



**MARKET MATTERS**  
**INVEST**

**MONTHLY REPORT | OCTOBER 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	3.22%*

**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 rose 0.87% in October underperforming the S&P/ASX Small Ords Index which added 6.46%. The portfolio has returned -24.98% for the rolling 12 months & +3.22% per annum since inception.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	INCEPTION
<b>PORTFOLIO %</b>	0.87	-5.5	-13.13	-24.98	-8.7	3.22
<b>BENCHMARK %</b>	6.46	-4.91	-14.36	-18.31	3.46	0.13
<b>RELATIVE %</b>	-5.59	-0.59	1.23	-6.67	-12.16	3.09

Benchmark: S&P/ASX Small Ords Index

Equities had a strong month in October as investors started to price in the prospect that central banks globally are nearing the peak of policy tightening, following the cue from our very own Reserve Bank.

The MSCI Developed Markets Index rose (+7.5%), and the S&P 500 gained (+8.1%) in local currency terms. The S&P/ASX 200 underperformed the rally having outperformed on the way down in September, the S&P/ASX 200 in accumulation terms up (+6.04%) in October, as the RBA tempered the size of rate hikes from 50bps to 25bps.

This was reflected in Australian bond markets, the Australian 10-year yield moved down by 13bps to 3.76%. Meanwhile, US yields continued to rise, up a further 28bps to 4.07%.

Brent Oil prices increased US\$7 to US\$95/bbl amid EU trade embargos lowering supply and production while Iron Ore prices dropped US\$16 to US\$82/Mt due to concern around Chinese growth. Gold prices also lost ground, off by US\$24 to US\$1,648, as US dollar strength weighed on the precious metal.

Locally, the financial sector was the top performer up (+12.2%) for the month, while Property (+9.9%), Energy (+9.5%), Consumer Discretionary (+8.9%), Utilities (+7.2%) & Industrials (+6.5%) all outperformed a strong market.

The underperforming sectors included Information Technology (+5.4%), Communications (+4.9%), Healthcare (+0.6%), Materials (-0.10%) & Staples (-0.20%).



## PORTFOLIO STOCKS

The portfolio held 20 positions at the end of October, finishing the month with a low cash balance of just ~2% after adding to positions in Audinate (AD8) and Sandfire (SFR). While equities were broadly stronger in October, a handful of positions weighed on performance.

**Calix (CXL)** was busy in October. They signed a deal with global cement giant Heidelberg, agreeing to a licence and royalty deal to implement Calix's LEILAC technology across all ~150 sites if Heidelberg wishes. In our view this is a transformative deal for Calix, setting the benchmark for future partnerships. Calix raised \$60m in an institutional placement with a \$20m share purchase plan now underway, with funds going towards further commercialization of LEILAC as well as additional investment in lithium and green iron & steel projects.

Calix shares quickly lost the upside that was priced into the shares following the Australian Government's decision to pull a total of \$41m worth of funding for separate projects CXL had underway with Boral & AdBri. The news was hugely disappointing, particularly given the lack of detail provided by the Government however we suspect this will be a blip on the radar longer term. AdBri has already committed to their program with Calix while Boral is yet to confirm, though we note that they have significant emissions reduction targets that Calix could help meet. Aside from this, Calix is catalyst rich, having 60+ projects at various stages in their pipeline.

**Audinate (AD8)** hosted its AGM in late October with the company talking up their prospects for FY23 and beyond. Volumes should improve as tightness in the semiconductor market eases, while the company was also able to put through price hikes over the last 2 years.

Their dominant position in the audio market is expected to support follow on demand for their newly launched video product with the company now in a position to provide the full suite of products across audio, visual and software. They expect revenue of at least \$US3m in FY23 from video with sales coming in ahead of analyst expectations.

While shares are expensive, we see long term value being created by a management team with a proven track record. The market opportunity is huge for Audinate, and they have managed to build a moat around their core business with significantly greater penetration than their nearest competitor. We added to Audinate following the positive commentary given at the AGM.

### PORTFOLIO STOCKS

NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	1.29
TOP 5 POSITIONS (% OF AUM)	39.21
TOP 10 POSITIONS (% OF AUM)	67.76

STOCK	CONTRIBUTION (%)
PALADIN (PDN)	0.83
PRAEMIUM (PPS)	0.83
PILBARA (PLS)	0.83
BAPCOR (BAP)	0.78
LOVISA HOLDINGS (LOV)	0.77

STOCK	DETRACTION (%)
CALIX (CXL)	-2.17
ST BARBARA (SBM)	-0.93
EML PAYMENTS (EML)	-0.77
DUBBER (DUB)	-0.71
SANDFIRE (SFR)	-0.61

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
<b>FY23</b>	14.48	3.07	-9.21	0.87									<b>9.21</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>-23.32</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>23.96</b>

Also hosting their AGM in October was the telco **Aussie Broadband (ABB)**. The company disappointed at the FY22 result, providing guidance below market expectations. Our view at the time was the guidance seemed conservative and conditions would likely improve throughout the year. Comments at the AGM suggest an improvement is underway and the result was a 'clearing of the decks' event.

NBN CVC charges have moderated, dropping down to improving margins while connection numbers have begun to improve. Aussie Broadband is winning market share in the NBN space. Their recent Over the Wire acquisition should improve penetration in the business segment as well.

Gold stocks in general were under pressure last month, though **St Barbara (SBM)** also disappointed at their quarterly update. The company produced just 64k/oz with costs higher than the realized gold price, burning through \$30m of cash.

We initially took a position in St Barbra with the view that the balance sheet was better placed than the market feared, coupled with potential corporate activity around their Leonora and Canadian assets to unlock value. While corporate activity is still on the cards, the disappointing production set has changed our view of the balance sheet. There are early signs that cost pressures in the space are easing, however, this position remains under review.

#### DISCLOSURE

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