

# Ironbark Renaissance Australian Small Companies Fund

**BENCHMARK**

S&amp;P/ASX Small Ordinaries Accumulation Index

**OBJECTIVE**

To outperform the benchmark (before fees) over rolling 4-year periods.

**APIR**

PAT0002AU

**ARSN**

114 291 486

**INCEPTION DATE**

30 June 2005

**MANAGER APPOINTED**

5 September 2022

**MANAGEMENT FEE**

1.1275% p.a.

**FUND SIZE**

\$216.7m

**BUY / SELL SPREAD**

+0.20% / -0.20%

**EXIT PRICE**

\$2.2601

**Net performance (%)**

	1 month	3 months	1 year	3 years p.a.	5 years p.a.	10 years p.a.	Since inception p.a. <sup>2</sup>
<b>Fund<sup>1</sup></b>	<b>-8.95</b>	<b>-2.74</b>	<b>-26.04</b>	<b>-4.76</b>	<b>1.43</b>	<b>5.30</b>	<b>9.55</b>
Benchmark	-11.20	-0.47	-22.56	-0.80	4.07	4.58	3.82
Active	2.25	-2.27	-3.48	-3.96	-2.64	0.72	5.73

Past performance is not indicative of future performance. Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distribution. Returns are rounded to two decimal places. Slight variations to actual calculations may occur.

<sup>1</sup>Fund performance prior to 5 September 2022 is not attributable to the current investment manager. From 8 August 2022 to 4 September 2022, State Street Bank and Trust Company was appointed as the Fund's Transition Manager and coordinated an orderly transition of the portfolio from the prior investment manager over this period. Returns prior to 8 August 2022, reflect the previous investment manager(s) of the Fund.

<sup>2</sup>The return since inception represents the annualised performance from the first full month of operation.

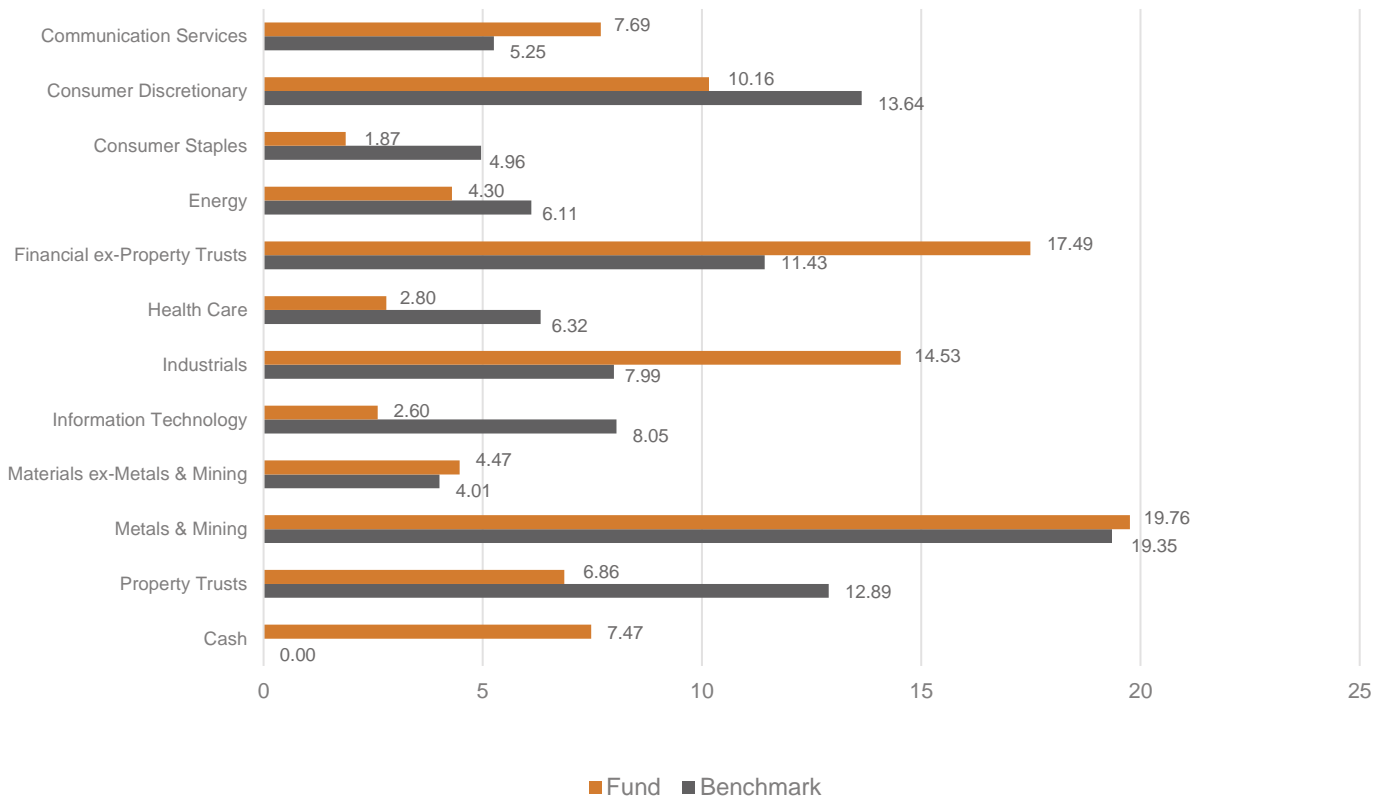
**Top 3 quarterly contributors and detractors (for the Renaissance Smaller Companies Strategy)**

Contributing stocks	Active position	Detracting stocks	Active position
AVZ Minerals	Underweight	New Hope Corporation	Underweight
NRW Holdings	Overweight	Liontown Resources	Underweight
Austal	Overweight	Alliance Aviation	Overweight

**Top 5 holdings (In alphabetical order)**

Stocks	Sector
Seven Group Holdings	Industrials
OFX Group	Financial ex-Property Trusts
AUB Group	Financial ex-Property Trusts
NRW Holdings	Industrials
Viva Energy Group	Energy

## Sector asset allocation (%)



## Market review

Volatility in global equity markets continued during the September quarter, with July providing a much-needed relief rally only for equity markets to test new lows in September. Sentiment turned decidedly pessimistic in September when the US August inflation number was ahead of market expectations, with the Federal Reserve and other central bankers using the only weapon in their arsenal, interest rates, to fight the inflationary fears. US markets and other major global markets finished with quarterly losses, the first time since the Global Financial Crisis ('GFC') that these markets have logged three straight negative quarters. It should be noted the Australian market measured by the S&P/ASX 300 ended the September quarter up 0.5%, with the S&P/ASX Small Ordinaries returning -0.47%, both outperforming most other major global markets.

While equity markets had a tough time, bond markets have had an even tougher time. The 5-year US Treasury yield is up nearly 3% in less than a year and in the UK proposed tax cuts and associated significant increases in planned government borrowing by the new Truss administration sent UK capital markets into disarray, with the pound tumbling and gilts gapping lower. The Bank of England was forced to intervene in the market to arrest "bond market dysfunction" which threatened financial stability. UK bonds yields climbed to their highest level since the GFC with 30-year bond yields topping 5% for the first time since 2007. The yield curves in many bond markets have now inverted, which is typically a precursor to a recession.

Notably however, after quarter end in Australia, the RBA surprised most market pundits with a lower-than-expected 0.25% rate rise, flagging a possible slowdown in the pace of hikes in the period ahead. The RBA has pivoted a lot earlier than many expected as it assesses the outlook for inflation and economic growth in Australia. The change of gears however, could very well be a factor of the RBA keeping a close eye on household debt. After a brief pullback in 2019/20, household debt climbed again through COVID to all-time highs driving house prices to record highs, leading to record loan repayments which will start to bite in the coming months as banks reset monthly payments. This is likely to inevitably impact overall consumption and spending patterns.

## Performance review

Effective 5 September 2022, Ironbark Asset Management (Fund Services) Limited as the responsible entity of the Fund appointed Renaissance Smaller Companies Pty Ltd ('Renaissance') as the investment manager of the Fund. Performance prior to 5 September 2022 is not attributable to Renaissance. The performance commentary below details the performance of the Renaissance Smaller Companies strategy for quarter to 30 September 2022.

The Renaissance Smaller Companies strategy delivered a positive (net) return of 2.03%<sup>1</sup> over the quarter to 30 September 2022.

At a sector level, the services sector was the biggest contributor to performance, aided by stock selection in Austal Limited and OFX Group. Stock selection in the EV/Lithium space, namely Allkem (lithium) and Syrah Resources (graphite) added value, as did stock selection in Food & Beverage stocks Tassal Group and Select Harvest. Sectors that detracted included stock selection in Information Technology, stock selection and an overweight allocation to Metals as well as a zero weighting in thermal coal stocks.

NRW Holdings was a strong contributor to returns, up 44% over the period. In August, NRW upgraded earnings guidance as part of its full year results, generating very strong cashflow and increasing its dividend. The results illustrated a very solid year for the company in challenging conditions.

Austal Limited was a positive contributor, up 28% over the period. Austal's share price jumped in early July after it was announced they had won a contract worth up to US\$3.3 billion (A\$4.4 billion) for the detailed design and construction of up to 11 Heritage-class Offshore Patrol Cutters (OPC) for the United States Coast Guard. This was a key contract win for the company that is in the final stages of completing the construction of Littoral Combat Ships for the US Navy.

Allkem Limited was a positive contributor, up 34% over the period. Allkem is an experienced producer of lithium and is the investment manager's only pure lithium exposure in the portfolio. During reporting season, it produced a solid FY22 result with strong underlying earnings and cash generation due to a lower working capital build during a strong growth period.

The main detractors to performance at a stock level were zero holdings in thermal coal producer New Hope Corporation up 82%, and lithium developer Liontown Resources 41%.

Alliance Aviation also detracted from performance, down 13%. Alliance's FY22 result was slightly weaker than expected with underlying profits at the bottom end of its guidance range. COVID and general aviation industry disruptions continue to hamper Alliance's activity with the deployment of their E190s which have again been delayed due to the lack of experienced pilots.

Service Stream also detracted, down 18%. Service Stream shares dipped after the company released its FY22 results, with earnings missing market expectations. The result was also impacted by a \$5 million profit provision against a fixed price construction project and pressure on the metering services margins.

## Market outlook

Risks to the economic outlook for the world remain elevated as inflationary fears overtake COVID, supply chain disruptions and the Ukraine conflict continue. Central banks have aggressively implemented their monetary policy over the quarter. With such an aggressive response, the risk of recession is present in the minds of both economists and investors, as witnessed by the sell-down over the period.

The increased volatility that the investment manager has observed over the quarter has driven a significant sell-off in small companies, which is generally the case when fear outweighs greed and liquidity impacts market pricing. The investment manager has also seen large cracks appearing in the thematic of growth at any price which has led to a derating of many small companies. The signs are now showing that valuation, balance sheet strength and cash flows are being rewarded by the market and are beginning to outperform. This trend has a long way to go if some sense of normalcy is to be restored. The investment manager expects that small companies can bounce back strongly as has been the case in other significant downturns (GFC and Dotcom as well as post the initial sell-off of COVID).

<sup>1</sup>Past performance is not indicative of future performance. The return figure for the 3-month period to 30 September 2022 for the Renaissance Smaller Companies strategy has been calculated net of the of 1.1975% p.a. management fees & costs of the Fund. Sources: Renaissance, Link Fund Solutions and Morningstar Direct.

### Market outlook (continued)

The investment manager accepts that there are more uncertainties in the world and equity markets today, but they believe there are ample opportunities to find quality companies at attractive valuations. The portfolio will continue to be weighted towards holding quality companies that are underpinned by stable earnings and cashflows, have a strong balance sheet and are trading at justifiable valuations. The investment manager believes they will have the ability to provide meaningful returns as conditions start to normalise.

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