# Flinders Emerging Companies Fund

Monthly Update: July 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 | 2.22 | 3.43 | 6.74 | -3.91 | 3.63 | 8.16 | 8.15 |
| S&P/ASX Small Ords Accum Index | 3.49 | 2.00 | 9.29 | -0.64 | 3.49 | 6.62 | 8.17 |
| **Net Value Added** | **-1.27** | **1.43** | **-2.55** | **-3.27** | **0.13** | **1.55** | **-0.02** |

^ 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**

$107.6m

**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

- **Speed wobbles – balance or the wheel nuts?**
- **Quite a bit since month end…**
- **Here comes reporting (or confession) season**

The S&P/ASX Small Ordinaries Accumulation Index finished up 3.49% in May with industrials outpacing resources by 6.0%. Consumer (both Discretionary and Staples) and Financials led the market higher while Energy and Health Care lagged. Large Caps (S&P/ASX100) fared slightly better rising 4.2% for the month.

Global markets were mixed. In the US large tech stocks began to come back from their record highs in mid-July and the Nasdaq finished down slightly (-0.8%) but the Dow managed a gain of 4.4% and the Russell 2000 small cap index rose 9.5%. Some serious rotation. European markets had similar trends with markets coming off peaks to post modest gains. Asian markets were slightly weaker. With the exception of a solid 5.2% gain in gold, commodity markets were ugly. Base metals shed between 3-8% and Brent oil was 6.6% lower. Iron ore had a late recovery to finish flat. Economic news was not supportive.

Until the 11th of July peak, the Nasdaq had risen 26% this year and 78% since the beginning of 2023, with little interruption. It wasn't totally surprising to see it weaken in the back end of the month. However, seeing the first few days of August present some significant moves in currency (USD/Yen), bond yields and equity markets (sharp retracements), there is a lot more going on. In the US, there is suddenly talk of recession – largely due to one poor employment figure. This is probably a delayed reaction to the decline in bond yields recently on Fed comments: an overreaction but a catalyst, nevertheless. The other (and opaque) development is the possible rate rise in Japan, aligned with the likely rate decline in the US leading to a sell-off in cheaply Yen funded global assets (the carry trade). Both are potentially damaging to equity markets, so we expect volatility to remain elevated in the short term.

The good news is that the US quarterly corporate reporting season was positive. Earnings growth continues at a good clip, balance sheets are healthy, M&A activity high and there is a high chance of interest rates coming down in the short term, so good reason not to have the bear suit zipped up too tightly when things calm down…

As for the local market, as usual we'll get blown around by the winds from the US, but we now know that rates are on hold until at least the end of the year, consumer confidence will remain subdued and unemployment is likely to creep up. Capital expenditure plans are still robust and like the US, M&A activity is still very active. Mining and infrastructure spending remains supportive due to the long lead times on projects – so not a negative backdrop for corporate profits. While retailers performed well in July, it is still one sector we are shy of.

The August reporting season always provides a few surprises but the outlook statements by management will be predictably cautious. There is the expectation of some attractive earnings growth in smaller companies for FY 2025 as many are recovering from a difficult 2024. The next few weeks will give a good insight into how realistic the forecasts are.

## Performance Review

**The Fund returned 2.22% in July, 1.27% behind the benchmark return of 3.49%.**

**Key Contributors:** Debt collector and unsecured lender, **Credit Corp (+16.4%)** had a strong finish to the month after releasing its full year profit result and providing guidance for the financial year ahead. 2024 was a challenging year for the company, especially with their collection businesses. Lower volumes in Australia and poor efficiency in the US (particularly in the first half) saw returns tumble. A significant recovery in the final quarter in both markets and continued strength in lending bodes well for the 2025 financial year with expectation of 15-20% profit growth.

Diversified agricultural services and supplies company, **Elders (+16.7%)** performed well without any new news but continued supportive revenue drivers. Cattle prices were up over 10% in July, weather conditions were supportive in NSW and WA for cropping and despite dry conditions in SA and Victoria, planting acreage remained solid. With improved inventory levels in crop protection chemicals, we expect the current half year to see a recovery in earnings. Multi-affiliate funds management company, **Pinnacle Investment Management Group (+15.7%)** had another strong month, helped by the expectation of solid funds growth and affiliate performance fees resulting in a good FY 2024 profit result (all of which occurred on August 1st). A number of its affiliates have moved from losses to profit, others have significant FUM growth momentum, and the company is seeing considerable success accessing investors in offshore markets.

Trustee Company, **EQT Holdings (+10.4%)** continued its strong year on the expectation of stronger growth in its corporate trustee business on the back of new client wins and existing fund manager's growth in FUM. The integration of the 2023 acquisition of Australian Equity Trustees (AET) business is adding value and we expect the company to grow its securitisation trustee revenues (dominated by Perpetual) again this year. The sale and exit of its loss-making UK/Ireland business will also help future profitability.

**Key Detractors**: Unexpected capital raisings, no matter how small or even for good reason, will always scare the horses. That was certainly the case with **Bellevue Gold (-23.3%)**. The company has successfully commissioned the Bellevue Gold project and had started to generate cash on time and budget – something that is rare and a credit to management. The company announced a $150m capital raise to accelerate exploration and expand production (in a prospective and high-quality deposit). The raising represented less than 7.5% of the then market capitalisation of the company. In a fit of short-term pique, investors (?) wiped over $400m from the market cap ($550m if one counts the $150m being raised). Quality asset, proven management, well capitalised. We continue to support the company.

Retirement village developer, **Lifestyle Communities (-27.6%)** has had a pretty torrid year with slower sales conversions, and general caution in the residential property market. However, it got worse in July, firstly following a 7:30 Report episode questioning their (and others in the industry) business model regarding certain charges and fees, then the company withdrawing dwelling settlement guidance on the back of the report. Withdrawing guidance was prudent as the impact of the negative publicity is unknown. As yet, it remains so but we expect more information with their profit release in a couple of weeks. We won't detail the basis of the report here, but it related to a modest number of people in only one community.

Neurological pharmaceutical developer, **Neuren Pharmaceuticals (-9.3%)** eased back on weaker markets late in the month but no new news in July. The company is due to release Phase 2 clinical trial results on its drug addressing Angleman Syndrome in early August which may provide some positive news. And lastly, gas field developer, **Conrad Energy (-10.5%)** slid as it delayed news on the likely signing of a Gas Sales Agreement (GSA) with a Singapore utility to purchase gas from Conrad's Mako field in neighbouring Indonesia.

| Performance Attribution^ | | Key Portfolio Positions^ |
|---|---|---|
| Top 5 Contributors | Top 5 Detractors | Top 5 Active Holdings |
| Alumina * | Aussie Broadband | AUB Group |
| Credit Corp Group | Bellevue Gold | Credit Corp Holdings |
| Elders | Conrad Asia Energy | Johns Lyng Group |
| EQT Holdings | Lifestyle Communities | MAAS Group |
| Pinnacle Investment Mgt Group | Neuren Pharmaceuticals | Webjet |

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