DNR Capital Australian Emerging Companies Fund

APIR code: PIM4357AU

Performance Report April 2023

Performance

The DNR Capital Australian Emerging Companies Fund increased 3.53% (net of fees) in April, outperforming the S&P/ASX Small Ordinaries Total Return Index by 0.75%. Over the last 12 months, the Fund decreased by 0.87%, outperforming the Index by 8.56% (net of fees).

Net active return as at 30 April 2023

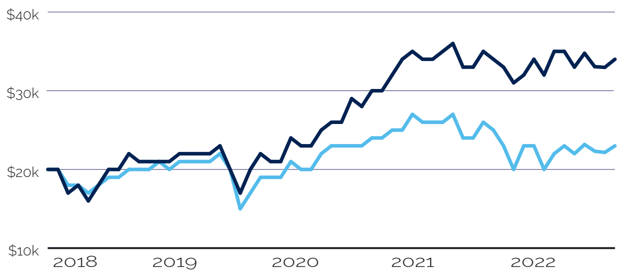
	1mth %	3mth %	6mth %	1yr %	3yr p.a. %	4yr p.a. %	Incep.* p.a. %
Emerging Companies Fund	3.53	-1.82	-1.21	-0.87	19.53	12.19	12.14
S&P/ASX Small Ordinaries Total Return Index	2.78	-1.74	5.77	-9.43	9.22	3.09	2.82
Excess return	**0.75**	**-0.08**	**-6.98**	**8.56**	**10.31**	**9.10**	**9.32**

* Inception Date—August 2018

Source: DNR Capital and Apex Fund Services

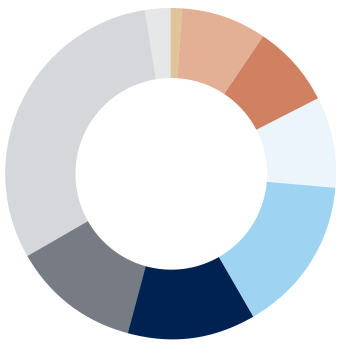
Past performance is not an indication of future performance. Total return shown for the DNR Capital Australian Emerging Companies Fund has been calculated using exit prices after taking into account all of the product's ongoing fees and assuming reinvestment of distributions. No allowance has been made for entry/exit fees or taxation.

Growth of $20,000 since inception



Source: DNR Capital and Apex Fund Services

Sector weightings %



Source: DNR Capital and Apex Fund Services

Top 3 active holdings (alphabetical order)

Security details
Breville Group Limited (BRG)
IPH (IPH)
Iress (IRE)

Source: DNR Capital and Apex Fund Services

Monthly top contributors and detractors

Top 3 contributors
IPH (IPH)
Breville Group (BRG)
Whitehaven Coal (WHC)

Top 3 detractors
Deterra Royalties (DRR)
PEXA Group (PXA)
Telix Pharmaceuticals (TLX, no holding)

Source: DNR Capital and Apex Fund Services

A team with global experience

Sam Twidale
Portfolio Manager
CFA

Mark Sedawie
Portfolio Manager
CFA

Fund and market review

Equity markets climbed higher during April, despite continued uncertainty regarding the global economy. There remains considerable debate around the near-term outlook for inflation, interest rates and economic growth, reflected in a cautious appetite for equities. In the previous month, we discussed the opportunities emerging in Australian small caps due to the sell-off over the past year. Valuations for a range of quality small caps have fallen substantially and are starting to present attractive entry points. Additionally, small caps have significantly underperformed large caps during this period, offering greater recovery potential when risk appetite improves.

While economic risks persist for a range of opportunities, these risks are now being factored into valuations after recent share price falls, particularly for some of the more cyclically exposed business models. Sectors like Consumer Discretionary, Financials and Industrials, have been hit hard over the past year. Conversely, some of the more defensive sectors in the market, where valuations appear inflated, as investors seek safety in companies offering more resilient earnings.

This disparity highlights the current market's dilemma for many investors. Invest in the more expensive defensive sectors with less valuation support but fewer risks of earnings downgrades, or opt for companies with lower valuations with greater short-term earnings uncertainty in a weakening economy. For long-term investors, we believe the latter is now becoming the more attractive option, especially in de-rated high-quality business models capable of withstanding short-term risks.

During the month, we continued to reposition the Fund, with key sector overweights now in Consumer Discretionary, Industrials, Financials and Technology. Various companies in these sectors have experienced significant share price falls, providing attractive entry points for long-term investors prepared to look through short-term market concerns. We believe the time for maximum defensiveness was 12 months ago, when interest rates were low, and market optimism was running high. Now that interest rates have increased substantially, fears of a recession are well appreciated, and investors are more cautious. Attractive opportunities are being presented and as a result, we have continued to deploy the Fund's cash holding during April and are now close to fully invested.

Performance attribution

Contributors

- **IPH (IPH):** the company updated the market about its recent cyber-breach, indicating minimal client impact and that no data from IPH's document management system was compromised (where sensitive pre-filing patent information lies). Market sentiment lifted on the news of the minimal effects on client losses.
- **Breville Group (BRG):** reaffirmed guidance of EBIT for the full year of between $165m - $ 172m.
- **Whitehaven Coal (WHC):** ended 31 March 2023 in a net cash position of $2.7bn, representing nearly half of its market capitalisation. WHC will recommence the on-market share buy-back now that the required blackout period has ended.

Detractors

- **Deterra Royalties (DRR):** reported royalty receipts for the March quarter of $59.9m, 32% above the December quarter, due to higher realised prices over marginally lower sales volumes.
- **PEXA Group (PXA):** shares consolidated gains from the prior month. Whilst property listing volumes are currently subdued, we can expect them to improve as we move past the fourth quarter of 2023.
- **Telix Pharmaceuticals (TLX, no holding):** shares rose strongly for the month as its prostate imaging cancer drug, Illuccix, reported sales up 27% for the 1st quarter of 2023.

Fund facts

Inception date: August 2018

Minimum initial investment: $20,000

Risk level: High

Management fee: 1.15% p.a. of the NAV of the Fund

Performance fee: 20% of outperformance of the Fund relative to the Fund's Benchmark (after the management fee)

Entry/exit fees: Nil

Buy/sell spread: +0.25%/-0.25%

Valuation and unit pricing frequency: Each business day

Distribution frequency: Semi-Annual

Responsible entity: The Trust Company (RE Services) Limited as part of the Perpetual Limited group of companies.

About DNR Capital and the Fund

Concentrated: Investing in 20-45 highest conviction, quality small cap Australian listed equities.

Style neutral and quality focussed: A disciplined approach to quality and valuation. Concentrated portfolios of quality companies maximise the opportunity for outperformance.

Global & domestic investment experience: Portfolio managers with global and domestic research experience, helps to identify globally competitive emerging companies.

Aligned team: Portfolio managers are invested in the Fund.

Proven process: DNR Capital was established in 2001 and a consistent firm-wide investment process has delivered more than 19 years of investment outperformance.

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