



MARKET MATTERS  
INVEST

MONTHLY REPORT | MAY 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	5.84%*

**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 added +0.94% in May, outperforming the weakness seen in the S&P/ASX Small Ords Accumulation Index which fell -0.05%. The portfolio has returned +15.53% for the rolling 12 months against the benchmark return of +10.92% & +5.84% per annum since inception, outperforming the benchmark return of 3.05%.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	INCEPTION
<b>PORTFOLIO %</b>	0.94	2.77	9.73	15.53	0.17	0.77	5.84
<b>BENCHMARK %</b>	-0.05	1.53	11.74	10.92	2.24	-0.08	3.05
<b>RELATIVE %</b>	0.99	1.24	-2.01	4.61	-2.07	0.85	2.79

Benchmark: S&P/ASX Small Ords Accum Index

More broadly, international markets did better than our own, the MSCI Developed Markets Index rose (+4.1%), while the S&P 500 also increased by (+5.0%) in local currency terms. The Australian 10-year government bond yield fell 1 bp over the month to 4.41%, as US yields also decreased, stepping down 19 bps to 4.49%. Easing geopolitical fears saw Brent Oil down by US\$6.24 through May, to US\$81.62/bbl, whilst Iron Ore prices decreased marginally by US\$1.00 to US\$117.00/Mt. Over the month. Gold prices rose by US\$41.25 to US\$2,348.25.

On a sector basis in Australia, IT (+5.4%), Utilities (+3.4%), Financials (+2.6%) and REITs (+1.9%) outperformed the market, while Healthcare (+0.1%), Materials (+0.1%), Industrials (-0.4%), Consumer Discretionary (-0.6%), Energy (-0.7%), Consumer Staples (-1%) & Communication Services (-2.6%) underwhelmed to varying degrees.



## PORTFOLIO POSITIONING

The portfolio held 21 positions at the end of May while the cash position ended the period at ~5%. We made several changes in the month, reshaping the portfolio despite leaving cash largely unchanged.

The changes made:

- **Sandfire Resources (SFR)** trimmed to 5% after a strong rally. We remain bullish on copper over the medium term though we showed prudence here to take some profits along the way.
- **Silex Systems (SLX)** trimmed to 3% into strength. Similar to Sandfire, we remain uranium bulls over the medium term though we being active remains key.
- **SRG Global (SRG)** trimmed to 4%, again into strength, taking profits as the stock rallied.
- We sold out of both **Fineos (FCL)** & **Global Lithium (GL1)**, cutting the underperformers as sentiment continued to be negative.
- **Audinate (AD8)** & **Chrysos (C79)** both increased to 6% into weakness given we like the medium-term trends across both positions.
- We took 4% positions in both **BWP Trust (BWP)** & **Liontown Resources (LTR)**, covered below.

Commercial property business **BWP Trust (BWP)** was added to the portfolio last month following their acquisition of **Nemark Property (NPR)**. BWP is focussed on Bunnings Warehouse sites, with more than 90% of land leased into the Wesfarmers-owned hardware brand. Their acquisition of NPR adds bulk format retail at a discount to NTA with the bulk of the space leased to ASX200 listed companies like Wesfarmers

(includes Bunnings, Kmart & Officeworks) and JB Hi-Fi (JBH). We see upside in this deal from both a cost and earnings perspective.

We switched lithium exposure from **Global Lithium (GL1)** to **Liontown Resources (LTR)**, preferring the latter given recent corporate interest, high short interest and their near-term production profile. Liontown fell after adding it to the portfolio, however, we see trends improving medium term with supply responding to lower prices.

### PORTFOLIO STOCKS

NO. OF HOLDINGS	21
ESTIMATED YIELD (%)	2.44
TOP 5 POSITIONS (% OF AUM)	30.26
TOP 10 POSITIONS (% OF AUM)	54.71

STOCK	CONTRIBUTION (%)
CATAPULT (CAT)	1.11
SILEX SYSTEMS (SLX)	1.03
PEXA GROUP (PXA)	0.94
PALADIN ENERGY (PDN)	0.63
SILVER LAKE RESOURCES (SLR)	0.40

STOCK	DETRACTION (%)
BAPCOR (BAP)	-1.31
AUDINATE (AD8)	-0.79
LIONTOWN RESOURCES (LTR)	-0.40
AUSSIE BROADBAND (ABB)	-0.33
FINEOS (FCL)	-0.20

	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	-1.13	0.94		<b>14.41</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>38.12</b>

## PORTFOLIO POSITIONING CONTINUED

We added to our position in Audio-Visual Technology company **Audinate (AD8)** last month prior the announcement that CFO Rob Goss would leave the company. Rob was instrumental in Audinate's IPO and subsequent success and was much liked by investors. Whilst investors will point to his departure as signs cracks are appearing, all commentary coming from the company suggests Rob was after a break before a new challenge, and he has made himself available until the AGM in October, i.e. it doesn't smell like an unfriendly departure. It also provides ample time to find and integrate a replacement; we suspect the role will be well sought after, given the position the company is in.

The weakest position in the portfolio was auto parts company **Bapcor (BAP)**. The company was expecting ex-Total Tool boss to start his tenure as CEO at the start of May, however, he walked from the role just days before the expected start date. The company also downgraded guidance, now seeing FY24 profit of \$93-97m as 2H numbers are now expected to be weaker than the 1H.

The downgrade was ~18% below consensus expectations, driven by continued soft Retail trading, lower volumes and margins in Wholesale on increased competition, slower realisation of cost-out improvements and higher interest costs. We see plenty of levers to pull to improve this business and are sticking with the long position at this stage.

The best-performing position in May was **Catapult (CAT)** which hit 2-year highs late in the month. The company announced strong FY24 numbers. Revenue reached \$US100m while Annualized Contract Value (ACV) grew 20% due to price increases, additional services per team and lower churn. EBITDA of \$US4.2m was slightly lower than expected, however, Free Cash Flow was well ahead of consensus, swinging into positive territory for the first time. The outlook was also strong, the company is now profitable, and their revamped video & software strategy is starting to reap the rewards, likely to drive margins and sales higher in years to come.

**DISCLOSURE**

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