



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	6.23%*

**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 +3.45% in February, under performing a strong S&P/ASX Small Ords Accumulation Index which advanced +4.79%. The portfolio has returned +12.83% for the rolling 12 months against the benchmark return of +13.83% and 6.23% per annum since inception, outperforming the benchmark return of 3.96%.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	INCEPTION
<b>PORTFOLIO %</b>	3.45	6.4	7.58	12.83	-4.8	0.96	6.23
<b>BENCHMARK %</b>	4.79	7.55	16.71	13.83	-0.6	2.72	3.96
<b>RELATIVE %</b>	-1.34	-1.15	-9.13	-1	-4.2	-1.76	2.27

Benchmark: S&P/ASX Small Ords Accum Index

More broadly, the MSCI Developed Markets Index rose (+3.4%), while the S&P 500 also strengthened (+3.2%) in local currency terms. The Australian 10-year government bond yield moved down 17 bps over the month to 3.97%. US yields also decreased, stepping down 4 bps to 4.20%.

Commodity prices were mixed in March. Brent Oil rose by US\$3.86 to US\$87.48/bbl, whilst China macro concerns saw Iron Ore prices fall by US\$15.50 to US\$102.00/Mt. Over the month, Gold prices hit another record high, increasing by US\$166.30 to US\$2,214.35 per ounce.

On a sector basis in Australia, Real-Estate (+9.7%) was a standout as bond yields declined, Energy (+5.3%), Utilities (+4.8%), and Materials (+3.7%) all outperformed, while the underperformers included Communication Services (-0.6%), Consumer Discretionary (+0.9%), Healthcare (+1.7%), Staples (+2.5%), Industrials (+2.9%) and Financials (+3.1%) - although only one sector lost ground showing the broadening nature of the market rally.



## PORTFOLIO POSITIONING

The portfolio held 20 positions at the end of March with cash finishing the month at -10%. We made one addition to the portfolio in the month, and we're starting to see the market rally broaden into smaller capitalisation companies. We are getting more positive on this area of the market, and see pullbacks as an opportunity to add to exposure.

We recently purchased gold assay technology company **Chrysos (C79)**. This company is disrupting the traditional fire assay testing which is often costly, slow and inaccurate, whereas Chrysos' PhotonAssay technology is an on-site, environmentally friendly replacement. The company has signed several deals with major Gold producers including Barrick (GOLD US) with 25 units deployed. Unit growth stalled over the Christmas period on the back of reduced contractor availability, however, we see this as a short-term headwind and expect growth to improve through the 2H with several units contracted for installation.

AV Tech company **Audinate (AD8)** has been a key holding in the portfolio over the last few years, with the position more than doubling during the holding period. Audinate was included in the ASX/S&P 200 Index last month which created some short-term volatility. Ultimately the stock fell ~9% last month, but not before it hit all-time highs. When companies enter a new index, their shares enter the frame of a new audience, including short sellers. The short positioning jumped materially following the inclusion of AD8 in the ASX200 in part, likely due to the additional availability of 'borrow' as index funds lend their positions to traders.

Audinate has also been impacted by an unwind in rate cut expectations. The tech sector relies on future growth to justify higher valuations, and higher rate expectations reduce the value of future returns. Audinate has shown it can deliver strong earnings growth and we are looking through the volatility short term, continuing to believe in the long-term picture for the company.

**Aussie Broadband (ABB)** gave back some recent strong performance in March following strong 1H results after they lost a key contract with Origin Energy (ORG) to Superloop (SLC).

### PORTFOLIO STOCKS

NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	2.13
TOP 5 POSITIONS (% OF AUM)	30.77
TOP 10 POSITIONS (% OF AUM)	55.53

### STOCK CONTRIBUTION (%)

SANDFIRE RESOURCES (SFR)	1.84
SILER LAKE RESOURCES (SLR)	0.86
CATAPULT GROUP (CAT)	0.71
CENTURIA CAPITAL (CNI)	0.48
BAPCOR (BAP)	0.43

### STOCK DETRACTION (%)

AUSSIE BROADBAND (ABB)	-1.20
CALIX LIMITED (CXL)	-0.47
AUDINATE GROUP (AD8)	-0.41
READYTECH (RDY)	-0.21
BOWEN COKING COAL (BCB)	-0.16

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
<b>FY24</b>	-1.16	6.67	1.08	-7.77	4.24	5.16	-1.64	4.57	3.45				<b>14.60</b>
<b>FY23</b>	14.48	3.07	-9.21	0.87	5.76	-6.42	8.36	-4.24	-2.29	2.33	-5.22	1.47	<b>8.96</b>
<b>FY22</b>	2.97	1.17	5.91	1.13	2.19	-2.47	-10.29	-5.93	6.68	-5.19	-7.80	-15.25	<b>-26.88</b>
<b>FY21</b>	10.92	17.19	-10.89	0.63	0.58	0.57	-0.86	5.91	-7.10	4.38	-3.81	2.37	<b>19.89</b>
<b>FY20</b>								-16.09	-27.07	37.98	21.26	5.66	<b>21.74</b>
<b>CUMULATIVE</b>													<b>38.31</b>

## PORTFOLIO POSITIONING CONTINUED

130k users will migrate from Aussie Broadband over to Superloop in the next few months, a deal that was expected to earn ABB ~\$14m EBITDA over FY24. While losing the contract has impacted earnings growth expectations, it appears terms agreed by SLC are significantly more generous than those with previously offered by ABB. We think Aussie Broadband can fill the void left by the Origin contract, some short-term pain for longer-term margin and growth benefits.

On the flip side, Sports Tech company **Catapult (CAT)** has quietly turned into one of the star performers in the portfolio, with the stock up ~23% in the month, hitting 2-year highs in the process. The company runs to a March year-end, so we expect to see FY24 results published by mid-May. There's been little news to drive the share price, though Bell Potter recently upgraded their price target while retaining a hold / neutral recommendation on the stock despite saying their numbers are likely 'conservative.'

The market is expecting ~18% revenue growth, driving a net loss improvement from \$US31m in FY23 down to ~\$US10m in FY24, though the company has guided to positive FCF this year. At the half-year result, the company was enjoying a positive sales period with both new customer wins and successfully upselling to their existing customer base. Given this sales momentum, we see upside risk in the upcoming result, though if shares continue to push higher into May, much of this would be built into the share price.

The biggest gainer as a percentage was **EML Payments (EML)** which has shown signs of life following an extended period of issues. EML recently announced they had exited the embattled PCSIL Business, and they also announced the sale of Sentenial in March. They managed to snag \$54m for the loss-making arm, with the sale proceeds to improve the balance sheet.

While some uncertainties remain with EML, including who will take on the CEO role, the business has taken significant steps to improve operations in recent times., and reposition the business for future growth.

Copper company **Sandfire Resources (SFR)** was volatile during the month and is garnering plenty of attention due to its ongoing strength. Many in the market think it's simply too expensive, with several downgrades from brokers, and cautious rhetoric from fund managers, but there are a few moving parts in this equation. The central bearish thesis is around valuation, with SFR up significantly more than the copper price.

Copper remains our preferred commodity as we travel through 2024 and we continue to assess opportunities within the sector, applicable for this portfolio.

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