Chris Adams, Portfolio Manager- SMID Performance Update

Our latest thoughts on the SMID

We are going to walk you through the latest positioning and our thoughts on the reporting season, whilst touching on performance.

In terms of positioning, not a whole lot has changed since our last update, we still have a growth at a reasonable price type of bias and we are still favoring quality over some less attractive business models. We still maintain that this positioning is where we think longer term outperformance is the most prominent. Obviously the last few months have not been helpful for this sort of approach but over the long-term investors tend to be rewarded from favoring growth and quality stocks.

We have now seen bond yields potentially starting to peak and we have seen expectations for cash rate peaks Come off almost 100 basis points over the past few months. What this is suggesting is that the duration unwind or the sell-off in growth stocks may potentially start to ease.

We do however maintain a balanced approach that ensures we are still well represented in some of the more traditional value and cyclical parts of the market. We are still prominent in discretionary retail and industrials like BlueScope and Cleanaway as well as commodities such as copper, lithium and nickel. Despite the recent rotation out of quality this has not stopped the flow of downgrades coming is lower quality companies. If anything, it is getting harder now for these companies as interest rates go up as they're earnings are under further pressure from lower demand as well as a lack of pricing power in an inflationary environment.

It is too early to make any definitive judgement yet regarding reporting season, but we've been in contact with some of our more cyclical type of companies that include Baby Bunting, Nick Scali and Beacon Lighting and nothing we've heard from these companies gives us a cause for concern. Having said that it is still early in the rising interest rate cycle and outlooks will be particularly interesting.

Overall markets are not stretched in valuation terms and if we do get a reasonably positive earnings reporting season, we think the domestic market is in pretty good shape.

Finally, on performance, the small mid cap part of the market has recovered somewhat over the last two months. The fund itself is still down about 16% calendar year to date, about 5% behind the small mid cap benchmark, which is down about down about 11%. The main difference has come from not owning energy stocks which remain difficult for us to own from an ESG perspective.

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