



MARKET MATTERS  
INVEST

MONTHLY REPORT | JANUARY 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	4.42%*

**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 -1.64% in January, underperforming the S&P/ASX Small Ords Accumulation Index which advanced 0.9%. The portfolio has returned -1.89% for the rolling 12 months against the benchmark return of +2.10% & -1.9% per annum for 3 years, slightly underperforming the small loss in the benchmark of -1.22%.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	INCEPTION
<b>PORTFOLIO %</b>	-1.64	7.77	6.85	-1.89	-6.64	-1.99	4.42
<b>BENCHMARK %</b>	0.9	15.8	3.7	2.1	-1.22	-1.22	2.48
<b>RELATIVE %</b>	-2.54	-8.03	3.15	-3.99	-5.42	-0.77	1.94

Benchmark: S&P/ASX Small Ords Accum Index

More broadly, the MSCI Developed Markets Index rose (+1.8%) over January, while the S&P 500 also rose (+1.7%) in local currency terms in a strong month for equities.

Commodity prices were mixed, Brent Oil rose by US\$4.67 to US\$81.71/bbl, while Iron Ore prices fell by US\$9.50 to US\$133.00/Mt. Gold also slipped over the month, falling by US\$25.15 to US\$2,053.

On a sector basis in Australia, Energy (+5.2%), Financials (+5.0%), and Health Care (+4.3%) all outperformed, more than offsetting the weakness seen in Utilities (-1.5%), and Materials (-4.8%), the only two sectors to lose ground.



## PORTFOLIO POSITIONING

The portfolio held 18 positions at the end of January with cash finishing the month at ~15%. We moved from a near fully invested position into a more defensively set portfolio throughout the month, increasing cash as local equity indices traded to highs (all-time highs for the ASX200, ~11-month highs for the ASX Small Ords).

Running through the changes in the portfolio, we sold **Paladin (PDN)** down across two transactions, netting a strong profit north of 50% for both sell downs. Paladin released its December quarter activities report and details of a US\$150m debt facility. The restart of the Langer Heinrich uranium operation in Namibia commenced with the first ore being fed to the front end of the plant on Jan 20th. The project is now 93% complete and is largely on time and on budget. First production is expected in early 2Q24 and the final capital cost is expected to be US\$125m, up slightly from the US\$118m budget.

With cash of US\$61m and the new US\$150m debt facility, Langer Heinrich is fully funded through to first positive cash flow which is expected mid-CY24. While we are bullish on Uranium & Paladin in the medium term, we took profits on our position at the end of January, looking for a better risk/reward re-entry level. We also hold uranium enrichment company **Silex Systems (SLX)** in the portfolio, maintaining some exposure to the trend.

We also took profit on **Premier Investments (PMV)**, a solid ~20% return on the position. Earnings have been resilient for the consumer discretionary stock and plans to rewire the business helped the stock trade to ~9 month highs in January.

Decoupling of the brands and the investment division (Premier have stakes in Myer (MYR) & Breville Group (BRG)) would be a positive in our view, allowing the top brass at Premier to better focus on outcomes from different silos. For now, though, we saw the strong rally in the stock as an opportunity to reduce exposure to the sector.

### PORTFOLIO STOCKS

NO. OF HOLDINGS	18
ESTIMATED YIELD (%)	2.57
TOP 5 POSITIONS (% OF AUM)	33.47
TOP 10 POSITIONS (% OF AUM)	56.45

### STOCK CONTRIBUTION (%)

PALADIN ENERGY (PDN)	2.46
SILEX SYSTEMS (SLX)	0.74
PEXA GROUP (PXA)	0.20
FINEOS (FCL)	0.20
EML PAYMENTS (EML)	0.18

### STOCK DETRACTION (%)

CALIX LTD (CXL)	-1.99
GLOBAL LITHIUM RESOURCES (GL1)	-0.95
BOWEN COKING COAL (BCB)	-0.35
CATAPULT GROUP (CAT)	-0.51
REGAL PARTNERS (RPL)	-0.13

	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						<b>6.58</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>30.29</b>

## PORTFOLIO POSITIONING CONTINUED

We used a portion of Premier sell-down to top up our position in the auto parts retailer **Bapcor (BAP)**. This is a holding we trimmed not long ago, however, the stock pulled back on comments made at the AGM in October, saying revenue was soft to start the year, while costs continued to climb. We expect the revenue side to show some resilience near term and data points into the back end of the half pointed to an improvement in demand for the business. Costs will likely have also seen some reprieve. A big portion of the increase was likely a result of interest rates climbing, an issue that is now well past the peak. A few changes in the management team has been taken well by the market with ex-CEO of Total Tools taking over the role at Bapcor, we expect Pual Dumbrell to drive performance improvements near term.

Our final trade for the period was taking a loss on **Praemium (PPS)**, a position that has struggled to take advantage of the shift towards independent investment platforms. Praemium has not experienced the scale of inflows that competitors HUB24 (HUB) & Netwealth (NWL) have seen, coupled with lower margins and a failed effort to launch in international markets. There has also been significant disappointment with the sector's ability to grow earnings. Trading on lofty multiples, the independent platform companies are relying on operational leverage to help drive profit growth, however, costs look to be stickier, and margins aren't growing with revenue.

One key drag on performance in the period was **Calix (CXL)**, the green technology company facing more delays to a key project that the market was banking on helping to fund capex moving forward. They had signed a deal with one of the world's biggest cement companies, Heidelberg, to install a new Leilac Kiln. With a slowdown in demand for building products in Germany, the Hanover plant that was due to house the kiln will now be shutdown.

While Heidelberg is committed to finding another appropriate site for Leilac-2, and the decision was made before the construction of the kiln, saving substantial write-offs, it does further delay revenue Calix was banking on as they work on commercializing several products. This is unlikely to be an outcome we wait around for.

**DISCLOSURE**

*Market Matters, its employees, associates and / or contributors may hold stocks mentioned in this report.*

**DISCLAIMER**

*Market Matters Invest is distributed by Market Matters, ACN 137462536, AFSL 488 798; and administered by OpenInvest Limited ACN 614 587 183, the responsible entity of the Service, via the OpenInvest Portfolio Service ARSN 628 156 052. It is general advice only and is not intended to provide you with financial advice, and has been prepared without taking into account your objectives, financial situation or needs.*

*Before making any investment decision, please review the PDS and Target Market Determination (available here at [www.openinvest.com.au](http://www.openinvest.com.au)). Should you require assistance in determining whether an investment in the service is right for you, you may wish to seek personal advice from an appropriately licensed financial adviser.*

*All figures contained from sources believed to be accurate. Past performance is not an indication of future performance. Investing and trading carry financial risk, when judging performance please consider the different types of investments and levels of risk associated.*

*Market Matters does not make any representation of warranty as to the accuracy of the figures and disclaims any liability resulting from any inaccuracy. The performance of the Portfolio is based on a model portfolio and does not include investment management, administration fees and transaction costs. The total return performance figures quoted are historical and include franking credits. Total returns assume the reinvestment of all portfolio income. Market Matters model portfolios are available on multiple platforms, and returns may vary.*