



MARKET MATTERS
INVEST

MONTHLY REPORT | JULY 2022 | EMERGING COMPANIES

PORTFOLIO DETAILS

Portfolio Name	Emerging Companies
Structure	Separately Managed Account
Benchmark	S&P/ASX Small Ords Index
Management Fee	0.85% incl GST
Platform	OpenInvest
Included Assets	Equities
Portfolio Managers	James Gerrish & Harrison Watt
Annual Performance	6.14%*

OBJECTIVE

The objective of the Market Matters Emerging Companies Portfolio is to provide an active exposure to Australian emerging companies defined as all listed stocks outside the S&P/ASX 100. Returns will primarily be achieved through capital appreciation rather than income with an overall objective of outperformance of the S&P/ASX Small Ordinaries Index over 5 years.

*Inception Date 31.01.2020

MARKETS & PERFORMANCE

The Market Matters Emerging Companies Portfolio advanced 14.48% in July, outperforming the S&P/ASX Small Ords Index which added 11.43%.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	INCEPTION
PORTFOLIO %	14.48	-8.11	-12.16	-15.36	-3.8	6.14%
BENCHMARK %	11.43	-9.94	-6.63	-10.93	8.57	6.62%
RELATIVE %	3.05	1.83	-5.53	-4.43	-12.37	-0.48%

Benchmark: S&P/ASX Small Ords Index

Global equities rebounded strongly in July as the market eased back on expectations around future interest rate hikes, the Australian 10-year yield lowered by 60bps to 3.06% while US yields also dropped 33bps to 2.64%. The MSCI Developed Markets Index rose (+8.0%), driven by a strong month for the S&P 500 which gained (+9.2%). The S&P/ASX 200 underperformed other developed markets but still lifted (+5.75%).

While stocks ran hot in July, Commodity prices broadly fell, Brent Oil down US\$5 to US\$110/bbl as bans on Russian shipments are delayed. Iron Ore prices also dropped US\$5 down to US\$118/Mt as Brazilian shipments hit record highs and demand remains soft. Gold saw large falls as prices fell by US\$60 to US\$1,753, as moderating inflation expectations improve investor risk sentiment.

Looking ahead, we now see markets starting to price interest rate cuts in 2023 and as markets are forward-looking, this provides a more favourable backdrop for equities, particularly the valuations for small and mid-cap shares which tend to have growth characteristics.

Corporate America has continued to hold up relatively well with quarterly reporting providing a positive earnings surprise ~78% of the time, which is about average, and certainly not the disaster that many had feared. Locally, FY22 results have started to land and this will likely be the next driver of the market's performance. For now, investors are positioned very cautiously with low embedded expectations.

We were pleased with our July returns across the Market Matters Portfolios and look forward to furthering outperformance as the year progresses.



PORTFOLIO STOCKS

The portfolio was active in the month, cycling out of several underperformers, taking profits on others and adding three new positions largely shifting some exposure out of technology more towards resources into the prevailing weakness.

We sold out of Tyro Payments (TYR), Zip Co (ZIP) and Nitro Software (NTO) following disappointing updates. We trimmed our overweight positions in Audinate (AD8) and Calix (CXL) taking profits, although maintaining significant exposure in both stocks. We topped up our existing holding in Paladin (PDN) and added new positions in Lovisa Holdings (LOV), St Barbara (SBM) and Pilbara Minerals (PLS).

The consumer discretionary sector has been sold off heavily, however, a number of company reports have shown a continuing improvement in underlying operations. We added **Lovisa Holdings (LOV)** to the portfolio given their significant growth levers and high-margin business model. The company is rapidly expanding their US and European store numbers with strong metrics around payback for new store openings. We also see some downside protection built into the company. Given their affordable offering and focus on the youth market, customers are less likely to be impacted by the rising cost of living which may also help customer numbers as they 'trade down' into Lovisa's target market.

We also added gold stock **St Barbara (SBM)** in July, with shares rallying strongly into the end of the month. St Barbara has three assets, two of which they are looking to sell or spin out (Atlantic & Samberi). They have a strong balance sheet with \$98m cash as reported at their quarterly near the end of July, and their final asset in Leonora, WA has caught the eye of peers looking to consolidate projects in the area.

The gold price headwind appears to have eased for now, helping equities trade higher, and St Barbara remains one of the cheapest in the space with a number of catalysts seen near term.

We bought lithium company **Pilbara Minerals (PLS)**, and while there are a number of exciting lithium projects around, we like the benefit of current production which was key in our preference for Pilbara. The lithium market has seen an almost uninterrupted rally over recent years as batteries become a part of everyday life. Demand continues to grow and there is a lack of near-term supply available from quality hard-rock producers such as PLS, which we expect to support prices in the medium term.

PORTFOLIO STOCKS

NO. OF HOLDINGS	19
ESTIMATED YIELD (%)	1.29
TOP 5 POSITIONS (% OF AUM)	33.22
TOP 10 POSITIONS (% OF AUM)	59.12

STOCK	CONTRIBUTION (%)
PINNACLE INVESTMENT (PNI)	2.06
AUSTAL (ASB)	1.99
AUDINATE (AD8)	1.78
PRAEMIUM (PPS)	1.12
PALADIN (PDN)	0.95

STOCK	DETRACTION (%)
NITRO (NTO)	-0.34
EML PAYMENTS (EML)	-0.33
SELECT HARVESTS (SHV)	-0.07
LYNAS RARE EARTHS (LYC)	-0.01
CAPITOL HEALTH (CAJ)	0.00

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY23	14.48												14.48
FY22	2.97	1.17	5.91	1.13	2.19	-2.47	-10.29	-5.93	6.68	-5.19	-7.80	-15.25	-23.32
FY21	10.92	17.19	-10.89	0.63	0.58	0.57	-0.86	5.91	-7.10	4.38	-3.81	2.37	16.45
FY20								-16.09	-27.07	37.98	21.26	5.66	16.03
CUMULATIVE													23.64

One of the biggest contributors to outperformance in July was the position in shipbuilder **Austal (ASB)**, which managed to secure a key contract with the US Coast Guard. Austal wasn't expected to be in the running for this build, and it may lead to another 10 ship orders coming their way. There are at least another 2 key contract tenders up for grabs for the company this year.

We are also pleased with our position in Investment manager **Pinnacle Investments (PNI)**, which staged a rally of more than 40% in the month thanks to improving market sentiment and a boost from performance fees. The market had essentially written off any performance fee income for the second half, so we were pleasantly surprised to see -\$10m income from affiliates for performance. The number is a testament to their diversified approach and partnerships with quality managers.

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