MARKET MATTERS
INVEST

MONTHLY REPORT | MARCH 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	4.10%*

**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 declined -2.29% in March, underperforming the S&P/ASX Small Ordinaries Accumulation Index which was down -0.72%. The portfolio has returned -11.24% for the rolling 12 months and 12.86% per annum over 3 years.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	-2.29	1.23	4.04	-11.24	-6.85	12.86
BENCHMARK %	-0.72	1.88	9.55	-13.19	-2.43	13.16
RELATIVE %	-1.57	-0.65	-5.51	1.95	-4.42	-0.30

Benchmark: S&P/ASX Small Ords Accum Index

Underperformance of small caps versus large caps is a continuance of the flows witnessed in 2022. Concerns about funding sources, should the banking crisis worsen, and higher interest rates weighed on small caps as smaller companies are historically more dependent on financing to maintain operations and fuel growth.

Commodity prices saw mixed results. Brent Oil fell by US$4.12 to US$79.77/bbl, on global growth concerns, although it did rally towards the end of the month. Iron Ore prices were unchanged at US$126/Mt while Gold was the big mover, up by US$155.10 to US$1,980, banking volatility and hopes for easing Fed policy pushed the $US lower.

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.

Clearly some significant variance across sectors which lends itself to active portfolio management.

END OF QUARTER

A busy and volatile quarter for markets which included interim reporting for ASX-listed companies, quarterly earnings for US stocks, bank failures, continued cooling of inflationary pressures, lower bond yields and the strong likelihood of a looming pivot by Central Banks on interest rates.

Markets started 2023 with strong gains in January (+6.20%), which were primarily driven by a continued decline in widely followed inflation indicators. February was softer (-2.4%) as growing optimism for an economic soft landing was delivered a setback as economic data implied a still very tight labour market. Additionally, interim results for the 1st half of FY23, which were reported in February, were reasonable, and perhaps "better than feared". The resilient nature of earnings, both in Australia and the US during their quarterly updates stoked optimism that both an economic and earnings recession could be avoided.

March began with investors still focused on inflation and potential interest rate hikes, but the sudden failure of Silicon Valley Bank, at the time the 16th largest bank in the United States, shifted investor focus to the potential for a severe banking crisis. Signature Bank of New York failed just days later, Credit Suisse was forced into a deal with UBS, and concerns about a banking crisis surged.

In response, the Federal Reserve and the Treasury Department acted to prevent a run on the banks by creating new lending programs but concerns about the health of the financial system persisted and those fears weighed on markets through the middle of March. However, while the Federal Reserve hiked interest rates again at the March meeting, US policymakers signalled that they are very close to ending the current rate hike campaign. That admission, combined with no additional large bank failures, eased concerns about a growing banking crisis, and markets recovered to close essentially unchanged for the month, having been down more than 4% at their low point.

In summary, markets were impressively resilient in the first quarter as a looming end to rate hikes, further declines in inflation and quick and effective actions by government officials in response to regional bank failures helped shore up confidence in the banking system. Stocks logged modest gains in Q1, despite the threat of a regional banking crisis in the US and still-elevated market volatility.

PORTFOLIO STOCKS

The portfolio held 21 positions at the end of March, making multiple changes in the month and finishing with a cash balance ~6% as a result. The Small Cap index had fallen ~11% from January highs to March lows before a ~5% bounce into month end, using the weakness to add to exposure after carrying a relatively high cash balance through the volatility.

The portfolio added additional technology exposure through **ReadyTech (RDY)**, a people management software company that focuses on Government and Education sectors with an extremely sticky, and growing, client base. They are profitable, with balance sheet flexibility fuelling a strategy of rolling up smaller peers that add to their offering. As an aside, **ReadyTech** has also been in the sights of Private Equity, with Pacific Equity Partners launching a bid for the company last year (which ultimately failed). That bid now sits at a ~30% premium to the share price, a discount that may attract corporate interest from other parties.

We also added additional technology exposure through **Silex Systems (SLX)**, though this is more of a play on the company's uranium leverage. **Silex** is developing laser technology to enrich uranium in conjunction with global uranium giant **Cameco**. The Western world heavily relies on Russian supply of enriched uranium which has raised concerns following the outbreak of the war. Silex aims to prove up its technology by building a commercial scale pilot plant with SLX now fully funded to complete the program and scale-up following a $120m equity raise in February. While we did not participate in the raise, we used prevailing weakness to add the company to the portfolio with the belief selling was overdone on a number of factors including short selling pressure as fund managers now had access to borrow. We are bullish on the uranium price with industry insiders highlighting the growing demand.

Engineering company **SRG Global (SRG)** was another position added to the portfolio in March, a string of contract wins was pleasing and implies strong earnings growth in the years to come. By the end of the 3rd quarter, the company had announced over $1b in contract wins in the financial year, on track to double the amount ($628m) won in FY22 across infrastructure services, mining and construction, significantly de-risking growth expectations.

Solomon Lew's retail group **Premier Investments (PMV)** reported 1H results last month, highlighting that all is not equal in the consumer discretionary space. Total Sales were up 18% for the half and EBIT was 13% higher year-on-year while the balance sheet finished the half in remarkable shape with over $400m in cash. The business has been right-sized, stripping out the loss-making and low-margin stores within Smiggle and Peter Alexander. They are now set up to grow again with plans to restart the store rollout for those two main brands, with the cash on hand to execute. While a slowdown in consumer spending will come, a lot has been priced in for the retailers and we are backing Premier's plan to pull the growth levers now ahead of the bottom in spending while picking up a healthy dividend along the way.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	21
ESTIMATED YIELD (%)	2.07
TOP 5 POSITIONS (% OF AUM)	34.51
TOP 10 POSITIONS (% OF AUM)	56.59

STOCK	CONTRIBUTION (%)
ST BARBARA (SBM)	0.48
SRG GLOBAL (SRG)	0.39
SANDFIRE RESOURCES (SFR)	0.38
AUDINATE (AD8)	0.29
NINE ENTERTAINMENT (NEC)	0.20

STOCK	DETRACTION (%)
CALIX (CXL)	-1.23
LYNAS RARE EARTHS (LYC)	-0.83
CENUTRIA CAPITAL (CNI)	-0.49
BAPCOR (BAP)	-0.45
PALADIN ENERGY (PDN)	-0.37

	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				**10.38**
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													**25.13**

DISCLOSURE

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