Renaissance Smaller Companies Fund
Quarterly Report – December 2021

Renaissance Asset Management

Fund Performance

	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.	Since Incept. p.a.^
Renaissance Smaller Companies Fund*	5.95%	10.29%				10.29%
S&P/ASX Small Ords Acc. Index	2.03%	5.54%				5.54%
Value added	3.92%	4.75%				4.75%

*Fund returns are calculated net of all fees and expenses and assume reinvestment of distributions. Past performance is not a reliable indicator of future performance, the value of investments can go up and down. Please refer to the Information Memorandum for further details. ^ Inception date 1 July 2021.

Portfolio Commentary

For the December quarter, the Fund returned 5.9% whilst the Small Ords benchmark returned 2.0%, resulting in outperformance of 3.9**%**.

The greatest contributor at a sector level for the December quarter came from stock selection in what we call Defensive Services, particularly our overweight positions in OFX Group (+47%) and Credit Corp (+10%). Other sectors to add value include stock selection and the underweight to Health (Healius +10%), Oil & Gas (Senex Energy +27%), Tourism, IT, and Investment Managers and Platforms. A large contribution came from our overweight position in Metals with 29metals (+34%), Aurelia Metals (+27%), Panoramic Resources (+26%) and Sandfire Resources (+20%), as well as our overweight and stock selection in Other Financials with the biggest contribution coming from our zero holding in BNPL darling Zip Co. (-39%). Overweight positions and stock selection in Building Materials and Mining Services also added value over the period.

On the negative side, the biggest detractor to performance came from our underweight to Other Mining, which is heavily leveraged to the EV market, in particular our zero holdings in Pilbara Minerals (+22%) and Novonix (+38%). Also detracting value was our overweight and stock selection in Cyclical Services (Service Stream -10% and Midway -9%), whilst our zero weight in Iron Ore and Other Energy (Paladin + 28%) also detracted value for the period.

Global equity markets had a good December quarter with the S&P 500 +11%, NASDAQ +8.5%, Euro Stoxx 50 +6.5% and the FTSE 100 +4.7%. The Aussie market not quite in the same territory as its global counterparts with the ASX 300 returning 2.2% for the period. Markets finished the year strongly, albeit with increased volatility as they digested the emergence of a new Covid variant, Omicron, which it would seem is transmissible at a far greater rate than its predecessor Delta. Several governments responded with new travel restrictions putting further pressure on the global economic recovery. Markets also contended with The Fed Reserve announcing it would taper back its stimulus program quicker than previous expected, as well as Fed Chairman Powell suggesting inflation is more permanent than ‘transitory’.

Supply chain problems continue with delivery times for chips rising in December, signalling persistent component shortages that have dampened growth for months in industries that span the global economy. In Australia, the wait for Covid test results by truck drivers and warehouse workers is fuelling empty supermarket shelves and supply chain pressures, with logistics operators saying half of their workforce is missing.

Interestingly, the NASDAQ +22.2% finished the year to December well behind the broader S&P 500 +28.7%, which is only the 3rd time in the past 10 years the S&P 500 has finished the year ahead of the tech/growth heavy NASDAQ. The underperformance from the tech names seems to be driven by earnings concerns rather than hawkish central bank commentary and hot inflation prints.

Outlook & Strategy

Risks to the economic outlook for the world, including Australia, remain high as we look towards 2022. The Omicron variant which appears to be more infectious but less deadly, has thrown new challenges at the global economy. The biggest risk continues to be the pandemic, but markets must also contend with rising inflation, supply-chain disruptions, forecast interest rate rises and tapering of stimulus packages by central banks. As vaccinations roll-out across the globe, the success of the vaccination programs is still yet to be fully determined. This uncertainty will continue to overhang global economies, markets, and businesses, until we have a pathway to a secure reopening.

We continue to see valuation shifts where cracks are emerging in the thematic of growth at any price. The first signs that value and cash flow are outperforming are now evident and this trend has a long way to go if some sense of normalcy was restored. The second global trend that is starting to emerge is the outperformance of small cap stocks relative to large caps and once again this theme could go a long way if there was mean reversion.

We accept that there are more uncertainties in the world and equity markets today, but we see ample opportunities to find quality companies at reasonable prices. If there is further disruption this will provide more opportunity to outperform over the longer term. The portfolio will be weighted towards holding quality companies that are underpinned by a stable earnings stream, are trading at justifiable valuations and we believe will have the ability to provide meaningful returns when conditions start to normalise.

Top 10 Holdings

Company Name	Portfolio %	Index %
Seven Group	3.4	1.1
Healius Limited	3.3	0.9
OFX Group	3.1	--
Orocobre Limited	3.1	1.8
Humm Group	3.0	--
Fletcher Building	2.9	0.8
Viva Energy	2.8	0.6
Centuria Industrial	2.6	0.6
Austal Limited	2.4	0.2
Coronado Global Resources	2.3	0.4
Total Top 10	**29.0**	**6.4**

Sector Exposure

Sector Exposure	Portfolio %	Index %
Communication	4.8	5.3
Consumer Discretionary	10.6	16.0
Consumer Staples	2.8	4.7
Energy	4.1	4.5
Financial x Property	22.6	13.4
Health Care	4.3	6.9
Industrials	15.9	7.7
Information Technology	2.7	8.7
Materials	21.0	19.9
Property Trusts	9.1	12.9
Utilities	--	--