



MARKET MATTERS
INVEST

MONTHLY REPORT | MARCH 2024 | 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	5.82%*

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 fell -1.13% in April, outperforming the weakness seen in the S&P/ASX Small Ords Accumulation Index which fell -3.06%. The portfolio has returned +9.37% for the rolling 12 months against the benchmark return of +7.36% & 5.82% per annum since inception, outperforming the benchmark return of 2.70%.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	INCEPTION
PORTFOLIO %	-1.13	5.02	13.25	9.37	-2.79	-0.91	5.82
BENCHMARK %	-3.06	3.33	19.66	7.36	-1.39	0.02	3.12
RELATIVE %	1.93	1.69	-6.41	2.01	-1.40	-0.93	2.70

Benchmark: S&P/ASX Small Ords Accum Index

More broadly, the MSCI Developed Markets Index fell (-3.2%), while the S&P 500 also decreased (-4.1%) in local currency terms, underperforming local stocks. The Australian 10-year government bond yield moved up 46 bps over the month to 4.42%. US yields also increased, stepping up 48 bps to 4.68%. Geopolitics supported commodity prices, with Brent Oil up by US\$0.92 over the month to US \$88.40/bbl, whilst Iron Ore prices increased by US\$16.00 to US\$118.00/Mt. April saw Gold prices hit another record high, increasing by US\$119.20 to US\$2,333.55 per ounce.

On a sector basis in Australia, Utilities (+4.8%) & Materials (+0.6%) were the only sectors to make gains. Property (-7.8%) was the weakest link after being the strongest in March, Consumer Discretionary (-5.1%), Communication Services (-4.9%), Energy (-4.7%), Industrials (-4.0%), IT (-3.9%), Financials (-3.5%), Consumer Staples (-3.3%) & Healthcare (-2.5%) all declined.



PORTFOLIO POSITIONING

The portfolio held 21 positions at the end of April while the cash position ended the period at ~5%. We made one addition to the portfolio in the month, remaining constructive around the outlook for equities, particularly Small Caps after a long period of underperformance.

The most recent addition to the Portfolio, **Austin Engineering (ANG)**, was up ~7.5% in the period since adding it to the portfolio. Austin, a company that designs and manufactures mining equipment including dump truck trays and buckets, has seen growing demand for new products which also dovetails into an increase in recurring revenue from repairs. The custom-designed trays used across iron ore (~30%), coal (~25%), copper (~15%) and gold (~15%) mining with ~55% of revenue coming from Asia Pacific (including Australia). Their product is up to 10% lighter than competitors which leads to significant cost savings in use by mining companies.

The company recently flagged an increase in activity in Chile with an order for a customised dipper bucket worth over \$2.5. This order followed a \$7m deal that was announced earlier this year to be delivered in FY24, a contract that is likely to grow in FY25 given the backdrop of stronger copper prices. The company also flagged growth in rebuilds and repairs, 35 repairs have already been completed in FY24 in Chile alone, with an additional 6 currently with the company.

While Austin has stuck to FY24 guidance, the numbers look conservative based on the news flow since the HY result in February. Both margins and volumes have been growing thanks to additional capacity coming on ahead of demand, while Austin has successfully integrated their FY23 acquisition of Maintec which is starting to contribute to organic growth.

Consensus expectations are nearer to the lower end of earnings guidance as well, ~\$30.5m profit vs \$30-33m guided, expected to grow earnings ~75% in FY24 and ~17% in FY25 on an expected FY24 PE of less than 10x.

Elsewhere, another holding linked to capex in the resources space, **Chrysos (C79)**, had a more difficult month. A softer-than-expected 3Q update from the company developing the CSIRO Photon Assay technology saw the stock fall to 8-month lows. Chrysos deployed 3 units in the quarter, and while this was an increase on the 2 units in 2Q, they are now expecting to fall short of their FY24 targets.

PORTFOLIO STOCKS

NO. OF HOLDINGS	21
ESTIMATED YIELD (%)	2.51
TOP 5 POSITIONS (% OF AUM)	32.15
TOP 10 POSITIONS (% OF AUM)	56.3

STOCK CONTRIBUTION (%)

SILVER LAKE RESOURCES (SLR)	1.18
SANDFIRE RESOURCES (SFR)	0.60
AUSTIN ENGINEERING (ANG)	0.30
SRG GLOBAL (SRG)	0.25
AUSSIE BROADBAND (ABB)	0.16

STOCK DETRACTION (%)

CHRYSOS (C79)	-0.69
PEXA GROUP (PXA)	-0.52
BAPCOR (BAP)	-0.46
AUDINATE (AD8)	-0.40
EML PAYMENTS (EML)	-0.36

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY24	-1.16	6.67	1.08	-7.77	4.24	5.16	-1.64	4.57	3.45	-1.13			13.47
FY23	14.48	3.07	-9.21	0.87	5.76	-6.42	8.36	-4.24	-2.29	2.33	-5.22	1.47	8.96
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													37.18

PORTFOLIO POSITIONING CONTINUED

Contracted units hit 50; however, revenue guidance was lowered from \$48-50m down to \$48m. Encouragingly, earnings seem to be holding up ok despite the revenue slowdown. EBITDA is expected to be \$8.5m in FY24 now, still inside the \$7-17m guidance range previously provided. Cash burn on an operating level of just \$700k in the period is also a positive, the company looks poised to move towards positive cash flow, potentially in FY25.

While the update was disappointing there are plenty of encouraging signs for Chrysos. The company's PhontonAssay uses X-rays to analyse gold, copper, silver and other elements in mineral samples in a more accurate, timely and cost-efficient manner, all without destroying the sample, unlike traditional blast furnace technology. Samples processed increased 29% compared to 3Q23, and revenue on deployed units was running at \$1.7m/unit as a result, up from \$1.5m in the first and second quarters. The company has several deals in play, including with global gold giant Barrick Gold (GOLD US) and we expect to see deployed units continue to climb over the next few years.

Weakness in one quarter hasn't impacted our long-term view of Chrysos and we will consider adding to the position if further weakness prevails.

DISCLOSURE

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