Flinders Emerging Companies Fund

Monthly Update: November 2020

FLINDERS
Investment Partners

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	9.13%	8.19%	10.78%	12.10%	12.03%	13.41%
S&P/ASX Small Ords Accumulation Index	10.27%	7.66%	5.98%	6.72%	10.69%	11.81%
Net Value Added	**-1.14%**	**0.53%**	**4.80%**	**5.38%**	**1.34%**	**1.60%**

^ 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: RBC Investors Services

- **Runaway Train**
- **Vaccines cure more than a virus**
- **Commodities march on**

Market & Outlook

The Small Ords Accumulation Index staged a massive 10.3% gain in November as global markets rallied on the news of various Covid-19 vaccines being ready for approval. Bonds sold off as the focus shifted quickly to economic recovery. Cyclical stocks led the market and commodities, with the notable exception of gold, accelerated their recent rise. Large caps performed as well as smalls as banks recovered strongly. The rotation into more cyclical companies saw technology stocks underperform.

The bounce in equities was global; US markets hit record highs, and European markets especially strong with rises in the UK, Germany and France between 12% and 20%. With the exception of China, which posted a modest 5% rise, Asian markets didn't miss out with most other markets up 10-15%.

As mentioned, the real surprise was the strength in commodities – especially given their rises in the previous few months. Oil (both Brent and WTI) was up 26%, iron ore up 11%, thermal coal 17%, copper 12% and the list goes on. While the AUD was firm against the US Dollar (rising 4.5%), it lagged the commodities – excellent news for mining companies and the agricultural sector.

With the exception of Treasury Wine Estates, the local market has largely shrugged off the escalation of trade and political issues with China. The tariffs lumped onto the wine industry was the first time the target had been a value added, branded product. Prior to that, almost all had been globally traded commodities which could be sold (perhaps with a discount) into other markets – hence lowering the impact. We don't have many export products into China like wine, most are in fact commodities. Perhaps that's why the market seems a little more sanguine than one might expect. However, if they started targeting iron ore – that might be a different story!

As for the impact of a vaccine, it is good news all round. However, we are also very cognisant of the fact that Australia (unlike the US and Europe) has been in recovery mode for some time, and even more-so since Victoria is moving to more normal activity. Our market had already been re-rating stocks that would benefit from our economic improvement. The global focus on these so called "recovery" stocks has seen some domestic companies re-rate too quickly and to levels that may not be sustainable. As always, we will continue to focus on growth but never ignore valuation when choosing companies for the portfolio.

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

Inception Date

30 September 2015

APIR Code

ETL0449AU

M-Funds Availability

Code FEC01

Responsible Entity

Equity Trustees Ltd

Research Ratings

Lonsec: Recommended
Zenith: Recommended

Platform Availability

MLC Wrap, Navigator, Netwealth, Powerwrap, HUB24, Macquarie Wrap, IOOF Pursuit/Expand, CFS FirstWrap, Praemium

Further Information

www.flindersinvest.com.au

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Portfolio

The Fund returned 9.1% in November, 1.1% behind the benchmark rise of 10.3%

Key Contributors: We certainly don't hold stocks in the portfolio for a potential takeover, but with a focus on growing companies that we think have considerable valuation upside, it will occasionally happen**. Think Childcare (+63.4%)**, is a company we have had in the portfolio for some time and had been recently adding to. It received takeover bids from two different companies in November. With the childcare industry stabilising and enrolments rising again, a number of the listed operators had seen their share prices left behind. Think Childcare had been an extreme example of this. Despite the seemingly large premium in the bid, we still feel there is value in the stock and continue to hold it in the portfolio.

Online travel company**, Webjet (+65.3%)** rose sharply following the announcements from vaccine developers that scale production would be likely early in the new year. With domestic borders opening and travel bookings rising, revenues will be rising and better conditions within the European market next northern summer is also likely. Infrastructure and mining contractor, **NRW Holdings (+21.6%)** saw support after announcing the proposed acquisition of listed engineering company, Primero Group. The $100m price is a 50/50 split of cash and scrip and is earnings accretive. Continued high levels of investment activity in mining and infrastructure also helped confidence in the company's outlook. Debt collector and unsecured lender**, Credit Corp Group (+29.8%)** had a very strong month as confidence in the domestic economic recovery grew and financial stocks re-rated. With debt relief in decline, banks will be increasing the sale of past due accounts for recovery – increasing activity levels for Credit Corp. This will continue to gather pace into 2021 and with fewer players left in the debt recovery market due to consolidation, we expect the company to return to a healthy growth profile.

Key Detractors: Gold stocks sold off aggressively late in the month as the gold price eased. As often happens, the selling in gold equities (not helped by ETF redemptions) far outweighs the real impact from a weaker bullion price. The three gold stocks in our portfolio, **Ramelius Resources (-12.7%), Silver lake Resources (-16.1%)** and **Gold Road Resources (-9.5%)** collectively had the largest negative impact on performance during the month although we remained underweight the overall gold sector. Perhaps linked to the weaker gold price was the performance of electronic product developer and manufacturer, **Codan (-10.1%).** One of its three main divisions develops metal detectors – often used by artisanal gold miners. The company is going exceptionally well, has solid valuation upside and we hardly think a 5% dip in the gold price is going to change the buying habit of a prospector.

Pre-prepared meal ingredient company, **Marley Spoon (-18.7%)** came under selling pressure following a dilutive capital raising late in October and also negative sentiment associated with the announcement of a Covid vaccine. While the company saw improved sales due to lockdown measures earlier this year, sales have continued to grow in its key markets when these measures have been withdrawn. We remain confident that the company has a significant global growth path in an emerging industry.

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Credit Corp	Codan	NRW Holdings
Mineral Resources	Gold Road	Sealink Travel Group
NRW Holdings	Marley Spoon	Service Stream
Think Childcare	Ramelius Resources	Shine Justice
Webjet	Silverlake Resources	Think Childcare

^ Alphabetical order. * Denotes stock not held.

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