MARKET MATTERS
INVEST

MONTHLY REPORT | JANUARY 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	6.66%*

**Inception Date 31.01.2020*

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.

MARKETS & PERFORMANCE

The Market Matters Emerging Companies Portfolio advanced 8.36% in January, outperforming the S&P/ASX Small Ordinaries Accumulation Index which added 6.56%. The portfolio has returned -6.40% for the rolling 12 months, -3.95% per annum over 2 years & 6.66% per annum since inception.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	INCEPTION
PORTFOLIO %	8.36	8.71	3.93	-6.4	-3.95	6.66
BENCHMARK %	6.56	7.64	2.35	-4.44	0.96	2.6
RELATIVE %	1.8	1.07	1.58	-1.96	-4.91	4.06

Benchmark: S&P/ASX Small Ords Accum Index

A bullish start to the new year with global equity markets enjoying some clear air, at least for now, with stabilising recessionary expectations and easing rate hike fears permeating from softer-than-expected US growth data.

For January, the MSCI Developed Markets Index rose +6.5%, the S&P 500 gained +5.3% in local currency terms, while local stocks did better, the ASX 200 inclusive of dividends up by +6.2%.

Moves such as these highlight the importance of investor positioning in performance outcomes, with bearish rhetoric and defensive asset allocation very evident at the back end of 2022. Simply put, if the majority are underweight equities and overweight cash, positioned for looming economic pain, it leaves a void of natural sellers.

When 'less bad' news emerges then buying becomes amplified, January was certainly a case in point and a lesson to remain open-minded for the year ahead.

The more tepid growth outlook was reflected in bond markets, as the Australian 10-year yield fell by 50bps to 3.55% while US 10-year yield also moved down by 35bps from 3.88% to 3.53%.

Amongst commodities, Brent Oil prices fell US$1.01 to US$84.90/bbl, Iron Ore prices increased US$11.5 to US$129/Mt on optimism around Chinese re-opening, however, it was the gold price that benefitted most from a fall in the USD, adding US$110.35 to US$1,924.

There are growing signs that inflation has now peaked, and the lion's share of interest rate hikes are now in the rearview mirror. This impacts sectors & stocks to varying degrees which sets up more opportunities for actively managed portfolios – we are excited for the year ahead and happy with how portfolios are positioned.

Locally, the consumer discretionary sector was the top performer up (+9.9%) for the month, while Materials (+8.9%) & Property (+8.1%), also outperformed.

Utilities (-3.0%) was the only sector that fell while energy (+1.3%) and Healthcare (+3.9%) underperformed.

PORTFOLIO STOCKS

The portfolio held 21 positions at the end of January, finishing the month with a cash balance of ~8%. No changes were made in January though a few tweaks were made in December, adding to performance for the first month of 2023. Strength in equity markets helped performance, however, stock selection added more than 1.5% of alpha vs the portfolios benchmark.

Impressively, three holdings saw rallies of more than 20% in January. The best performer was environmental industrial technology company **Calix Limited (CXL)**, being supported after seeing Government funding for a new 'green' methanol project. Shares had been under pressure in 2022 after the Labor Government pulled significant funding commitments for projects following the election. Our view was that this funding would be replaced in some capacity, and we are starting to see this come through now.

Another star performer was **Global Lithium (GL1)**, rallying with its peer group on further strength in the lithium market. The pre-production company will benefit from the sustained deficit in the lithium market that has caused prices to skyrocket. The company continues to announce strong lithium grades within both the Manna and Marble Bar projects underpinning the company's value. Two quality sites with acquisition appeal in a space ripe for further consolidation.

Better than expected data coming from the retail sector and the softening of rate expectations helped **Premier Investments (PMV)** higher in January. Premier owns a number of fashion and stationery brands such as Just Jeans and Smiggle with the company benefitting from global expansion - a strong net cash position on the balance sheet is also very appealing as interest rates increase. Our view on retail moving forward is a little murky, and we have started to see company announcements shy away from providing guidance, as a result, we aren't married to this position in the medium term.

While markets were strong, it wasn't a case of all boats rising with the tide. Coal miner **Bowen Coking Coal (BCB)** was the main drag on performance with both broader macro & company-specific issues weighing on the stock. Bowen's quarterly update was weakened by wet weather delaying deliveries and pushing out a ramp-up in production.

Importantly, the volume is delayed and not lost, and the revenue is likely to boost Bowen's current quarter numbers while steps have been taken to reduce the impact of any future significant rainfall events.

Investment platform **Praemium (PPS)** also weighed on performance following a soft quarterly update. Inflows of Funds Under Administration (FUA) slowed in the last quarter of the calendar year on low investor sentiment, a theme that was also seen across the peer group. The $357m of net inflows was less than half of that seen in 2Q FY22. Praemium did outperform peers Hub24 (HUB) and Netwealth (NWL) though and trades at a significant discount of around 60% on a forward PE multiple which we see as unjustified. Given the strength seen in equity markets to start 2023, we expect FUA flows to improve in the short term while the discount to peers should also close.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	21
ESTIMATED YIELD (%)	1.83
TOP 5 POSITIONS (% OF AUM)	35.21
TOP 10 POSITIONS (% OF AUM)	59.19

STOCK	CONTRIBUTION (%)
CALIX (CXL)	1.47
PALADIN (PDN)	1.42
PINNACLE INVESTMENT (PNI)	1.32
AUSSIE BROADBAND (ABB)	0.93
LYNAS RARE EARTHS (LYC)	0.78

STOCK	DETRACTION (%)
BOWEN COKING COAL (BCB)	-0.56
CAPITOL HEALTH (CAJ)	-0.54
PRAEMIUM (PPS)	-0.19
CAPITOL HEALTH (CAJ)	-0.17
ST BARBARA (SBM)	-0.07

	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						**16.91**
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													**31.66**

DISCLOSURE

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