Lennox Australian Small Companies Fund

ARSN 617 995 918 APIR HOW3590AU

LENNOX CAPITAL PARTNERS

Monthly Fact Sheet June 2020

Performance[1]	3 month %	1 year %	2 years % p.a	3 years % p.a	Inception % p.a[2]
Fund return (net)	32.01	-8.33	-1.55	8.48	9.42
S&P/ASX Small Ordinaries Accumulation Index	23.90	-5.67	-1.94	6.10	5.73
Active return	8.11	-2.66	0.40	2.37	3.69
S&P/ASX Small Industrials Accumulation Index[3]	20.79	-7.43	-0.77	5.23	4.79
Active return	11.22	-0.91	-0.78	3.25	4.63

Past performance is not a reliable indicator of future performance. Numbers may not add due to rounding.

[1] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

[2] The inception date for the Fund is 28 April 2017

[3] The benchmark for the Fund is the S&P/ASX Small Ordinaries Accumulation Index. For comparison purposes, the S&P/ASX Small Industrials Accumulation Index is displayed as the Fund does not typically invest in resource securities.

Fund facts	
Portfolio managers	James Dougherty, Liam Donohue
Inception date	28 April 2017
Investment objective	To outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term (before fees)
Management fee	1.10% p.a.
Performance fee	15% of the Fund's daily return (after fees and expenses and after adding back any distributions paid) above the Performance Benchmark
Buy/sell spread	+0.39% / -0.39%
Fund size	$200.1M
Distribution frequency	Half-yearly

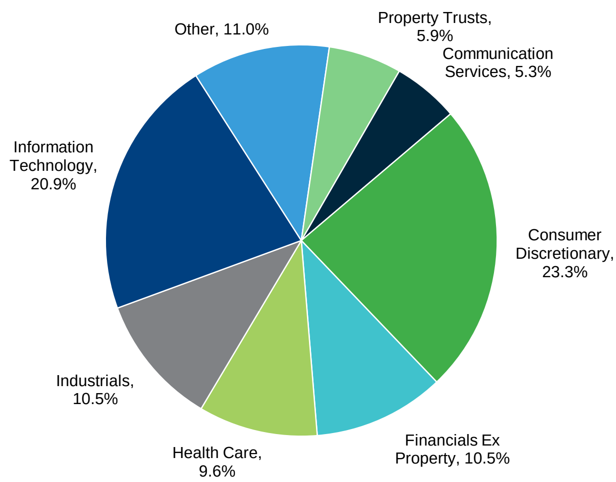
Top 3 active positions (alphabetical)
Collins Foods Ltd
FINEOS Corp Holdings PLC
SeaLink Travel Group Ltd

Stock attribution
Top 3
Collins Foods Ltd
Sezzle Inc
Adairs Ltd
Bottom 3
Lovisa Holdings Limited
Freedom Foods Group Ltd
Megaport Ltd

Fund features
An actively managed portfolio of small companies: Lennox invests using both qualitative screening and in-depth fundamental research to identify investment opportunities.
Experienced investment team: The investment team has a long and successful history investing in Australian small and micro-cap companies.
A refined and tested investment process: Lennox have a robust investment process which is combined with key insights gained through deep-dive research 'on the ground'.
Risk aware: Lennox embed risk management at the centre of their investment philosophy and portfolio construction.

Asset allocation	Actual %	Range %
Security	97.00	80-100
Cash	3.00	0-20

Sector exposure



Data Source: Fidante Partners Limited, 30 June 2020.

Fund highlights

The Fund returned 1.32% (after fees) for the month of June, while the S&P/ASX Small Ordinaries Accumulation Index returned -1.95% and the S&P/ASX Small Industrials Accumulation Index returned -2.28% (the Small Industrials index excludes resources and energy companies, which the Fund does not invest in).

The largest contributors to performance included overweight positions in fast food franchise operator Collins Foods, buy-now pay-later company Sezzle and homewares retailer company Adairs. Shares in Collins rallied 17.8% for the month as the company released its annual results, comfortably beating consensus. Sezzle shares rose 81.6% for the month as the whole sector lifted on Zip's acquisition of QuadPay. Adairs grew 22.99% in June after releasing a strong trading update, comfortably higher than consensus.

The largest detractors from performance were overweight positions in jewellery retailer Lovisa, packaged goods provider Freedom Foods and networking provider Megaport. Lovisa shares fell 23.8% in June off no company specific news. We believe the market is reacting to speculation that the company will need to raise capital and negative news flow regarding the situation in the United States. Shares in Freedom Foods fell 19.6% this month following the resignation of the CEO as well as the disclosure of potential accounting issues in past reports. The fund is monitoring the situation closely, after prudently taking profits and significantly reducing its position size during its relative strength in March. Megaport shares dropped 12.15% in June. This follows an extended rally which saw the company gain over 125% from the lows of March to its highs in early June. We have no concerns about the underlying fundamentals of the business and believe this is simply profit taking from investors following an incredible rally.

During the month, the fund further increased its position in portfolio administration provider HUB24 after initially establishing a position in April. We continue to see HUB24 as a key beneficiary of the structural move from incumbent platforms towards more modern and independent platform providers. We also view HUB24 as presenting relative value compared to its key competitor, Netwealth. The fund took some profits from radiology provider Integral Diagnostics to manage the overall fund exposure to medical imaging.

Market overview

The S&P/ASX Small Ordinaries Accumulation Index was down 2.0% in June, underperforming the S&P/ASX100 by 5.0%. The Small Industrials Index was down by 2.6%, underperforming the Small Resources Index which was down by 0.1% in June.

Utilities was the best performing sector in June, up 15.8%, followed by Real Estate (+1.84%) and Health Care (-0.21%). Consumer Staples was the worst performing sector over the past month, returning -6.52%, followed by Industrials (-4.65%) and Communication Services (-4.54%).

The top performers in the month were energy provider amaysim, energy provider Infigen and miner Aurelia Metals. Shares in amaysim returned 62.69% for the quarter following speculation of a potential takeover of its energy business, as well as the reaffirmation of its guidance. Infigen shares rose 56.67% in the month as it became the subject of a bidding war between UAC and Iberdrola. Aurelia Metals was up 53.85% in June after the release of its maiden resource estimates for its Federation asset.

The worst performers of the month were water technology company Phoslock, precious metals miner Red 5 and retailer Myer. Phoslock shares were down 40.20% in June after a significant reduction in revenue guidance due to COVID-19 related project delays. Shares in Red 5 fell 38.46% for the month after a material reduction in the expected output of material due to extractions being lower grade than expected. Myer dropped 32.73% for the month on no company specific news, noting it rallied 37.5% the month before.

What's making waves

As FY20 comes to a close, we reflect upon what has been a truly wild year for investors. Markets struggled over the financial year, with the Small Ordinaries benchmark returning -8.3% and the ASX200 returning -10.9%. The second half of the financial year in particular was extremely volatile, with the Small Ordinaries dropping 27.4% in the third quarter, before rallying back 23.5% in the final quarter. Consumer Discretionary and Materials in particular drove performance of the Small Ordinaries over both quarters, selling off heavily on concerns of the impact of the coronavirus in quarter three, before reversing some of these heavy losses in quarter four. Much of the rally in these stocks have been built on the back of multiple re-ratings, with the market now trading at a FY21 price-to-earnings ratio of 21.5x, compared to 19x pre-COVID. This premium is being paid in spite of further near-term risks, locally with the approaching end of the JobKeeper stimulus, as well as Victoria re-entering lockdowns as the coronavirus begins to run out of control. Meanwhile, globally we face a pandemic running rampant across several major economies, continued tensions between the US and China and an upcoming US presidential election. To us, this is indicative of the market's willingness to look through short-term weakness in lieu of attractive alternative investment opportunities. As interest rates and therefore yields continue to weaken, investors are being pushed further and further up the risk curve in order to achieve an acceptable return. For this reason, we remain disciplined in terms of our approach to both investing in businesses we view as fundamentally undervalued while also taking profits in positions that have delivered returns for our investors.

For further information, please contact:

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