Flinders Emerging Companies Fund

Monthly Update: April 2024

FLINDERS
Investment Partners

Performance *(after all fees and expenses)*	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	7 Years (% pa)	Since Inception^ (% pa)
Flinders Emerging Companies Fund	-2.83	2.03	3.52	-3.56	3.91	7.26	7.98
S&P/ASX Small Ords Accum Index	-3.06	3.33	7.36	0.02	3.93	6.35	8.17
Net Value Added	**0.23**	**-1.30**	**-3.84**	**-3.59**	**-0.02**	**0.91**	**-0.19**

^ 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

$131.1m

APIR Code

ETL0449AU

M-Funds Availability

Code FEC01

Responsible Entity

Warakirri Asset Management Ltd

Research Ratings

Lonsec: Recommended
Zenith: Recommended

Platform Availability

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

Further Information

www.flindersinvest.com.au

- **Inflation deflates the tyres**
- **The rate cut mirage**
- **Resources have a dance**

The S&P/ASX Small Ordinaries Accumulation Index finished down 3.1% in April with resources outperforming industrial stocks. Small Caps performed in line with the Large Caps (S&P/ASX100), with better sectors including Materials, Healthcare and Staples, while Real Estate, Consumer Discretionary and Energy all lagged.

Global markets were mixed with US indices dragged down by rising bond yields. The S&P500 dropped 4.2%, the Dow 5.0% and the Nasdaq 4.4% - this was despite generally supportive March quarter profit releases. European markets were generally weaker with the astonishing exception of the UK where the FTSE rose 2.4% over the month. Also bucking the negative trend were Hong Kong, up 7.4% and Shanghai up 2.1%. Japan was weak, dropping 4.9%.

Inflation was front and centre in April with the US CPI proving to be more ‘sticky’ (that’s become a cliché already, so we won’t use it again) than expectation. This shouldn’t be a complete surprise as service sectors will always experience inflationary pressures later than the goods sector and cling onto it longer – especially in an environment of full employment. Particularly true in this country where industry concentration is high in both the service and goods industries. In March, there was the expectation of multiple rate cuts in the US and at least one in Australia. By the end of April, at most, one cut was expected by year end in the US and now none in Australia. Big swings.

For local equities, the rising bond yields may start to have an impact on valuations of long dated stocks, but we’ve seen little impact on lending or borrowing rates. Consumer confidence has been brittle in Australia, but we’d expect that the forthcoming May budget will be more important than a possible 25bp move in the cash rate near year end. Unless the Treasurer really stuffs up, interest rates are steady, play on.

One of the bigger surprises in April was the jump in a number of commodities. Base metals were a standout – and this was despite anaemic growth figures from China and only modest drawdown in LME inventories. Copper and Nickel both added over 14%, Aluminium rose 12% and Zinc 22%. Gold managed to improve on its gains in March, rising 2.9%. Iron ore bounced 8.4% and soft commodities were also higher. Only oil showed weakness with WTI 1.5% lower. Currency moves were referenced as a possible reason for the strength but by month end the USD had reversed its early April strength and finished the month largely in line with other major currencies and commodities remained strong.

While resource companies were strong over the month, there would seem to be some scepticism toward how maintainable prices are. All we would say is that unless there is a sharp reversal, the high commodity prices and supportive (low) AUD against the USD will lead to some significant profit forecast upgrades over the next few months.

Performance Review

The Fund returned -2.83% in April, modestly ahead of the benchmark return of -3.06%.

Key Contributors: While the portfolio had some good performers on the back of the strong commodity sector, it was pleasing that a number of stocks from other sectors performed well in April. Diagnostic and therapeutic radiopharmaceutical company, **Telix Pharmaceuticals (+16.8%**), released its March quarter revenue and business update during the month. Revenue growth accelerated to 18% from the 11% growth rate posted in the December quarter, largely due to strong sales of its prostate cancer imaging product, Illuccix. The release also highlighted progress on the company's pipeline of oncology products and reaffirmed full year revenue guidance that certainly looks achievable given the March quarter strength.

Gold companies **Red 5 (+18.4%)** and **Ramelius Resources (+12.4%)** both had a good month, not just due to the better gold price but both releasing promising quarterly reports. Red 5 is now producing in excess of 200,000 ounces of gold per annum, has upgrade potential from its King of the Hills area and in the quarter, saw reduced operating costs. The proposed merger with Silver Lake Resources will create a $3bn company with numerous operating assets, a strong balance sheet and greater stock liquidity. The Ramelius quarterly came with an increased production forecast and, in a sign of the industry's strength, free cashflow of $125m for the quarter. The company will be in a net cash position of over $500m by the end of June, giving it plenty of growth or capital management options.

Trustee and funds management company, **EQT Holdings (+3.6%)** had a solid month in a weak market, continuing its re-rating this year. The company continues to win new funds management clients in its Corporate Trust business and the acquisition of Australian Executor Trustees is providing new revenue opportunities and synergies. Its superannuation trustee business is also growing and it is now making early inroads into the securitisation trustee market which is dominated by competitor, Perpetual Trustees. And a special nod to the continued performance of copper producer, **Sandfire Resources (+7.4%)**. Yes, the copper price has been strong since March, but Sandfire has performed well since late last year due to their execution of their Motheo project in Botswana and MATSA project in Spain.

Key Detractors: Some of the issues facing the domestic housing market were highlighted when retirement village developer, **Lifestyle Communities (-23.2%)** downgraded their expected number of dwelling settlements for this financial year and next. The major issue is not demand or price but buyer caution that dwellings are completed and ready to move into before selling their existing homes. This is understandable given the number of builders that have gone bust, or projects delayed, but the upshot has been delayed settlements (as opposed to cancellations), and lower short-term profit.

Integrated building services company, **Johns Lyng Group (-12.3%)** had a poor month but with no news or releases that should have concerned the market. A director sold a modest amount of stock at the end of March (the company has a history of weakness following insider sales – but this was a small amount), and perhaps a lack of new catastrophe work or simply more sellers than buyers – as you can tell, we are scratching our heads.

Oil producer **Karoon Energy (-10.0%)** had a more obvious reason for its dip. Its March quarter report announced a downgrade to forecast full year oil production from its newly acquired Gulf of Mexico assets. While the issues are short term, it wasn't ideal timing so soon after the asset purchase and associated capital raise to fund it. We'd expect a recovery in production in the June and September quarters. Debt collector and unsecured lender, **Credit Corp (-11.1%)** eased despite strong growth from its domestic lending book and the likelihood of an increase in US debt purchases in the June quarter – at attractive prices. While the 2024 FY profitability is unlikely to look exciting, the company is clearly setting themselves up for a very strong 2025 financial year.

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
EQT holdings	Alumina *	AUB Group
Ramelius Resources	Credit Corp Group	Credit Corp Group
Red 5	Johns Lyng Group	EQT Holdings
Sandfire Resources	Karoon Energy	Johns Lyng Group
Telix Pharmaceuticals	Lifestyle Communities	Webjet

^ Alphabetical order. * Denotes stock not held. Attribution is for the 1 month ending 30th April 2024. Top 5 positions are effective 30th April 2024.