

**The objective** of the Market Matters Active Income SMA is to provide a high level of regular tax-effective income with lower volatility than the underlying share market. This is achieved by actively managing a portfolio of high yielding equities combined with ASX listed income securities that offer diversification benefits to both Australian equities and cash or term deposits.

## PORTFOLIO DETAILS

<b>Structure:</b>	Separately Management Account
<b>Benchmark:</b>	RBA Cash +4%
<b>Management Fee:</b>	0.70% incl GST
<b>Performance Fee:</b>	10% over benchmark with high water mark
<b>Platform:</b>	Praemium
<b>Portfolio Manager:</b>	James Gerrish

## MARKETS & POSITIONING

**The Market Matters Active Income portfolio returned 3.04% in August, outperforming its 0.34% benchmark while also outperforming the ASX200 Accumulation Index. The portfolio has returned 26.05% for the rolling 12-months.**

Australian equity markets experienced slightly lower levels of volatility than July, despite being the month of full-year reporting releases. From a bigger picture standpoint, earnings season was strong although companies became increasingly reluctant to provide guidance as a consequence of ongoing east coast lockdowns.

The Technology sector was the best performer driven by significant gains in Afterpay (APT), on the back of a takeover bid from US tech giant Square, and Wisetech, which had one of the strongest results of the period. Resource stocks were underperformers as the Delta strain cast a shadow over the market's confidence in global growth.

This also sent the Australia Dollar lower over the period while bond yields were very marginally higher. Global equity markets were strong in August generally outpacing the ASX, as improving

global economic data, strong corporate profit results during quarterly earnings in the US and a more dovish update from US Federal Reserve Chairman Jerome Powell underpinned the +3% gain from the S&P 500, recording its seventh month of consecutive gains in the process. Industrial stocks underwhelmed with the Dow Jones Industrial index up ~1% while the Technology centric NASDAQ rallied ~4%. Commodities were mostly softer through August, Crude Oil & Iron Ore the weakest links however we saw large gains in markets for thermal coal & uranium.

M&A has been another obvious tailwind for equities with completed deals for Bingo (BIN) & Vocus (VOC), and ongoing battle for Sydney Airports (SYD) with a consortium of overseas infrastructure investors & local superannuation funds making a play, while offers for embattled casino operator Crown (CWN) & software business Altium (ALU) were rebuffed. We expect more M&A to come as high levels of liquidity and cheap funding remain in play.

## PORTFOLIO STOCKS

Key contributors to portfolio performance during the month were Wealth Management business **IOOF (IFL)** which rallied into their result and while they beat our expectations at the top line, margins were lower than we hoped. The stock still managed a gain of 15% for the period although finished well below the monthly high.

Salary packing & car leasing business **Smart Group (SIQ)** also rallied more than 10% over the course of the month following their FY21 result. This is an inexpensive company that provides moderate growth and a sustainable fully franked dividend yield of ~6%, while enjoying next to no debt on their balance sheet.

**IAG Insurance (IAG)** has been a quiet achiever in the portfolio and while strong growth in dividends was not announced at this result, they are setting up well for this to be achieved in FY22, after a very tough few years for insurance generally.

Toll road operator **Transurban (TCL)** remains a core holding despite a challenging outlook in the short term. As normality resumes, toll revenue will increase. Alternatively, a cashed up global infrastructure investor may swoop first.

Hybrid securities continue to see yields compress with the typical margin on a longer dated bank note now ~2.60%, making it difficult to see value.

**BHP Billiton (BHP)** was the primary detractor of performance for the month and while the big Australian did trade ex-dividend, the share price closed over 20% below its July high. A combination of tumbling iron prices, a \$5.7bn investment in Potash, unification of its listing structure and BHP's planned petroleum demerger with **Woodside (WPL)** has hurt short term performance. We view their move towards 'future facing' commodities as overall positive.

We made no material changes to the portfolio during the month and retain an asset allocation mix of approximately 66% in equities, 18% in Hybrid Securities and 10% in Fixed Income

## PERFORMANCE

### POSITIONING

Number of Holdings	17
Current Cash Weighting	5.34%
Top 5 Positions (% of AUM)	37.14%
Top 10 Positions (% of AUM)	66.82%

### BREAKDOWN

PERIOD	RETURN	BENCHMARK
August	3.04%	0.34%
3 month	5.61%	1.02%
6 Month	13.65%	2.05%
1 Year	26.05%	4.13%
3 Year pa	10.16%	4.72%

### MONTHLY BREAKDOWN - ACTIVE INCOME

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	YTD
FY22	0.10%	3.04%											3.14%
FY21	1.16%	2.22%	-1.21%	-0.17%	9.29%	1.46%	0.47%	0.96%	2.73%	2.79%	1.91%	2.39%	24.00%
FY20	1.54%	-0.57%	2.90%	-4.54%	1.16%	-0.51%	1.78%	-3.97%	-15.53%	7.33%	6.24%	1.94%	-2.23%
FY19	1.35%	0.76%	-0.62%	-3.09%	-0.61%	-0.40%	2.42%	3.92%	-0.21%	1.17%	3.13%	1.37%	9.19%
CUMULATIVE													34.10%

## DISCLOSURE

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Performance of the Model Portfolio is based on a model portfolio and is gross of investment management, administration fees and transaction costs. The total return performance figures quoted are historical and include franking credits. Total returns assume the reinvestment of all portfolio income.

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