Renaissance Smaller Companies Fund
Quarterly Report – March 2022

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*	-3.2%	2.5%				6.7%
S&P/ASX Small Ords Acc. Index	-4.2%	-2.3%				1.1%
Value added	1.0%	4.8%				5.6%

*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 March quarter, the Fund returned -3.2% whilst the Small Ords benchmark returned -4.2%, resulting in outperformance of 1.0**%**.

The greatest contributors at a sector level for the March quarter came from our underweight to Health, IT, Investment Managers, Retail, Food & Beverage, Gaming and Media. Stock selection in Cyclical Services, Mining Services, led by our overweight in NRW Holdings, and Coal through our Metallurgical Coal exposure in Coronado Global Resources added value. While our stock selection in Nufarm in the Agricultural sector also added value.

On the negative side, the biggest detractor to performance came from our zero holding in the Iron Ore space which was up over 33% for the quarter. The other big detractor coming from our underweight to the lithium sector, although stock selection in Allkem did add value but not enough to overcome the underweight. Lithium has rallied hard over the period with EV sales numbers globally suggesting that the EV revolution has well and truly started. Other sectors to detract include our overweight to Other Financials. Defensive Services, Tourism and Property. While stock selection in Oil and Gas also detracted.

The war in Ukraine added additional volatility to global markets in late February, with world economies having enough already on their plates dealing with Omicron and inflation. Generally global markets finished in the red over the quarter with a small handful of exceptions, one being the S&P ASX 300 which eked out a 2% gain on the back of its large exposure to resources which were buoyed by strong commodity prices. Commodity markets, both hard and soft, have been chaotic, stoking already uncomfortably high inflation, which prior to the war looked like it could have been peaking.

Markets were heading for heavy losses during the beginning of March, with US markets facing the prospect of having negative returns for each of the first three months of the year for the first time since the Great Depression days back in 1935. The catalyst for the intramonth turnaround in markets appears to be the FOMC decision in March, where the Fed hiked rates by 25bp. The more hawkish Fed saw yields surge with US 10yr yields up 51bps and the Aus 10 yr yield up 70bps. This decision coupled with the belief in markets that although the war in Ukraine is a human tragedy, the direct economic damage is likely to be small in the short term. Economic data continues to be strong this year, employment is strong and consumer confidence also remains healthy. This doesn't mean that markets have completely ignored the Ukraine situation – there are a lot of moving parts to this conflict – economic sanctions against Russia, Europe's dependence on Russian oil, and NATO's response.

The Small Ords also rallied strongly in the back half of March finishing the month up 5.2%. It wasn't enough to put the benchmark in positive territory for the quarter, however. The Small Resources did all the heavy lifting returning 14.5% for the quarter and an incredible 52% for the year to March. The Coal and Iron Ore sectors were the highlight for the quarter with Coal stocks up on average over 62% and Iron Ore stocks up over 33%. A notable mention also for the Oil and Gas sector which was up over 18%.

Outlook & Strategy

Risks to the economic outlook for the world, including Australia, remain high, with the Ukraine and Russian conflict adding to an already crowded list. Markets are contending with the tragedy that is unfolding in the Ukraine, but thus far seem to have shrugged off the economic impact as being small. The focus for markets seems to be interest rates and how central banks will manage this to curb rising inflation, and the tapering of stimulus packages that have been rolled out. Even the omnipresent Covid seems to have taken a back seat to the forecast interest rate rises.

We are seeing valuation shifts with cracks emerging in the thematic of growth at any price. The 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 Holdings	3.7	1.2
OFX Group	3.1	--
Humm Group	3.1	--
Viva Energy Group	2.8	0.6
Coronado Global Resources	2.6	0.6
CSR Limited	2.6	1.1
Centuria Industrial	2.6	0.8
Nufarm Limited	2.4	0.7
Tassal Group	2.4	0.3
oOh media Ltd	2.4	0.4
Total Top 10	**27.6**	**5.7**

Sector Exposure		
Sector Exposure	Portfolio %	Index %
Communication	5.5	5.9
Consumer Discretionary	10.1	13.4
Consumer Staples	3.6	4.6
Energy	6.0	5.3
Financial x Property	19.4	10.6
Health Care	3.6	5.0
Industrials	15.5	7.5
Information Technology	2.6	9.5
Materials	20.8	24.4
Property Trusts	9.1	13.9
Utilities	--	--