

Seneca Australian Small Companies Fund



Monthly Update

As at 29 February 2024

APIR Code : NPW8333AU
ISIN Code : AU60NPW83339

Description

A portfolio of 20-50 sufficiently liquid, small and mid-cap ASX-listed companies, with a preference for high quality, profitable and growth focused businesses.

The fund is long-only, will not utilise any derivatives or leverage and will be able to hold up to 50% cash at the discretion of the manager.

Trustee & Investment Manager

Trustee

Newport Private Wealth Pty Ltd
ACN 166 931 960
AFSL 451820

Investment Manager

Seneca Financial Solutions Pty Ltd
ACN 610 665 711
AFSL 492686

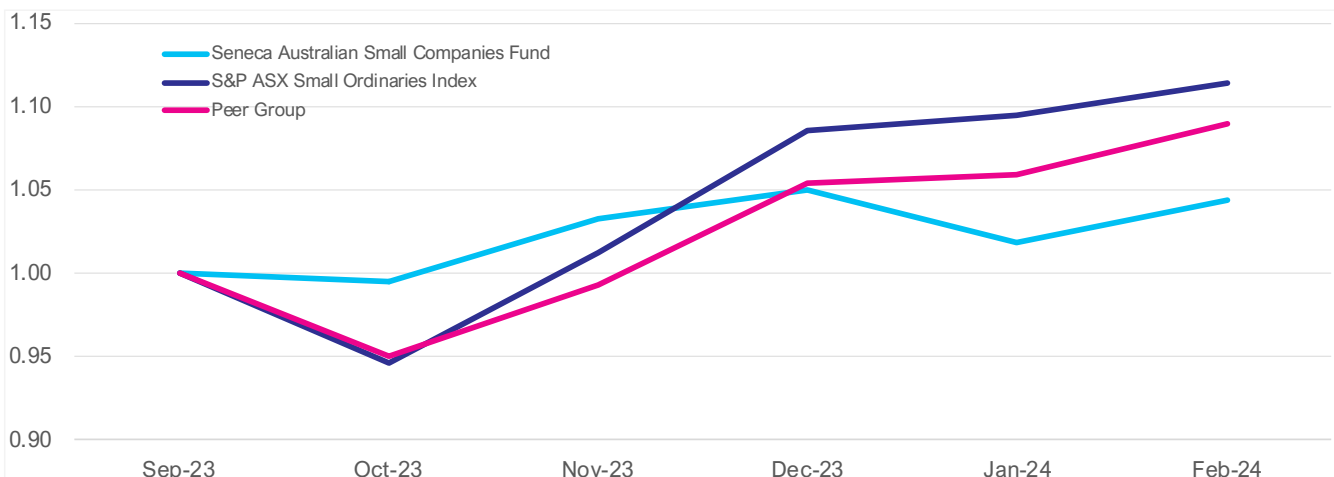
Portfolio Details

Portfolio Managers	Luke Laretive, Ben Richards
Inception Date	4 October 2023
Management Fee	0.00% p.a
Performance Fee	20% (over hurdle & HWM)
Hurdle Rate	RBA Cash
High Watermark	Yes
Benchmark	S&P/ASX Small Ordinaries Accumulation Index TR
Liquidity	Monthly
Min Investment	AUD \$100,000
Time Horizon	At least 5 years
Authorised Invest.	ASX listed securities
Number of Stocks	20-50
Cash Allocation	0-50%
Investor Eligibility	Wholesale Investors Only

Performance

	1m	3m	6m	1y	2y (p.a)	3y (p.a)	Inception (p.a)
Australian Small Companies Fund	2.57%	1.15%	-	-	-	-	-
S&P ASX Small Ordinaries Index	1.72%	10.05%	-	-	-	-	-
Excess return	0.85%	-8.90%	-	-	-	-	-

Cumulative Returns (since inception)



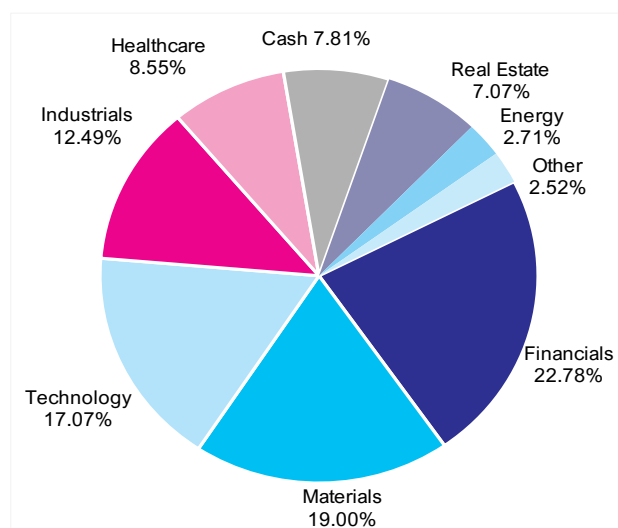
Peer Group = FE fundinfo ACS Equity Australia Small/Mid Cap sector

Please refer to important disclaimers on the final page

Top 5 Holdings (alphabetical)

FIDUCIAN GROUP	FID	Financials
GLOBAL DATA CENTRE GROUP	GDC	Technology
GQG PARTNERS INC	GQG	Financials
IMDEX LIMITED	IMD	Materials
NOBLEOAK LIFE LIMITED	NOL	Financials

Sector Allocation



Monthly Commentary

The Seneca Australian Small Companies fund returned +2.58% in February vs the benchmark return of +1.72%, generating outperformance of +0.86%.

February was a busy month for the investment team as we digested half-yearly reporting season results, earnings calls and management meetings from our portfolio companies as well as other companies of interest.

Overall, results and outlook statements from the reporting season tended to exceed market expectations, with small caps proving resilient and reflecting a robust domestic economy.

For us, reporting season was a tale of two halves with a very strong start partially offset by a couple of holdings pulling back in the last week of February.

Contributors and detractors

Contributing to performance was Imdex (IMD), a leading exploration drilling technology company servicing the mining sector. IMD shares advanced +25% for the month after H1 2024 results exceeded consensus expectations.

A primary driver of the strong result was Devico, a Norwegian company that Imdex acquired in January 2023. Devico was the number 2 player, and with Imdex being number 1, cross-selling opportunities are emerging as Imdex consolidates its leading market position globally.

We see Imdex as well placed to benefit from the ongoing strength in the gold price which is currently sitting at US\$2,180/oz and A\$3,290/oz at the time of writing, up +6% calendar year to date, and +19% since October. Amidst this backdrop, demand for Imdex tools, consumables and technology is likely to remain elevated.

Rather than speculate on underperforming gold miners who have been on the wrong side of industry-wide cost inflation, Imdex remains our preferred way to get broad-based exposure to increased activity in the gold sector.

Elsewhere, GQG Partners (GQG) reported strong earnings growth from continued net inflows into its global equity funds. GQG has benefitted from the strong performance of big tech companies such as US-listed Nvidia (NVDA) which it owns in its funds. After month end, GQG reported funds under management (FUM) of US\$137.7 billion as at 29 February 2024. For context, at the peak of Magellan's powers in June 2021, it had US\$85.5 billion under management.

The confluence of strong performance and affordably priced products should see GQG continue to rapidly grow FUM, earnings, and dividends. Shares currently yield >8%.

Software provider RPMGlobal (RUL) rallied along with software/technology equities globally. RUL published a result that saw EBITDA grow +89% for the half to \$10 million, aligning with our thesis that the transition from upfront perpetual license sales to recurring subscriptions will drive significant operating leverage and outsized earnings growth from predictable revenues.

DGL, a chemicals manufacturer and logistics provider, fell sharply during the month following the release of a significant 1H FY24 earnings miss, driven by the chemical manufacturing division.

Conditions deteriorated since the positive commentary released at DGL's AGM in November, particularly relating to reduced demand for crop protection products due to the forecast drought.

With commentary pointing towards full-year FY24 downgrades, we see too much uncertainty and cyclicity in the different moving parts within the business. We exited the position during the month, reallocating capital elsewhere.

Outlook

The RBA and the US Federal Reserve continue to perform a modern economic miracle – accelerating GDP growth, declining inflation and full employment. While we think unemployment may rise to c. 5% over the next 12 months, this is supportive of our 'peak interest rates' thesis.

Commodity prices are also assisting the RBA with the price of iron ore declining 11.65% during the month of February.

The Australian 10-year bond yields continued to moderate during February and the first two weeks of March, with a yield of 3.96% at the time of writing. Declining yields are supportive of continued growth across our Aggressive and Defensive Income Portfolios.

After reviewing the vast majority of company 1H'24 reports during February, we remain highly constructive on Australian Equities across both large-cap and especially, small-cap investment universes.

There is also a significant opportunity in Emerging Markets, where valuations are at multi-year lows. We are overweight in the Global Equity SMA.

Invest today from \$100,000

(smaller initial investment amounts can be accepted at trustee's discretion)

For more information call **(03) 8639 1600**

senecafs.com.au



Past performance is no indicator of future performance. Long term performance returns show the potential volatility of returns over time. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially.

This report provides general information only and does not take into account the investment objectives, financial circumstances or needs of any person. To the maximum extent permitted by law, Seneca Financial Solutions Pty Ltd, its directors and employees accept no liability for any loss or damage incurred as a result of any action taken or not taken on the basis of the information contained in the report or any omissions or errors within it. The Information Memorandum (IM) can be obtained by contacting Seneca. Potential investors should consider the IM before deciding whether to invest, or continue to invest, in the product. It is advisable that you obtain professional independent financial, legal and taxation advice before making any financial investment decision. Seneca does not guarantee the repayment of capital, the payment of income, or the performance of its investments.