Flinders Emerging Companies Fund

Monthly Update: April 2022

FLINDERS
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Performance *(after all fees and expenses)*	**1 Month** (%)	**3 Months** (%)	**1 Year** (%)	**3 Years** (% pa)	**5 Years** (% pa)	**Since Inception^** (% pa)
Flinders Emerging Companies Fund *	-2.15%	-0.50%	-2.46%	9.62%	12.18%	11.94%
S&P/ASX Small Ords Accumulation Index	-1.50%	3.68%	2.91%	7.63%	9.62%	11.26%
Net Value Added *	**-0.65%**	**-4.27%**	**-5.37%**	**1.99%**	**2.56%**	**0.69%**

^ Inception date is 30 September 2015. Past performance is no indicator of future performance. Information relates to the Flinders Emerging Companies Trust Class B. Source: Citigroup

Investment Objective

Exceed S&P/ASX Small Ordinaries Accumulation Index by 3% pa (after-fees) over rolling 3 year periods

Investment Time Frame

5 years

Portfolio Managers

Andrew Mouchacca and Richard Macdougall

Risk Profile

High

Distribution Frequency

Half Yearly

Minimum Investment

$25,000

Fund Size

$150.7m

APIR Code

ETL0449AU

M-Funds Availability

Code FEC01

Responsible Entity

Warakirri Asset Management Ltd

Research Ratings

Lonsec: Recommended
Zenith: Recommended

Platform Availability

Macquarie Wrap, HUB24, Netwealth, uXchange, BT Wrap, BT Panorama, AMP, North, Xplore, MLC Wrap, CFS FirstWrap, Powerwrap, Navigator, IOOF, Praemium

Further Information

www.flindersinvest.com.au

- **Price inflation, tech deflation**
- **RBA moves, but what about the political spending spree?**
- **Chinese lockdown ripples**

The Small Ords Accumulation Index slipped 1.50% in April, with resources once again outperforming industrials - but not to the same degree as in previous months. It was the more defensive sectors that performed well, utilities and consumer staples in particular, while technology and consumer discretionary stocks struggled.

Global equity markets were led lower by the sharp drop in the Nasdaq in the US which was down 13.3% for the month. Even the broader S&P 500 fell 8.8%. Some lacklustre quarterly results from large tech companies plus rising rates and inflationary pressures all impacting sentiment. US 10 year bond yields, which spooked markets when they went through 2.0% in March, looked likely to breach 3.0% by the end of April, undermining long term valuations on 'high growth' tech and healthcare stocks around the world.

Other global equity markets struggled with the same underlying trends. Chinese and Hong Kong stocks were particularly weak but, they had the added impact of significant Covid lockdowns. European markets held up better and the UK FTSE was marginally higher over April. Commodity prices were mixed. Base metals drifted off (although aluminium was down 13%), but thermal coal continued to rise strongly, up 24% for the month (now up 255% for the 12 months) on supply constraints.

Back home, the RBA finally lifted rates 25bp – the first time since China was dragging Australia out of the GFC with another commodity boom (November 2010). While the media obsesses with the impact on mortgage payments, it might be worth pondering the fiscal stimulus that is not only still in the system from the past two years but also promised by both major parties during this election campaign. Add the prospect of the balance of power being held by independents, and the chance of fiscal restraint is zero. So, to panic about a few 25bp rate rises with a Government spending spree and a commodity and agricultural boom in the background is premature. The demand side of the economy is in rude health.

Tempering that of course, and especially for smaller companies, is how they manage costs, fulfilment and working capital. Staff shortages and supply constraints (now exacerbated by the Shanghai Covid lockdowns) have artificially created an environment of full economic capacity and the challenges are being felt in virtually all industries. These have been highlighted in many quarterly trading updates over the past month and we'd expect more to come.

Our focus continues to be on a portfolio of domestic small companies that can grow faster than the market in FY 2023 and beyond but have the management to make the most of their opportunities in a rising cost environment. But above all, they must have valuation upside – and on a number of measures the portfolio has more upside now than for many years.

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Performance Review

The Fund returned -2.15% in April 0.65% behind of the benchmark which returned -1.50%.

Key Contributors: While a number of battery material stocks were sold off during the month, graphite producer, **Syrah Resources (+21.5%)** performed well following a solid quarterly production report from its Balama (Mozambique) graphite mining facility, higher prices for its finished product and increased order volumes (and remembering that many of the listed battery material stocks in the index won't be producing and generating cash for several years). It also announced a loan agreement with the US Government which will be used to help fund its US based battery grade graphite production facility currently under construction. A significant step following the supply agreement with Tesla earlier in the year.

A general recovery in travel and tourism stocks helped bus and ferry operator, **Kelsian (+12.5%)** move higher over the month. While the company's bus operations don't have leverage to passenger numbers, it has numerous tourism based operations in Queensland, NSW and South Australia. Domestic travel has picked up appreciably in recent months and will continue to be strong into 2023 with considerable pent-up demand. Also performing well was international funds management group, **Pendal (+14.2%).** We added the company to the portfolio earlier this year after a large sell off in the stock which had de-rated largely due to the underperformance of one UK based equity strategy and some FUM outflows which seem to be moderating. The opportunity to gain exposure to a well performing and diverse global investment group was also recognised by its competitor, Perpetual, who approached Pendal with a scrip merger deal in April. While never likely to appeal to Pendal shareholders, the bid did help underpin a valuation level for the company. A deal with Perpetual may make sense in some form in the future, however this bid was opportunistic and actually highlighted more of Perpetual's business challenges than any benefits for Pendal.

Nickel producer, **Panoramic Resources, (+11.7%)** was a healthy contributor to performance following a solid first quarter production report and the nickel price remaining at elevated levels. Well capitalised with a significant growth profile, the company is poised to generate very strong cashflows over the next two years at least.

Key Detractors: Digital payments and gift card operator**, EML Payments (-46.8%)** fell sharply following a trading update that revealed a deterioration in operating margins in the March quarter. Profit forecasts for FY 2022 were downgraded by around 15%. The stock price fall was exacerbated by poor communication and detail in the release – not the first time this has occurred with EML. While the company is complicated and operates globally, the significant rise in its cost base (largely due to increased compliance and regulatory expenses) should have been better communicated. The release was both frustrating and costly. EML has some excellent high margin products in rapidly growing sectors of financial services but managing growth in many regulated jurisdictions is challenging and in the last year, both senior management and the board in particular has struggled with those challenges – to the detriment of shareholders. While obviously frustrating, there is significant value in the company that will begin to unlock next financial year and we retain a shareholding.

After being a strong contributor in March, utilities and telecommunications service provider, **Service Stream (-15.8%)** slipped back in April. There was no new news and at time of writing had recovered again; that's small cap investing… Gold miner, **Silver Lake Resources (-13.5%)** released a quarterly production report that was behind expectation largely due to labour related shortages which impacted many WA mining companies in the quarter and continue to linger. Given this, the company withdrew FY22 sales guidance. We view these challenges as temporary as operations should normalise over the coming months, the company is well positioned with nearly $300m of net cash now and will generate over $200m of free cashflow in FY 2023. Furthermore, the recent well priced acquisition of Harte Gold in Canada adds to production and earnings in FY 2023 onwards.

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
AVZ Minerals *	City Chic Collective	Codan
Kelsian Group	EML Payments	Sandfire Resources
Liontown Resources *	Service Stream	Seven Group Holdings
Megaport *	Silver Lake Resources	Shine Justice
Syrah Resources	Whitehaven Coal *	Syrah Resources

^ Alphabetical order. * Denotes stock not held. Attribution is for the 1 month ending 30th April 2022. Top 5 positions are effective 30th April 2022.