Flinders Emerging Companies Fund

Monthly Update: May 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	1.47	3.62	9.87	-3.08	4.60	8.03	8.08
S&P/ASX Small Ords Accum Index	-0.05	1.53	10.92	-0.08	4.18	6.66	8.08
Net Value Added	**1.52**	**2.09**	**-1.05**	**-3.00**	**0.42**	**1.37**	**0.00**

^ 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

$121.9m

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

- **Budget? What Budget?**
- **Consumer playing Hermit Crab**
- **Business holding up**

The S&P/ASX Small Ordinaries Accumulation Index finished down 0.05% in May with resources outperforming industrial stocks. Small Caps underperformed Large Caps (S&P/ASX100), with better sectors including IT, Financials Healthcare and Materials while Consumer Discretionary, Industrials and Energy all lagged.

Global markets were largely better with US indices helped by lower bond yields and big tech recovering strongly. The S&P500 gained 4.8%, the Nasdaq 6.9% and again, the Dow lagging with a rise of 2.3%. European markets were modestly higher, as were Asian markets. The standout was Taiwan, rising 3.8% which has now overtaken Japan as the best performing Asian equity market over the past year, rising 27.7%. Food for thought when trying to guess the impact of geo-political developments…

Bond markets improved as economic growth figures started to temper in the US and there was little out of China or Europe to get excited about. Commodities had a good month (except oil) but the strong rise in base metals and gold seemed to be running out of steam by month end. Iron ore was 6.0% higher, WTI oil 6.0% lower and gold 1.9% higher. And in good news for cropping cockies, a 20% rise in the wheat price over the past quarter is coinciding with the ABARE Australian East Coast crop estimate upgraded by 16%. Yippee!

We had a budget in May. That was about the highlight. As far as its impact on inflation, probably too much spending – but that's what modern Governments do. So, no surprise. Pre-announced tax cuts will filter through over the next year but zero reform – Jim leaves it to Michelle to sort out, job done. Maybe a cut in November, maybe not.

One thing that might lead to a cut is the increasing nervousness of the consumer. The recent retail sales figures were poor. A few months ago, there was an expectation of a rate cut, tax cuts were coming and the employment market still tight. People still have jobs, but the reversal in the outlook for rates in April, has clearly had an impact. Car sales are still ok, but growth is slowing rapidly, hospitality is struggling, and the consumer is now retreating into their shell. It may only be temporary as it was in the back half of 2023 but a couple of months of soft figures and we'll be talking cuts again.

We've noted it before, but business is thinking in a more positive manner. While the recent NAB business survey pointed to lower forward orders, capital expenditure plans are still robust. This suggests some confidence in the longer-term outlook for both revenue and returns. We still have serious capacity backlogs in some industries (e.g. building, energy, mining) that will persist for years.

The Flinders portfolio remains underweight consumer facing industries (such as retail) and remains overweight the industrial sector where we can see continued investment and growth. Exposure to resources also remains promising.

Performance Review

The Fund returned 1.47% in May, 1.52% ahead of the benchmark return of -0.05%.

Key Contributors: Utilities billing software developer, **Gentrack Group (+17.8)** reported its half year result in May, exceeding expectations and upgrading full year revenue guidance by 18%. It continues to perform well on the back of signing new contracts and generating more revenue from existing ones. With its focus on the electricity market, the company is in a position to replace legacy systems for energy retailers with their software that has far greater functionality both for the customer and the provider. The market opportunity is very significant and their profitable growth in NZ, Australia and the UK is evidence that their products are effective.

We mentioned diagnostic and therapeutic drug developer, **Telix Pharmaceuticals (+20.6%)** last month, and the company continues to perform. Toward the end of May, they released a report on the success of their ProsACT SELECT prostate cancer therapy in proving a favourable safety profile. This is a major step for the drug and helps broaden what is now a very impressive portfolio of diagnostic and therapeutic products. They also confirmed plans for a US listing in June. Multi affiliate and asset class funds manager, **Pinnacle Investment Management Group (+16.3%)** announced the launch of a new international equities business made up of the highly successful investment team of UK financial services firm, Royal London. The team is likely to attract funds very quickly and consequently, be a meaningful contributor to revenue in the near future. It is also a modest outlay for a large FUM opportunity and more efficient than acquiring.

Uranium producer, **Paladin Energy (+14.0%)** achieved commercial production at its Namibian Langer Heinrich facility in April (as expected) but it wasn't until the US proposed ban on uranium imports from Russia, which was one-upped by the Russians announcing an export ban to the US with immediate effect, that the sector took off. Interestingly, there has been no impact on the underlying uranium price since then. Given the price performance, we have taken some profits.

Australia and UK insurance broker **PSC Insurance (+12.7%)** received a recommended takeover bid from UK based global insurer, Ardonagh Group. We have held the stock in the portfolio for some time as a well-run, growing company in an attractive industry. The company was a likely candidate as an acquisition target at some stage with its quality asset base in both countries. But still being founder controlled, any move had to be agreed – and the price attractive to all shareholders.

Key Detractors: Consumer caution saw global camper van and RV rental company, **Tourism Holdings (-35.2%)** issue a profit downgrade in May. Despite its core rentals business performing well in most countries, a drop in demand for their used vehicles has been unexpectedly sharp – especially in New Zealand and Australia. While these are largely deferrals of revenue, there is still a risk that it will result in a rise in inventories that may have to be discounted over time. With the consumer in both countries still cautious, we expect subdued sales margins in the 2025 financial year as well.

Debt collector and unsecured lending company, **Credit Corp Group (-9.6%)** eased on no specific news. We met with the company late in April and while they were cautious on the current US collection business conditions, management were confident that with pricing on debt ledgers now at attractive prices, they could resume purchases in the coming months. That should provide positive news for the market. And with the Australian lending market still strong, profit growth in 2025 is expected to be significant.

International travel agency, **Corporate Travel Management (-13.5%)** was another that fell on no company news but there were some broker downgrades to expected profitability in both the 2025 and 2026 financial years. These seemed largely based on caution about any meaningful recovery in their UK based bridging and accommodation services business. And lastly, oil producer **Karoon Energy (-7.2%)** eased with the oil price lower over the month.

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Gentrack Group	Alumina *	AUB Group
Neuren Pharmaceuticals	Conrad Asia Energy	EQT Holdings
Paladin Energy	Corporate Travel Management	Johns Lyng Group
Pinnacle Investment Mgt	Credit Corp	NRW Holdings
Telix Pharmaceuticals	Tourism Holdings	Webjet

^ Alphabetical order. * Denotes stock not held. Attribution is for the 1 month ending 31st May 2024. Top 5 positions are effective 31st May 2024.