the business, replace a debt facility and implement a restructuring programme. The technology company disclosed that specific contracts were underperforming relative to expectations due to cost over-runs, resulting in a profit downgrade. We see a recovery pathway with a refreshed Board and management team with share price upside, as it is trading at a material discount to its fundamental value.
- **Symbio Holdings (SYM)** declined 41% over the year, negatively impacted by the broader market sell-off in smaller cap technology stocks, as well as a temporary earnings impact from: 1) the delay in ramp up of a new customer, and 2) the hand back of phone number inventory by a couple of global tech customers as they looked to cut costs. These issues were resolved in the 2H and SYM's outlook for FY24 appears positive as the company continues to grow while managing its cost base more effectively.



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Portfolio changes

Additions to the Fund

- **Australian Clinical Labs (ACL)** – ACL is the third largest pathology services provider in Australia, benefiting from the spike in PCR testing during the Covid pandemic. While Covid related revenues have subsequently declined, we believe ACL has done a credible job in managing its business in this environment compared to peers and offers attractive valuation upside.
- **Aussie Broadband (ABB)** – ABB is an up-and-coming telecommunications company, traditionally focused on high-speed broadband offerings, but following the acquisition of Over The Wire, now has the ability to offer a full suite of data and voice products to consumers and businesses. We selectively added to our position during the year as we believe fundamental valuation looked attractive given the expected growth profile.
- **Domain (DHG)** – DHG is the #2 online real estate portal in Australia, serving the residential and commercial sectors, with primary exposure to the Sydney and Melbourne markets. We selectively added to our position during the year, taking advantage of the negative sentiment around property related stocks, as we believe property listings will inevitably improve along with stabilisation in interest rates and house prices.

Selldowns from the Fund

- **HRL Holdings (HRL)** – HRL is a small company providing sample collection, testing and lab analysis services of a range of substances across Australia and New Zealand. HRL was successfully acquired by its larger peer ALS (ALQ) at 16c per share early in the year, and was therefore divested from the Fund.
- **Cogstate (CGS)** – CGS is a contract research organisation that specialises in cognition assessments, primarily for Alzheimer's related clinical trials. Following CGS' share price appreciation off limited news flow, we elected to trim the position. However, a failed takeover bid and guidance downgrade soon followed, reverting the share price back to prior levels. We continue to see attractive valuation upside as CGS remains a leading way to gain exposure to Alzheimer's treatments globally.
- **Helia (HLI)** – HLI is a major provider of lenders mortgage insurance in Australia. After a period of strong performance, we decided to take some profits to reinvest into other opportunities.



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We are also seeing the emergence of private equity and strategic buyers bidding for some ASX-listed companies, which today trade at significant discounts to unlisted company peers.

Sector allocation

Sector overweights

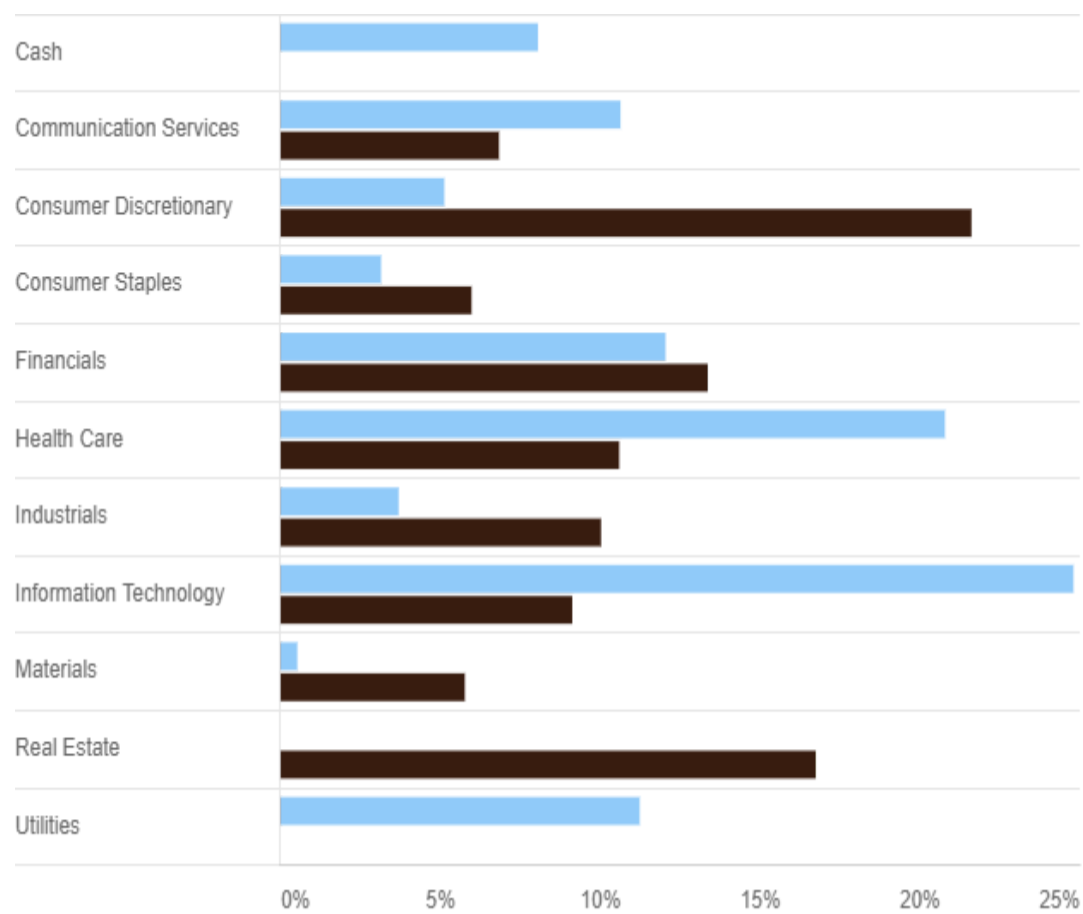
Healthcare, Information Technology, Renewables (Utilities)

Sector underweights

Consumer Discretionary, Materials, Real Estate

Emerging Companies Fund

S&P ASX Small Industrials Index



Outlook for the Fund

The Fund's small and microcap companies, which are typically in an earlier stage of commercialisation, are showing some signs of life, with buyer interest returning and small capital raisings being successfully completed. We are also seeing the emergence of private equity and strategic buyers bidding for some ASX-listed companies, which today trade at significant discounts to unlisted company peers. We believe this momentum can continue, even against a challenging macro back drop.

We continue to be a bottom-up investor, actively looking for attractive investment opportunities that meet our Ethical Charter.

[See Fund info](#)

*Total returns are calculated using the sell (exit) price, net of management fees and gross of tax as if distributions of income have been reinvested at the actual distribution reinvestment price. The actual returns received by an investor will depend on the timing, buy and exit prices of individual transactions. Return of capital and the performance of your investment in the fund are not guaranteed. Past performance is not a reliable indicator of future performance. Figures showing a period of less than one year have not been adjusted to show an annual total return. Figures for periods of greater than one year are on a per annum compound basis. The current benchmark may not have been the benchmark over all periods shown in the above chart and tables. The calculation of the benchmark performance links the performance of previous benchmarks and the current benchmark over the relevant time periods.

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Fund updates

Australian Shares Fund



Emerging Companies Fund



High Conviction Fund



Balanced Fund



Fixed Interest Fund



SMA



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