MARKET MATTERS
INVEST

MONTHLY REPORT | AUGUST 2022 | 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	7.12*

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 advanced 3.07% in July, outperforming the S&P/ASX Small Ords Index which added 0.58%. The portfolio has returned -13.97% for the rolling 12 months, -9.75% per annum over 2 years & 7.12% per annum since inception.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	INCEPTION
PORTFOLIO %	3.07	1.78	-4.4	-13.97	-9.75	7.12
BENCHMARK %	0.58	-2.59	-6.08	-14.66	5.14	2.34
RELATIVE %	2.49	4.37	1.68	0.69	-14.89	4.78

Benchmark: S&P/ASX Small Ords Index

Global equities struggled in August particularly at the back end following hawkish comments from US Federal Reserve Chair Jerome Powell at the Jackson Hole Symposium. The rhetoric implied that interest rates would need to rise further and would stay high for an extended period to curtail persistently high inflation.

The MSCI Developed World Markets Index lost 3.4% for the month while the US-based S&P 500 lost 4.1% in local currency terms. Australian equities outperformed thanks to a better than feared local reporting season with the S&P/ASX 200 Accumulation Index up by 1.18%. The energy stocks were the best performers in Australia up 7.8% followed by Materials which added 4.4%. On the flip side, property stocks fell 3.5% to lead the decline while consumer staples were also weak, down by 1.8%.

Bond yields rose as bond prices fell; the Australian 10-year yield moved from 3% to above 3.50% as the RBA increased rates by another 50bps to 1.85%. US yields were also higher with the US 10-year moving up 52bps to 3.13%. Markets had moved towards a more neutral stance around interest rates as commentary around cuts in 2023 gathered momentum, however, that was short-lived, and the pendulum has now changed back to a more hawkish stance.

Commodity prices fell in August. Brent Oil prices declined US$14 to US$96/bbl after a de-escalation in Iraq stabilised oil exports. Iron Ore prices also dropped US$19 to US$99/Mt as COVID impacts linger and supply lifts. Gold prices continue to trend lower, moving down US$38 to US$1,716, amid US dollar strength and higher interest rates.

LOCAL REPORTING | 6 THINGS WE LEARNT

1. Despite downbeat headlines, Australian companies are still doing okay with beats outnumbering misses by 3:2 with profit beating consensus expectations by an average of 0.7%. This is an impressive showing given the array of headwinds companies have faced over the past six months.
2. Investors were too bearish ahead of the results which was evident in equity allocations overall plus the type of equities held. Because of more robust results against defensive positioning, investors have had to begin rebuilding back exposure to domestic cyclicals.
3. While FY22 was better than feared, there are larger cuts coming through to FY23 earnings estimates, the most obvious of which is within the Materials sector on a repricing (lower) of the global growth outlook while the building materials stocks struggled against input cost pressures.
4. Higher costs are being largely passed on which has allowed margins to hold. The consumer is in good shape for now and strong end-demand has allowed for costs to be passed through to customers relatively easily.
5. Labour shortages were the No 1 concern expressed by companies and this remains a big unknown. Such tightness in the labour market must be inflationary.
6. Trading statements & feedback from banks (given their intel on spending patterns) suggest the consumer is still spending despite weak sentiment indicators.

PORTFOLIO STOCKS

The portfolio held 19 positions throughout the month. There was little activity in terms of changes to the portfolio in August. Reporting season dominated headlines and drove performance in the month, with hits outweighing misses in the portfolio to drive outperformance. Over the 19 stocks in the portfolio, only 7 detracted from performance.

The standout holding was lithium producer **Pilbara Minerals (PLS)** which announced solid financial results but has also been buoyed by continued strength in the lithium price. So far this year, the Chinese reference price for carbonate has rallied 80% this year already with no sign of slowing down. We remain positive lithium over the medium term as demand continues to accelerate while supply struggles to keep up.

In July, we took a position in jewellery retailer **Lovisa Holdings (LOV)** with the view that the market was overly bearish on retail stocks heading into reporting. That view turned out to be correct, with a largely in-line result seeing the stock rally to all-time highs.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	19
ESTIMATED YIELD (%)	1.39
TOP 5 POSITIONS (% OF AUM)	37.39
TOP 10 POSITIONS (% OF AUM)	64.59

STOCK	CONTRIBUTION (%)
PILBARA MINERALS (PLS)	1.27
LOVISA (LOV)	1.18
STRANDLINE (STA)	0.89
PALADIN (PDN)	0.89
CAPITOL HEALTH (CAJ)	0.77

STOCK	DETRACTION (%)
AUSSIE BROADBAND (ABB)	-1.74
ST BARBARA (SBM)	-0.76
AUDINATE (AD8)	-0.47
DUBBER (DUB)	-0.35
AUSTAL (ASB)	-0.24

Outlook commentary was more positive than expected with an additional 22 stores opened in the first few weeks of FY23 and seeing same-store sales growth running at +21%.

While the company missed expectations and generally reported poorly, **Adore beauty (ABY)** traded more than 6% higher in the month. Shares benefitted from a strong report from peer Temple & Webster (TPW) which showed that e-commerce companies can grow margins despite the broad headwinds in the space. Adore failed to present the same positive momentum and guided margins lower in FY23 as they look to invest in private label and loyalty programs which will ultimately see benefits over the medium term and the company guiding to margins more than doubling as a result by FY27.

There was little in the way of news from **Paladin (PDN)** at their results given their Langer Heinrich mine had only just started progress to restart. News flow in the uranium market remains positive though with support coming from a wide range of sources. Japan has announced plans to build new nuclear reactors, while Elon Musk was also out supporting nuclear power. Paladin is working towards first production in the March quarter of 2024, 18 months away, however, they are well funded and the uranium market looks to have a medium-term tailwind in place.

The main drag on performance came from telecommunications company **Aussie Broadband (ABB)** which traded to 52-week lows on the back of a soft FY22 result and weaker-than-expected outlook. Revenue guidance for FY23 was in line with expectations however the company guided to EBITDA margins of 10-10.5%, reflecting a ~5% miss to expectations at the EBITDA line. We suspect this guidance is conservative with upside in improved NBN access charges to help support earnings and a shift to winning more higher margin business. Since the FY22 report, we have seen more than $1m worth of director buying showing management has faith in improving numbers.

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY23	14.48	3.07											**17.55**
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	**-23.32**
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													**32.30**