



MARKET MATTERS
INVEST

MONTHLY REPORT | MAY 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	3.12%*

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 -5.22% in May, underperforming the fall in the S&P/ASX Small Ordinaries Accumulation Index which was down -3.26%. The portfolio has returned -3.83% for the rolling 12 months and +0.7% per annum over 3 years.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	-5.22	-4.69	-5.00	-3.83	-8.22	0.70
BENCHMARK %	-3.26	-1.29	-2.48	-5.77	-5.17	4.46
RELATIVE %	-1.96	-3.40	-2.52	1.94	-3.05	-3.76

Benchmark: S&P/ASX Small Ords Accum Index

Australian equities fell through May, as the RBA's hawkish tone resumed, while US lawmakers lingered around the country's debt ceiling. That saw the local market, as measured by the ASX 200 Accumulation Index fall (-2.53%) underperforming other developed markets.

The MSCI Developed Markets Index fell over the month (-0.1%), while the S&P 500 gained (+0.4%) in local currency terms. Bond yields priced in the RBA's more hawkish tone with Australian 10-year bond yields up 26bps to 3.60%, while US 10 years also rose 22bps to 3.64%.

Amongst commodity markets, Brent Oil fell by US\$6.00 to US\$73.54/bbl, as concerns continued around Chinese oil demand after weaker-than-expected Chinese manufacturing data. Iron Ore prices were soft, down by US\$5.00 to US\$100.00/Mt while Gold prices fell by US\$30.10 to US\$1,952 on a stronger USD.

There was significant sector divergence locally, with the IT sector the clear standout up (+11.6%), while Utilities (+1.10%), Energy (+0.2%) and Healthcare (+0.1%) made gains in a soft market.

The Consumer Discretionary sector was the hardest hit during May ending down (-6.1%) while Staples (-4.6%), Materials (-4.4%), Financials (-3.2%), Property (-1.8%), Consumer Services (-1.2%) and Industrials (-0.80%) also fell.



PORTFOLIO STOCKS

The portfolio held 19 positions at the end of May, with no new positions added during the month, though we added to two positions – SRG Global (SRG) and Paladin Energy (PDN).

The uranium miner **Paladin Energy (PDN)** was the key drag on performance, falling to 18-month late in the month. The ‘flash crash’ followed comments from the Namibian Energy Minister that flagged potential ownership stakes in resources companies saying it may “take the form where the state owns a minimum equity percentage in all mining companies and petroleum production, for which it does not have to pay.” Obviously, this would be a dire outcome for several a number of resource assets including Paladin’s 85% owned Langer Heinrich mine, however, these comments need to be put in context. Chile, for example, tried to pass legislation to a similar effect before the final terms were significantly watered down. The minister’s comments also come shortly after significant oil and gas deposits were discovered by some of the world’s largest energy companies in the region, with Namibia’s current natural resource framework not yet up to standard to deal with such significant projects and the potential benefits it may bring to the country. It is likely that legislation will be brought forward to improve the Government’s take on investments in such projects, but it has since clarified the comments to say that it would not change the framework for existing projects.

Namibia has historically been a great place for investment in resources with the Government keen to bring foreign investment in and benefit as a result as well, helped by significant constitutional protections for property rights in the country a major contributor to its ability to attract investment. Such a significant shift in the framework would lead to a drop in investment in the country with long-term consequences on growth. Investors took the “panic early” approach, and understandably so. Another ASX listed Uranium miner with exposure in the country, Deep Yellow (DYL), said it was “not aware of any elevated discussions regarding Government equity in mining projects.”

We remain bullish Uranium, and our alternative exposure through **Silex Systems (SLX)** was a strong performer in May. Silex, the company that is developing laser enrichment technology, is a constituent of a US-listed ETF that caught the attention of investors during the month following a buy call from Bank of America. The subsequent volume caused the sector to lift, though the light liquidity in Silex forced a leveraged move to the upside in its shares. The whole sector has also been supported by rising spot prices over recent months.

PORTFOLIO STOCKS

NO. OF HOLDINGS	19
ESTIMATED YIELD (%)	2.36
TOP 5 POSITIONS (% OF AUM)	35.99
TOP 10 POSITIONS (% OF AUM)	57.57

STOCK CONTRIBUTION (%)

AUDINATE (AD8)	0.62
SILEX SYSTEMS (SLX)	0.59
LYNAS RARE EARTHS (LYC)	0.51
CENTURIA CAPITAL (CNI)	0.17
CAPITOL HEALTH (CAJ)	0.17

STOCK DETRACTION (%)

PALADIN ENERGY (PDN)	-1.33
AUSSIE BROADBAND (ABB)	-1.17
BAPCOR (BAP)	-0.58
REGAL PARTNERS (RPL)	-0.57
PREMIER INVESTMENTS (PMV)	-0.56

	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	2.33	-5.22		7.49
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													22.24

PORTFOLIO STOCKS CONTINUED

A key underperformer in May was **Aussie Broadband (ABB)** which has struggled since further delays to changes to NBN pricing weighed on sentiment. While the expected changes would boost earnings and margins, we continue to feel the telco is being unfairly priced while winning an outsized share of ultra-high-speed plans. They are growing subs at around 15% while increasing margins as they scale up, particularly following the successful takeover of Over the Wire which added to their business customer capabilities.

Regal Partners (RPL) was another to weigh on performance in the period. The Fund Manager has 5 strategies, largely geared towards alternative mandates (i.e. long/short, agriculture etc) with FUM at the end of the 3Q at \$5.5b. While they tend to have a higher fee structure than peers, Regal's specific strategies justify the numbers and in the first 3 months of the calendar year, they had inflows of \$200m, with net flows for the first 9-months just shy of \$900m well and truly on track to beat their \$1b net inflow target for the year.

They have recently added new Ag and Resources funds to their offering, along with the acquisition of East Point Asset Management which supports future FUM growth while we expect the company to remain acquisitive given the ~\$200m in cash on the balance sheet which could add around 30% to EPS.

WEBINAR

In association with Ausbiz, **Market Matters hosted a Webinar in May** focussing on portfolio positioning. Lead Portfolio Manager James Gerrish was joined by Nadine Blayney (Host) Head of Content, ausbiz, Ben Clark, Portfolio Manager at TMS Capital, Nick Guidera, Portfolio Manager at Elley Griffiths and Marcus Padley from Marcus Today.

The Webinar covered:

- Where are we in the market cycle; should we be cautious or not?
- Favourite sectors given prevailing macro conditions.
- Highest conviction stocks: two picks from each panellist debated with their peers, just to keep it interesting!

A recording of the 1-hour webinar can be accessed [here](#).

DISCLOSURE

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