MARKET MATTERS
INVEST

MONTHLY REPORT | APRIL 2023 | 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	4.71%*

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 gained +2.33% in March, slightly below the S&P/ASX Small Ordinaries Accumulation Index which was up +2.78%. The portfolio has returned -+6.04% for the rolling 12 months and +6.95% per annum over 3 years.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	2.33	-4.15	5.15	-6.04	-7.6	6.95
BENCHMARK %	2.78	-1.74	5.77	-8.17	-3.46	9.23
RELATIVE %	-0.45	-2.41	-0.62	2.13	-4.14	-2.28

Benchmark: S&P/ASX Small Ords Accum Index

Australian equities rallied in April as slowing inflation prompted a reassessment on the need for any further rate hikes from the RBA. That saw the local market, as measured by the ASX 200 Accumulation Index advance (+1.8%) and outperform other developed markets.

The MSCI Developed Markets Index rose over the month (+1.7%), and the S&P 500 also gained (+1.6%) in local currency terms.

Bond yields were more subdued during April and this provided a tailwind for equities. Australian 10-year yields tracked sideways as the cash rate remained unchanged, increasing a modest 4bps to 3.34%. US yields fell 5bps to 3.45%, on expectations of a pause to the Feds aggressive rate hike path.

Amongst commodity markets, there were mixed results. Brent Oil fell by just US$0.23c to US$79.54/bbl, Iron Ore prices fell by $22.00 to US$105.00/Mt on lagging steel demand from China while Gold prices remained relatively flat over the month, up by just US $2.85 to US$1,983.

Locally, the Materials sector was the top performer up (+5.9%), while Communication Services (+3.4%), Consumer Discretionary (+1.7%), Utilities (+1.5%), Consumer Staples (+0.5%), Industrials (+0.3%) and Healthcare (+0.10%) all made gains.

The Real-Estate sector was the hardest hit during March ending down (-6.8%) while Financials (-4.9%), Energy (-1.5%) and IT (-0.30%) also fell.

PORTFOLIO STOCKS

The portfolio held 19 positions at the end of April, taking profit on 2 positions in the month with cash increasing to ~15% by months end. We shifted to a more defensive standpoint having turned more neutral on equity markets, selling **Sandfire Resources (SFR)** and **NEXTDC (NXT)** after strong runs in each position. In our view, it was prudent to add flexibility to the portfolio into the end of the year, something the portfolio now has plenty of given the relatively high cash balance.

We took a ~40% profit on data centre operator **NEXTDC (NXT)** midway through the month after shares hit a 12-month high. The company provided a strong update showing that utilization was up 43% in the first four months of the calendar year. In our view, the medium-term outlook is very supportive of NEXTDC with demand for data storage continuing to show momentum, however, the stock isn't cheap, and it needs a strong runway of growth to justify its current price.

We completely exited Copper company **Sandfire Resources (SFR)** later in the month having previously trimmed the position on two separate occasions. The stock was a strong performer for the portfolio, up over ~70% in less than 6 months. The share price has significantly outpaced the rise in copper, while we expect bouts of concern percolating from recession fears to underpin ongoing volatility, even though we have a positive bias in the medium term given the demand outlook from decarbonisation projects. The stock remains on our radar though given our positive medium/long-term view.

Despite underperformance in the broader property sector, one of the key positive contributors to portfolio performance was property fund manager **Centuria Capital (CNI)** which bounced off long-term support in late March with a dip in bond yields supportive of their performance.

Centuria has typically grown faster than peers which had helped the stock outperform, however, that outperformance was handed back in 2022 and the stock is now "back to the pack." Centuria Capital manages, and co-invests in, several funds traditionally exposed to industrial and office while they have added Healthcare, Agriculture, and Credit more recently, diversifying the earnings pool. We continue to back management with Centuria being our preferred, deep-value, high-yield property play, and over time, we expect earnings to become more diversified.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	19
ESTIMATED YIELD (%)	2.36
TOP 5 POSITIONS (% OF AUM)	35.29
TOP 10 POSITIONS (% OF AUM)	55.56

STOCK	CONTRIBUTION (%)
NEXTDC (NXT)	0.70
SANDFIRE RESOURCES (SFR)	0.53
CENTURIA CAPITAL (CNI)	0.44
AUSSIE BROADBAND (ABB)	0.40
EML PAYMENTS (EML)	0.31

STOCK	DETRACTION (%)
SILEX SYSTEMS (SLX)	-0.54
PRAEMIUM (PPS)	-0.29
ST BARBARA (SBM)	-0.25
GLOBAL LITHIUM (GL1)	-0.03
CALIX (CXL)	-0.02

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY23	14.48	3.07	-9.21	0.87	5.76	-6.42	8.36	-4.24	-2.29	2.33			**12.71**
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	**-26.88**
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	**19.89**
FY20								-16.09	-27.07	37.98	21.26	5.66	**21.74**
CUMULATIVE													**27.46**

Some changes in the executive suite for **EML Payments (EML)** saw shares in the payments company bounce strongly. EML has been struggling with regulatory issues regarding Anti-Money Laundering breaches with the Irish regulator and the process to rectify the problem has been drawn out. Shares rose after the CEO announced her resignation showing exactly what the market thought of her performance. Along with Emma's departure, the company hired bankers to conduct a strategic review, which usually means the business or at least part of it, is up for sale.

Junior gold miner **St Barbara (SBM)** spent much of the month in a trading halt as they recut a takeover bid from **Genesis (GMD)**. The new deal sees St Barbara hold on to the troublesome PNG & Canadian assets, however, they will receive a large cash component in the sale of their Leonora asset, earning $370m in the sale as well as picking up ~$170m in Genesis shares. St Barbara will end up with a ~15% stake in GMD, with an additional ~4.5% earned if certain production hurdles are met. The cash component will allow the company to pay down their debt, ending up with $197m in cash providing some balance sheet flexibility to turn the rest of the company's assets around. The market still sees plenty of risk around the execution of the deal, and SBM's ability to use the balance sheet boost to effect which weighed on the stock in April.

Lead Portfolio Manager **James Gerrish** was featured in the **Rules of Investing Podcast** during the month, discussing investment style and market views. The wide-ranging discussion covers:

- Benefits of holding short-term views when long-term investing;
- Market signals that matter most;
- Sectors with the best risk adjusted return; and
- The one thing investors should fear.

The episode was recorded on Wednesday April 12, 2023 and can be accessed **here**.