



**MARKET MATTERS**  
INVEST

**MONTHLY REPORT | NOVEMBER 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	5.77%*

**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 5.76% in November outperforming the S&P/ASX Small Ords Index which added 4.80%. The portfolio has returned 12.41% to date in FY23, -5.65% p.a. over 2 years & 5.77% per annum since inception (<3 years).

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	INCEPTION
<b>PORTFOLIO %</b>	5.76	-1.1	0.3	-18.82	-5.65	5.77
<b>BENCHMARK %</b>	4.8	-1.72	-4.89	-16.49	-1.7	3.27
<b>RELATIVE %</b>	0.96	0.62	5.19	-2.33	-3.95	2.5

Benchmark: S&P/ASX Small Ords Index

Global equities enjoyed a strong November as early signs that central banks globally will curb the pace of interest rate hikes. That buoyed generally bearish investor sentiment which was positioned defensively. The rhetoric towards the end of the month implies that interest rates will peak at lower levels than previously forecast and this is playing out through declining bond yields.

The MSCI World Markets Index added 4.67% for the month while the S&P 500 advanced 5.38% in local currency terms. Australian equities outperformed thanks to our larger weighting towards resources with the S&P/ASX 200 Accumulation Index up by 6.58%. The Utility stocks were the best performers in Australia up 20.85% followed by the more influential Materials which added 16.34%. On the flip side, Consumer Services (Telco) stocks underperformed up 2.12% for the period followed by the Energy Sector which added 2.72%.

Bond yields fell as bond prices rose; the Australian 10-year yield moved from 4.05% to below 3.50% as signs that inflation has peaked allowing the RBA to be less aggressive on future rate hikes. US yields were also lower with the US 10-year moving down 63bps to 3.60%. Markets have moved towards a less hawkish stance around interest rates which has underpinned strength across growth assets.

Commodity prices were mixed in November. Brent Oil prices declined 6.42% to US\$86.87/bbl. Iron Ore prices were strong, up 25.61% to US\$103/Mt on optimism towards Chinese stimulus. Gold prices trended higher, moving up 8.43% to US\$1,771, amid US dollar weakness and lower real yields.



## PORTFOLIO STOCKS

The portfolio held 21 positions at the end of November, finishing the month with a low cash balance of just ~3% with a number of changes made to the composition. Strength in equity markets helped performance, however, stock selection added around 1% of alpha vs the S&P ASX Small Ords Index.

We added media group **Nine Entertainment (NEC)** to the portfolio as part of a broad suite of changes early in the month. In our view, the market is too bearish on its broadcasting, which accounts for 50% of revenue. We also see further upside in their Stan investment with rising Average Revenue Per User (ARPU) as well as strong momentum in sales. Nine have also flagged the potential to divest some of its interest here which could further unlock value for shareholders. At just 11x expected FY23 PE, Nine is undervalued, has a buyback in place and recent numbers suggest the underlying business is holding up better than expected with plenty of embedded value in their investments in both Stan and Domain (DHG).

**Regal Partners (RPL)** was also a new addition to the portfolio. The fund manager has a strong track record of performance across its funds with an attractive offering across alternative strategies including long-short and natural assets. FUM is growing strongly, currently at \$5.5b with a clear runway to double that in a few years. They also have around \$200m in cash on the balance sheet and have a great track record of extracting value out of underperforming fund managers. They were recently in a bid for Perpetual (PPT), and while they look to have missed out this time, we like their aggression here.

Another recent addition to the portfolio was **NextDC (NXT)** which owns and operates data centres around the country. There is a strong industry tailwind with compounding demand growth for data storage.

NextDC has had some struggles bulking up along with fears customers were looking to reduce their capacity, however, these issues appear overstated and priced in. After a deep pullback, we think NextDC is undervalued and a potential takeover target for Asian peers.

**Sandfire (SFR)**, came out with a surprise \$200m capital raise in November, with shareholders able to participate in the non-renounceable entitlement offer at \$4.30/sh on a 1-for-8.8 share basis. Shares in the copper stock have held up well since the announcement, currently trading at a ~16% premium to the raise.

While the money was a 'nice to have' rather than a 'must have' scenario, the funds will go towards reducing debt and increasing working capital, providing more flexibility as they bring their Motheo project in WA online ahead of first production around the middle of next year.

### PORTFOLIO STOCKS

NO. OF HOLDINGS	21
ESTIMATED YIELD (%)	2.03
TOP 5 POSITIONS (% OF AUM)	28.32
TOP 10 POSITIONS (% OF AUM)	54.2

STOCK	CONTRIBUTION (%)
SANDFIRE (SFR)	2.38
CALIX (CXL)	1.12
PILBARA (PLS)	0.64
REGAL PARTNERS (RPL)	0.62
AUSSIE BROADBAND (ABB)	0.58

STOCK	DETRACTION (%)
SELECT HARVESTS (SHV)	-0.62
PALADIN (PDN)	-0.49
GLOBAL LITHIUM (GL1)	-0.35
CAPITOL HEALTH (CAJ)	-0.31
AUSTAL (ASB)	-0.11

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
<b>FY23</b>	14.48	3.07	-9.21	0.87	5.76								<b>14.97</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>29.72</b>

It also cleans up the business before the new CEO steps into the office in April, and we suspect this was another way for the board to entice such a high-quality operator in ex-BHP executive Brendan Harris. With Oz Minerals (OZL) under takeover from BHP, Sandfire will likely become the largest pure-play copper stock on the ASX, and we think it will find more buying support as a result.

One of the disappointing holdings for November was **Select Harvests (SHV)** which missed expectations at their FY result. The almond grower was navigating a number of issues in FY22 including wet weather and restrictions on beehives following the varroa mite outbreak. Production still managed to meet guidance, however, earnings missed expectations as a result. Almond prices have crept higher though the pace of which is slower than we expected.

The biggest gainer of the month in the portfolio was **EML Payments (EML)**, bouncing back from a period of poor performance. Shareholders ousted their Chairman at the AGM, just a few months after the CEO left the company on the back of regulatory issues. While there is a bit of a merry-go-round at the top, the business is finding its feet and Gross Debit Volume (GDV), which measures the volume processed through the group, still managed to rise 8%. Open Banking has also continued to grow with a monthly revenue run rate of \$6m in October, +50% in just 6 months. Higher interest rates are also benefitting income with interest expected to reap an additional ~\$10m in FY23, around double vs FY22. While costs are up on the back of additional compliance and regulation, we see plenty of low-hanging fruit in the business to continue to drive growth, and at just, ~15x PE the market isn't giving it much of a chance.

To hear about our views on resources, Lead Portfolio Manager James Gerrish sat down with Resource Analyst Peter O'Connor, both of whom have strong views around the sector and the stocks that should do well. [Watch Here](#)

#### DISCLOSURE

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