# Renaissance Emerging Companies Fund
# Quarterly Report – December 2023

Renaissance Asset Management

## Fund Performance

| | 3 Months | 1 Year | 3 Years p.a. | 5 Years p.a. | 10 years p.a. | Since Incept. p.a.^ |
|---|---|---|---|---|---|---|
| **Renaissance Emerging Companies Fund*** | 5.69% | 12.01% | 4.05% | 16.14% | 17.07% | 14.03% |
| **S&P/ASX Small Ords Acc. Index** | 8.52% | 7.83% | 0.95% | 6.40% | 6.28% | 5.46% |
| **Value added** | -2.83% | 4.18% | 3.10% | 9.75% | 10.80% | 8.56% |

*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. The fund name was changed from Renaissance Smaller Companies Fund to Renaissance Emerging Companies Fund as of 1 July 2015. The Information Memorandum was changed to reflect name and change of strategy for this fund from a small cap strategy to an emerging company's strategy. Please refer to the Information Memorandum for further details. ^ Inception date 1 July 2004.

## Portfolio Commentary

For the December quarter, your portfolio returned 5.7% whilst the Small Ordinaries benchmark returned 8.5%, resulting in underperformance of 2.8%. For the year to December, the Portfolio returned 12.0% while the benchmark returned 7.8%, outperforming by 4.2%.

### Index Returns

| Index | Qtr % | 1 Year % |
|---|---|---|
| **Small Ords** | 8.5 | 7.8 |
| **Small Industrials** | 9.5 | 11.4 |
| **Small Resources** | 5.8 | -1.3 |
| | | |
| **ASX 100** | 8.3 | 12.6 |
| **ASX 100 Ind.** | 8.3 | 12.3 |
| **ASX 100 Res.** | 8.4 | 13.7 |

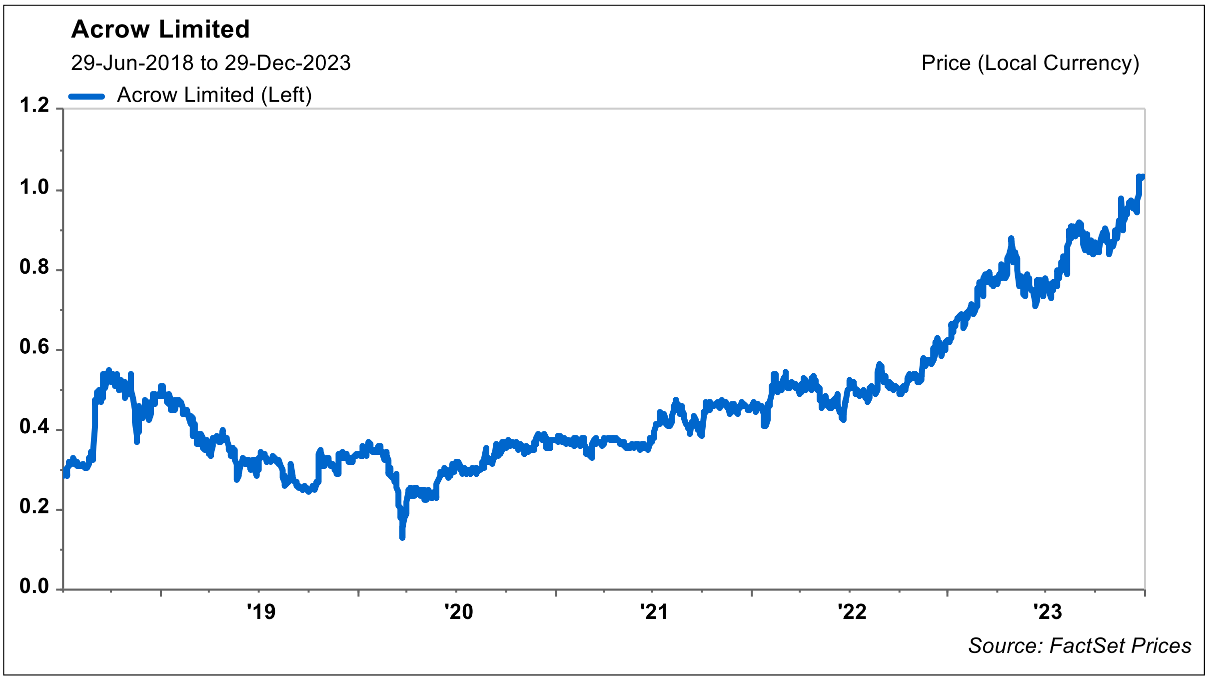
### *Your Portfolio*

Small Cap's responded to the "Fed Pivot" and for the first time in several years broader equity investors started to look down the market cap spectrum to add some value to their portfolios. Small Cap outperformance was more pronounced through the latter half of November and December. With a little bit of market confidence Company Boards and Private Equity investors also saw the opportunity to pounce. Five takeover bids of micro-cap stocks were announced during the week before Christmas, strategically a good time for bidders to catch their targets off guard. The bids included offers for Pacific Smiles, Millenium Services Group, A2B Limited and Probiotic Limited and they follow other activity including Monash IVF acquiring Fertility North, Acrow Formwork acquiring MI Scaffold and of course Private Equity completed the purchase of your shares in Healthia Limited during the Quarter.

Most of the Small cap Index returns were generated during December and micro-cap stocks lagged the broader small-cap market in the initial uptick but over time the portfolio should outperform. We are a bit disappointed by the quarters return which fell short of the benchmark, but we are confident that micro-cap stocks will eventually see value reflected in share prices. We did add some new investments during the quarter including Ballymore Resources, Genetic Signatures and Amaero International. We also added to holdings in IPD Group, Maxitrans, Acrow Limited, Australian Pacific Coal & Capital Health. We sold out of Dubber, Good Drinks Australia, Red 5 Limited, Healthia Ltd, Entyr & Straker Ltd. Some of these investments did not meet expectations (Straker, Entyr, & Good Drinks) whilst others exceeded expectations or and we took profits (Healthia, Dubber & Red 5). We also took profits in Duratec Ltd, MoneyMe Ltd & Motorcycle Holdings during the quarter.

The key stocks that added value to your portfolio during the quarter included Veem Limited, Acrow Limited, Retail Food Group, Red 5 Ltd & Austin Engineering. Stocks that detracted value from your portfolio included Noble Helium, Synertec, Redflow Ltd, Pacific Current Group and Neuren Ltd (Nil Holding as $3b market Cap but is a large Index weight).

*Acrow Group (ACF) – Another bolt on acquisition to compliment 2024 growth!*




We first invested in ACF during the IPO in 2018 and we have been patient investors, but your portfolio has been rewarded handsomely, the shares were first issued at 20c and are currently trading just above $1. ACF listed well post the IPO, but the first few years were a struggle in share price terms but operationally management have barely put a foot wrong. They invested the IPO funds within the business and generated strong organic returns. ACF is a formwork company with a difference, they are quick to invest and introduce new products to clients and they have been astute acquirers. The business provides formwork solutions to a broad range of clients but specialise in more complex sectors such as engineering and transport infrastructure. When ACF listed they employed several specialist engineers who design scaffold systems used in the construction of bridges and structures. They focussed on cost savings and efficiencies for the project and by employing smart design and innovative systems clients could save construction time. ACF now employ over 50 engineers and have expanded the sectors that they serve, ACF has grown market share organically and through acquisitions. The sector has many competitors but few players with scale and innovation and over time ACF expanded from the NSW & QLD markets to a national presence. They also expanded into industrial and shut down work, often these jobs are complex, and the contracts can be longer term in nature.

Whilst ACF has delivered strong organic growth they have turbocharged growth with well-priced and strategic acquisitions. They initially acquired Natform for $15m and an EV multiple of 4x and followed this up with Uni-Span for $21m at 4.4X. These acquisitions offered geographic diversity but more importantly engineering and product advantages, both acquisitions employed some IP to deliver value to clients. Uni-Span was based in QLD and ACF leveraged their systems in in the civil infrastructure market and delivered these services to a wider client base. In March 2023 ACF acquired assets from Heinrich Screens for $11.5m and this turned out to be highly accretive as upgrades followed around the August results. In the December Quarter ACF purchased MI Scaffold for $36.4m, their largest deal to date hence ACF sought $15m of equity funding. This transaction expands their FNQ footprint and has some specific products that they take to other markets. ACF purchased MI on a trailing multiple of 6x but earnings are ahead of '23 and this acquisition should deliver another platform for growth.

ACF has rallied but run rate earnings should approach 14c during this year, hence at $1 the stock trades around 7X PER and has an attractive yield at circa 6%. We expect further upgrades, and we may see a share price of $1.20 during the year.

*Veem (VEE) – years of work about to propel earnings!*


Whilst VEE had a very small market capitalisation (approximately $80m at point of purchase) the company had a reasonable profile given its relatively recent listing (2016) although VEE has had some ups and downs. Most micro-cap stocks tend to have a bit of history and the reality is that market or even timing of contract changes can do some damage to a small P&L. Larger companies tend to have more margin for error. VEE had some delayed orders and guidance was not met, the share price stumbled, and some larger investors decided to sell, at which time we started doing our homework.

VEE is a specialist manufacturing business based in Perth and listed in 2016 so that they could fund further growth as well as R&D. They specialise in marine, defence & have advanced processes giving them a unique comparative advantage. Much of the IPO hype focussed on VEE's innovative gyrostabilisers which are used to stabilise vessels ranging from small luxury cruise boats to large vessels. They got some traction in the oil services industry as the VEE gyro reduced ship movement and allowed the vessel to hold a location more effectively. They expanded just prior to COVID & travel bans prevented adequate servicing to some initial large installations and the rollout was initially plagued with startup issues. Orders were very lumpy, behind schedule and subsequently profits were downgraded. Regardless, the technology worked, clients ultimately value the product, and the opportunity remains significant. Gyro sales remain relatively small in VEE's P&L but with a little bit of traction they could transform the P&L.

VEE is a diversified manufacturer, and they are obsessed with developing the highest quality and least cost products, they do this by investing in R&D as well as the most modern manufacturing equipment. VEE specialise in marine propulsion systems (read propellers) and they represent approximately 45% of VEE sales. VEE sell propellers globally and they have a strong position with premium boatbuilders, they also sell into the defence market with sales into patrol boats as well as submarines. Technology has evolved in this market and VEE has recently announced an agreement with Sharrow to manufacture an innovative new propellor with significant benefits including outstanding improvements in fuel efficiency, noise, vibration, and handling. VEE anticipates clients will enjoy a 20% saving in fuel consumption and this will be a significant selling feature for the retrofit market let alone new vessel sales. VEE will manufacture in Perth initially but will need to expand such that manufacturing is close to the Northern hemisphere markets.

Whilst VEE outperformed during the December Quarter, we see significant opportunities ahead and 2024 could be a breakout year for the company.

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## Outlook and Strategy

As we have witnessed this quarter markets continue to be driven by macroeconomic conditions, namely inflation and interest rate expectations. If indeed, as indicated by the Fed we have seen the end of the inflationary/interest rate cycle then we believe this could set a platform for Australian small caps to regain lost ground and outperform their large cap counterparts over the medium term. Underneath the macro we see opportunities to find hidden gems that have an angle that gives investors upside. The market rewarded VEE & ACF this quarter but we expect small and micro caps to do better during 2024 and your portfolio returns should follow.

**Top 10 Holdings**

| Company Name | Portfolio % | Index % |
|---|---|---|
| Acrow Limited | 5.1 | 0.0 |
| IPD Group Ltd | 5.0 | 0.0 |
| Viva Leisure Ltd. | 4.4 | 0.0 |
| Close the Loop Ltd. | 3.8 | 0.0 |
| Immutep Ltd | 3.3 | 0.0 |
| Fleetwood Limited | 3.3 | 0.0 |
| Veem Ltd | 3.2 | 0.0 |
| Austin Engineering | 3.1 | 0.0 |
| Pacific Current Group | 3.0 | 0.0 |
| MaxiPARTS Limited | 3.0 | 0.0 |
| **Total Top 10** | **37.2** | **0.0** |

**Sector Exposure**

| Sector Exposure | Portfolio % | Index % |
|---|---|---|
| Communication | 5.4 | 4.9 |
| Consumer Discretionary | 18.8 | 17.3 |
| Consumer Staples | 0.0 | 3.5 |
| Energy | 4.1 | 7.9 |
| Financials | 7.0 | 10.2 |
| Health Care | 12.5 | 7.3 |
| Industrials | 30.2 | 8.2 |
| Information Technology | 8.2 | 5.8 |
| Materials | 10.5 | 22.8 |
| Property Trusts | 0.0 | 12.1 |
| Utilities | -- | -- |

## Growth of Emerging Companies Fund