MARKET MATTERS
INVEST

MONTHLY REPORT | NOVEMBER 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	3.7%*

**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 added +4.24% in November, underperforming the S&P/ASX Small Ordinaries Accumulation Index which was up +7.04%. The portfolio has returned +4.01% for the rolling 12 months (against the benchmark return of -3.19%) and +3.70% per annum since inception, +3.20% per annum above the benchmark return of +0.50%.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	4.24	-1.87	2.21	4.01	-14.56	-3.61
BENCHMARK %	7.04	-2.88	-0.73	-3.19	-6.77	-0.48
RELATIVE %	-2.8	1.01	2.94	7.2	-7.79	-3.13

Benchmark: S&P/ASX Small Ords Accum Index

More broadly, the MSCI World Index in Australian dollar terms rose during November (4.44%), while US indices had one of their best months in the past century, the S&P 500 up an impressive (9.1%) in local currency terms – materially outperforming the ASX. Australian 10-year bond yields fell 52bps to finish November at 4.4%, now only 5bps above the cash rate, having peaked at 5%.

In the US, the Federal Reserve kept interest rates on hold while their rhetoric turned more balanced (as opposed to hawkish), the subtle but important change had a large influence on yields with the US 10-year down by 61bps to 4.32%, ~100bps below the fed funds rate.

Commodity prices were mixed, Brent Oil fell 5.2% to US$82.80/bbl, despite extensions to production cuts. Iron Ore prices were strong, rising by 7.8% to US$132.00/Mt, while $US weakness has continued to drive gold higher, rising by 2.6% to US$2036.

Healthcare (+11.69%) stormed higher after a soft period, Real Estate (+10.79%) followed closely while Information Technology (+7.27%), Industrials (+6.58%), Materials (+4.89%), Consumer Discretionary (+4.68%), Financials (+4.12%) and Communication Services (2.8%) all ended the month higher i.e., 8 out of 11 sectors were up.

Energy (-7.41%) was a notable underperformer while Utilities (-6.03%) and Consumer Staples (-0.88%) also lost ground.

PORTFOLIO STOCKS

The portfolio held 21 positions at the end of October with cash sitting at ~3%. We made a number of changes during the month, cutting **Lynas Resources (LYC)** from the portfolio and reducing **Audinate (AD8)** into strength, electing to add to existing positions and remain near fully invested given our positive view on equity markets into the end of the year and early 2024.

The AV technology company **Audinate (AD8)** has been a star performer for the portfolio over the last 6 months, up more than 50% this financial year following a strong annual report, and up 19% in November. We have now used this strength to trim the position twice in the last few months, partially to ensure the position doesn't cannibalize the portfolio, but also we see elevated risks from here. The company is the gold standard in their field having deals with all major AV suppliers and ~90% market share in their niche, digitally connecting a range of nodes to a network – speakers, displays, microphones etc. Audinate reports in USD given that revenue and costs are recognized in the greenback. As a result, currency plays a vital role in valuations and has proven to be a tailwind in 2023, though now we see downside risk given our bearish view of the USD.

We sold out of the whole position in **Lynas Resources (LYC)** for a loss in November. The company received some positive news in October with the Malaysian Government electing to extend their materials processing licence for a further two years which materially de-risked near-term earnings. However, shares failed to see a sustained rally despite the positive developments, a sign that market headwinds remain.

These two trades raised ~5.5% which was immediately spread across increasing allocations to three holdings. We remain bullish on copper & gold so we added to our preferred copper exposure in **Sandfire (SFR)**, and our preferred medium capitalization gold company **Silver Lake Resources (SLR)**, both of which rallied into the end of the month.

We also added to the property settlements technology company PEXA Group (PXA), increasing the weighting, and reducing the average cost in the portfolio. The thesis on PEXA relies on three components.

1. Regulatory tailwind that will see digital settlement of property become the standard in the industry.
2. Increasing volumes of property transactions as interest rates peak
3. Low market expectations of execution in the UK market where they have acquired Smoov.

PEXA has rallied around 20% from October lows, but we still see significant upside from here.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	21
ESTIMATED YIELD (%)	2.48
TOP 5 POSITIONS (% OF AUM)	32.39
TOP 10 POSITIONS (% OF AUM)	56.3

STOCK	CONTRIBUTION (%)
CENTURIA CAPITAL (CNI)	1.32
CALIX LIMITED (CXL)	1.08
CATAPULT GROUP (CAT)	1.00
AUDINATE (AD8)	0.84
REGAL PARTNERS (RPL)	0.72

STOCK	DETRACTION (%)
PRAEMIUM (PPS)	-0.65
EML PAYMENTS (EML)	-0.51
AUSSIE BROADBAND (ABB)	-0.21
LYNAS RARE EARTHS (LYC)	-0.13
BOWEN COKING COAL (BCB)	-0.12

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY24	-1.16	6.67	1.08	-7.77	4.24								**3.06**
FY23	14.48	3.07	-9.21	0.87	5.76	-6.42	8.36	-4.24	-2.29	2.33	-5.22	1.47	**8.96**
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													**26.77**

PORTFOLIO STOCKS CONTINUED

The best performer in the portfolio for November was sports technology company **Catapult Group (CAT)**, rallying more than 40%, for the most part on the back of a strong 1st half report. Revenue was up 21% in constant currency terms to $US49.8m largely on the back of 20.6% growth in Annualized Contract Value (ACV). The company operates through three segments, all of which feed off each other to add value for clients, creating significant cross-selling opportunities. The core wearables segment grew by 27% in the first half, Software grew by 25% and the new video solution grew by 41%.

Probably the most pleasing aspect of the result was the swing into positive Free Cash Flow (FCF) which improved from -$US13.4m in 1H23 to +$US1.4m in 1H24 thanks to sales growth and cost control. We, and the CEO, see this as an inflection point in the company's earnings which should underpin a significant re-rate in the valuation of the business.

One of the main detractors in November was the investment platform business **Praemium (PPS)**. The stock fell on comments at its AGM which showed headwinds on both costs and revenues. On the revenue front, lower trading volumes have weighed on income given Praemium clips the ticket on activity. They also take their keep from cash balances which have been running lower than FY23.

On the cost front, the company will take a one-off $1m hit on restructuring charges and capex continues to climb in line with inflation. As a result, the company expects 1H EBITDA to be down 20% on last year where consensus was expecting ~10% growth. A pretty frustrating update from the company today, our outlook turns more cautious as a result.

Another detractor was **Aussie Broadband (ABB)** after the telco raised money to fund the acquisition of telco-as-a-service business Symbio (SYM). We like the acquisition from several perspectives. ABB is raising money at a higher multiple so the deal will be EPS accretive, while we see plenty of revenue and cost synergies to come out of the deal. The raise represents 14% of existing shares on issue, a pretty decent chunk, and was completed at a 9.4% discount to the prior close.

From all the team at Market Matters, wishing all our investors a safe and happy festive period, and here's to a great 2024. We thank you for your ongoing trust and support.`