Flinders Emerging Companies Fund

Monthly Update: January 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	-7.44%	-5.59%	7.72%	14.06%	11.20%	12.54%
S&P/ASX Small Ords Accumulation Index	-9.00%	-7.99%	6.65%	10.12%	9.63%	11.08%
Net Value Added	**1.55%**	**2.40%**	**1.07%**	**3.94%**	**1.57%**	**1.46%**

^ 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

- **Giving some back - quickly**
- **Interest rates back in the spotlight**
- **Consumption, costs and the bottom line**

Market & Outlook

The Small Ords Accumulation dropped a hefty 9.00% in January with all sectors except energy posting falls. Healthcare, IT, Financials (including REITs) and Consumer Discretionary sectors were all down double digits within the small ordinaries.

The sell-off was global but as usual, had its origin in the US with technology stocks under pressure as US 10-year bond yields reached post Covid highs. Some patchy quarterly results from the tech sector and the short-term impact of Omicron also not helping sentiment.

European markets fared much better with only modest falls (the UK even managed a modest gain) but Asian markets were particularly hard hit with China down 7.6%, Korea losing 10.6% and Japan 6.2% lower. Singapore was the outlier, putting on 4.0%. Commodities were certainly the place to be in January. Iron ore and thermal coal were up 23.7% and 34.2% respectively. WTI and Brent oil were both up over 17%. Base metals were generally stronger and most agricultural commodities continued to rise. And despite all of that, the Australian dollar fell during the month – at one stage drifting below US$0.70. Australia scratches another winning ticket…

As we enter the February interim reporting period, it is worth reflecting on the December half year to put corporate earnings into context. The half included significant lockdowns in NSW and Victoria, supply chain cost increases, labour shortages, empty CBDs and shopping centres on the East Coast, and no international visitors. Despite all of that, profitability in the small cap sector has held up remarkably well. While the outlook statements over the next few weeks are likely to be cautious, we expect them to reflect the current residual impact of Omicron and the cost pressures mentioned above.

With the employment market strong, rates low and both household and business cash levels high, we are optimistic about what the remainder of 2022 and 2023 will offer for domestic corporate profitability. There is also the fiscal boost of current state and federal spending (election anyone?) helped along by higher tax receipts, land taxes and stamp duties. With their greater domestic focus, smaller companies will benefit.

The past year has demonstrated that the small-cap market is not always driven by earnings alone. There have continued to be pockets of heightened speculation in themes and companies with limited ability to generate the profitability to justify their market capitalisation. January saw this subside in a meaningful way as valuations for future (and often wishful) earnings came back. This may well continue – one of the reasons we feel the IPO market will be challenged for some time as vendors re-assess pricing and investors become more selective. Flinders certainly will be.

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

$140.0m

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

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Portfolio

The Fund returned -7.44% in January, 1.55% ahead of the benchmark which returned -9.00%. A challenging month in markets with a sharp lift in volatility and sectoral shifts. In general, not being overweight expensive names or unprofitable and speculative companies has helped our relative performance in the last couple of months.

Key Contributors: With the global jump in energy prices, it wasn't surprising to see our two domestic gas producers, **Beach Energy (+17.5%)** and **Cooper Energy (+7.1%)** were amongst our best performers in January. While Beach has contracts that are linked to the oil price, most of its production is based on the domestic wholesale gas price (which has also been strong in recent months). Cooper's contracts are purely domestic gas price based. One international factor that does impact the domestic gas price is the global price of LNG. With significant production of LNG from the QLD coal-seam fields, high global prices result in less gas from those fields being sold into the East Coast local market, forcing prices up. This is expected to be the case for some time yet.

Also continuing to perform well was medical industry consumables company, **Trajan Group Holdings (+7.7%).** The company announced three acquisitions through November and December, all which will add to the company's future growth profile in high end products into the medical equipment industry. They also broaden the company's offering in the US market and with the acquisition of Axel Semrau, give the company a valuable strategic foothold into the European market.

Nickel and lithium producer **IGO Limited (+2.4%)** benefitted from the continued strength of its major two commodities as the demand for electric vehicles (and hence Li-Ion batteries) continued to rise. Sales of EVs in 2021 reached 6.5 million, more than twice the 3.1m sold in 2020. Further strong growth is expected this year along with supply constraints in a number of key materials.

Key Detractors: Multi affiliate investment manager, **Pinnacle Investment Management (-27.7%)** was hit hard in January despite solid growth in funds flow announced during the month. Probably worrying the market was the decline in performance fees from the same half last year and fears that the stellar fund growth in one of their investment managers, Hyperion, may slow in an environment where growth stocks are under pressure. Being leveraged to markets, the January sell-off didn't help either. However, over 75% of Pinnacle's affiliate products are currently outperforming and are in performance fee territory and we expect a number of the groups' non-equity market strategies to see significant inflow this half.

Homeware retailer, **Adairs (-23.2%)** fell following a market update that revealed that while sales have been solid in the past quarter, costs had a negative impact on margins. Freight and labour costs in particular were singled out as problems – both being even more of an issue during the recent Omicron outbreak. We expect that to be a recurring theme during reporting season but fortunately it seems that the worst of the disruption is now behind us. Digital payments and gift card issuer, **EML Payments (-8.0%)** lagged the market as a number of 'fintech' stocks were sold down during the month. We don't expect any change from the revenue earnings guidance range the company issued at its AGM late in November.

Online consumer lender, **Wisr (-20.8%)** also struggled with the sell-off in technology and particularly so-called 'fintech' stocks. This was despite the company releasing particularly strong lending growth and revenue figures toward the end of the month. As the major banks continue to withdraw from non-mortgage consumer lending, companies such as Wisr have been able to grow rapidly with better customer service while still keeping credit quality high. Their growth in automotive lending has also been impressive, again, filling a void created with the exit of both banks and some traditional auto credit providers during the early part of the pandemic. And lastly, not owning technology company, Brainchip (+109.6%) detracted from relative performance during the month. The stock reached a market capitalisation of over $3.4 billion at the end of January but it would seem quite some distance from generating revenue. It has since begun to retrace.

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Beach Energy	Adairs	Baby Bunting
Cooper Energy	Brainchip *	Codan
IGO	EML Payments	Seven Group Holdings
Seven Group Holdings	Pinnacle Investment Management	Shine Justice
Trajan Group Holdings	Wisr	Syrah Resources

^ Alphabetical order. * Denotes stock not held.

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