Flinders Emerging Companies Fund

Monthly Update: November 2022

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 *	6.42%	-0.76%	-14.95%	2.54%	6.52%	9.09%
S&P/ASX Small Ords Accumulation Index	4.92%	-0.81%	-14.03%	2.57%	4.36%	8.66%
Net Value Added *	**1.49%**	**0.04%**	**-0.93%**	**-0.03%**	**2.16%**	**0.43%**

^ 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

$156.0m

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

- **Everything's fine, carry on…**
- **China still wrestling with Covid**
- **US Dollar down, Commodities up**

The Small Ords Accumulation Index recovered further in November with a rise of 4.9%. However, unlike October, it was resources that led the way with a rise of 11.6% versus the small industrials that posted a more modest 2.7% rise.

The main market feature during November was the reaction in the US to the Federal Reserve's comments about the pace of rate rises, with the suggestion that they may not continue to increase at the current rate. This took the upward pressure off the US Dollar which saw commodities rise and equity markets recover further.

The S&P500 rose 5.4% with the Dow slightly higher and Nasdaq lower with large tech underperforming again. European markets were stronger again with the UK FTSE up 6.7% and Germany particularly strong, rising 8.6%. But it was the Asian markets that stole the show in November, with China up 8.9%, Hong Kong up 26.6% and Taiwan up 14.9%. Japan was the global laggard, rising only 1.4% for the month.

As mentioned, commodities rallied. Copper rose 10.8%, nickel 20.7%, gold 7.3% and iron ore rallied a very strong 26.6% for the month – a merry Christmas to the federal treasury. Oil was conspicuous in red, with WTI falling 7.0%.

The move in commodities (and Chinese equities) was also aided by the increasing likelihood that the CCP will start addressing their hard line on Covid lockdowns. This won't happen quickly but the public unrest in November will lead to some easing of restrictions. We expect a new booster vaccine to be released before Chinese New Year that will also help the process. The negative economic impact of the lockdowns over the past two years has been significant, and next year could see a surprising recovery in activity – as it has with most economies emerging from restrictions.

China has also begun to provide stimulus measures to the housing markets by easing lending requirements for homeowners and expanded its infrastructure plans for 2023. Any improvement in these industries will begin to have a positive impact on resources.

It will be an interesting 2023 for the small companies sector. The 2022 de-rating versus large caps has been the most severe since the GFC and we think that has been well over-done. Many companies still have excellent growth prospects – even with a slowing economy and a few more rate rises. Balance sheets are generally in excellent shape and M&A activity hasn't slowed. We believe they could be a surprise packet in 2023.

So, to readers, investors - both current and potential, many thanks for your support this year. It hasn't been easy, but we won't stop trying to generate the best returns we can. A Merry Christmas and holiday season to all. Let's hope the weather improves and we all have a cracking 2023.

Performance Review

The Fund returned 6.42% in November, 1.49% above the benchmark which rose 4.92%.

Key Contributors: Pleasingly, November saw a healthy spread of contributors from a range of different industries and stock attributes. We've made mention recently of the increasing level of M&A activity in smaller companies and one of our holdings, software provider, **Readytech Holdings (+21.9%)** was bid for by private equity manager, Pacific Equity Partners (PEP). The company is still over 10% below the $4.50/s bid price due to uncertainty over the position of its largest shareholder, another private equity firm, Pemba and PEP going through due diligence. We expect a resolution over the next few weeks.

The stronger copper price gave a boost to **Sandfire Resources (+45.2%)** but it also benefitted from raising capital during the month. While this would normally be counter-intuitive, the issue was entitlement only (to existing shareholders), which meant that the company is well funded for the development of its Motheo copper project in Botswana and repaid a corporate debt facility that was due at the end of 2022. All viewed as positive outcomes for the company. The rise in the gold price saw **Gold Road Resources (+29.2%)** perform strongly. While the gold price has been weak in US dollars this year, in AUD it's been remarkably stable and for Australian miners with good projects and low costs (like Gold Road Resources), their profitability has been very strong. The recent strength in the gold price will only help that further.

Online travel company, **Webjet (+20.8%)** rose solidly on the back of its half yearly profit release. The company continues to benefit from post Covid re-opening both in Australia and Europe, costs seem well controlled and market share continues to rise. Comments on third quarter trading also looked positive and earnings forecasts were upgraded. And on the topic of travel, bus and ferry operator **Kelsian (+17.3%)** also had a solid month. The company confirmed that the bus operations were trading well and the tourism business had begun the financial year strongly. It also announced the acquisition of WA charter bus operator, Horizons West for $23.4m. While not a large purchase, it is very strong in the education sector and will be integrated with its existing Swan Transit and Go West Tours bus operations in WA.

Key Detractors: Diversified agricultural services company **Elders (-18.5%)** released a strong full year profit report in November but a combination of a cautious outlook statement and its longstanding CEO, Mark Allison announcing his retirement, saw the stock sold off aggressively. The caution was based on the potential of wet weather continuing to hinder farmers in the key QLD and NSW markets. The reaction to the CEO's retirement was probably exacerbated by the loss of the company CFO earlier this year.

International plus size retailer, **City Chic Collective (-39.1%)** disappointed the market yet again with a trading update at their AGM during the month. Discounting in the US and higher than anticipated fulfilment (transport and handling) costs have had a material effect on margins and while these costs are being addressed, the US online market remains competitive and driven by promotions. In contrast, the Australian 'bricks and mortar' store operations showed solid growth and should also have a solid second half – but not enough to offset the difficult trading conditions in the US and Europe.

Invoice finance provider, **Earlypay (-6.8%)** eased after AGM comments that extra provisioning and the rising cost of some of its funding facilities would crimp its first half earnings. A higher tax rate this year will also reduce its reported net profit despite the underlying revenue of the company rising strongly this year. Compensation lawyers, **Shine Justice (-5.2%)** also underperformed but not dramatically. The company is in the final stages of settling the Mesh implant class action against J&J in which the plaintiffs were awarded $300 million. The case started almost a decade ago and has gone through many court proceedings and appeals. While there has been media coverage about the costs incurred during the process, we would expect 2023 to see the final settlement and disbursement of the funds to those involved.

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Gold Road Resources	City Chic Collective	AUB Group
Kelsian	Earlypay	Johns Lyng Group
Readytech Holdings	Elders	Kelsian
Sandfire Resources	Service Stream	Readytech Holdings
Webjet	Shine Justice	Webjet

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