



MARKET MATTERS

INVEST

MONTHLY REPORT | OCTOBER 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	2.75%*

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 declined -7.77% in October, underperforming the S&P/ASX Small Ordinaries Accumulation Index which fell -5.45%. The portfolio has returned +5.53% for the rolling 12 months (against the benchmark return of -5.10%) and +2.75% per annum since inception, +4.04% per annum above the benchmark return of -1.29%.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	-7.77	-0.45	-3.06	5.53	-15.58	-4.82
BENCHMARK %	-5.45	-10.45	-10.28	-5.1	-11.97	0.52
RELATIVE %	-2.32	10	7.22	10.63	-3.61	-5.34

Benchmark: S&P/ASX Small Ords Accum Index

Higher bond yields have a more significant impact on Small-cap stocks given their tendency to be longer duration (earnings are growing and a larger portion of the company's value is inherently further down the line) while higher interest levels often have a more meaningful impact on earnings.

Bond yields began their extraordinary run around two years ago, and in that time frame, the Small Ords has underperformed the ASX200 on an accumulation basis by more than 10% p.a.. The equivalent indices in the US, the Russell 2000 has also underperformed the S&P500 by more than 15% p.a.

While we do not expect this performance gap to close overnight, we do expect bond yields to ease which is likely to provide support for the catch-up trade by Small Cap stocks.

For October, the MSCI Developed Markets Index fell (-2.6%), while the S&P 500 also declined (-2.1%) in local currency terms - both outperforming the ASX. Australian 10-year bond yields finished the month at 4.92%, up a significant 44bps, and 82bps above the cash rate, implying further rate hikes are expected - quite an extraordinary move really.

In the US, the Federal Reserve kept interest rates on hold while continuing to jawbone the possibility of additional hikes if economic conditions warrant, the rhetoric pushed bond yields higher with the US 10-year yield up by 33bps to 4.90%, but yields remain below the cash rate implying interest rate cuts remain on the agenda.

Commodity prices were mixed, Brent Oil fell by US\$7.86 to US\$87.45/bbl, despite growing tensions in the Middle East. Iron Ore prices held, rising by US\$2.50 to US\$122.00/Mt, while safe-haven demand has continued to drive gold higher, rising by US\$127.10 to US\$1,998.

Utilities (+1.0%) were the only sector to make gains while Materials (-0.80%), Communication Services (-2.9%) and Financials (-3.6%) outperformed the benchmark.

IT (-7.6%) and Healthcare (-7.2%) struggled, while Industrials (-6.4%), REITs (-5.8%), Energy (-5.1%), Consumer Discretionary (-4.8%) and Staples (-4.0%) all dipped more than the market.



PORTFOLIO STOCKS

The portfolio held 22 positions at the end of October with cash sitting at ~3.5%. There was a slight increase in our weighting to **Audinate (AD8)** in the month following the recent capital raise, while we used strength in both **Paladin (PDN)** and **Aussie Broadband (ABB)** to trim those positions and slightly increase weightings in stocks that have recently underperformed and as such the active weights had fallen below initial weightings.

Given the weakness across the market, there were only a couple of positions that contributed positively to performance in October. **Lynas Rare Earths (LYC)** was one of those after the Malaysian Government walked back their stance regarding the company's processing facility, electing to extend the licence until 2026.

The decision is a big win for Lynas, they now have a processing facility in place to continue operations as normal while their new Kalgoorlie facility is brought online. The end result will be far greater capacity to supply rare earths, where Lynas remains the largest supplier outside of China.

The rare earth market is a volatile one, and prices for the company's high-value NdPr have been under pressure for the last ~6 months. Rather than sell into a soft market, the company increased stockpiles last quarter. Prices have already started to recover, and earnings will follow, particularly with the added capacity on the back of the Malaysia licence deal.

Gold company **Silver Lake Resources (SLR)** was the top-performing stock on the ASX200 in October thanks to a strong tailwind from the precious metal. Gold traded above \$US2,000/oz late in October for the first time in 6 months, underpinning the strong move by the ~200koz/year producer. Silver Lake's 1Q production update was also solid with a positive Free Cash Flow of \$13m and maintaining cost and production guidance for FY24.

On the flip side, comments made at the **Bapcor (BAP)** AGM last month caused the stock to struggle. We recently took a small profit on a portion of the holding following a strong FY23 result however FY24 seems to have started weaker than expected.

Although commentary on Revenue was broadly as expected, costs have unexpectedly crept higher driven by Payroll taxes, interest and COGS which meant Q1 was below management expectations. The company has been working on improving efficiency with the "Better than before" project which aims to add ~\$100m to EBIT by FY25. In our view, the market is only pricing in a small portion of the potential benefits of the project and we are backing management to come in ahead of expectations.

PORTFOLIO STOCKS

NO. OF HOLDINGS	22
ESTIMATED YIELD (%)	2.69
TOP 5 POSITIONS (% OF AUM)	29.86
TOP 10 POSITIONS (% OF AUM)	52.34

STOCK CONTRIBUTION (%)

SILVER LAKE RESOURCES (SLR)	0.76
LYNAS RARE EARTHS (LYC)	0.12

STOCK DETRACTION (%)

PALADIN ENERGY (PDN)	-1.85
CENTURIA CAPITAL (CNI)	-0.94
REGAL PARTNERS (RPL)	-0.80
BAPCOR (BAP)	-0.70
BOWEN COKING COAL (BCB)	-0.66

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THE FOCUS OF THE INVESTOR INSIGHT: OCTOBER 2023

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY24	-1.16	6.67	1.08	-7.77									-1.18
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													22.53

DISCLOSURE

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