

**The objective** of the Market Matters Active High Conviction SMA is to provide an active exposure to Australian large-cap shares, with reduced volatility through stock selection, targeted hedging & managing cash. Returns will be achieved through a combination of capital appreciation and income with an overall objective of outperformance of the S&P/ASX 200 Accumulation Index over the medium term, (3 years) but with lower volatility.

## PORTFOLIO DETAILS

<b>Structure:</b>	Separately Management Account
<b>Benchmark:</b>	ASX 200 Accumulation Index
<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 & PERFORMANCE

**The Market Matters Active High Conviction portfolio returned 2.06% in February, largely in line with its benchmark of the S&P/ASX 200 Accumulation Index which added 2.14%. The portfolio has returned +11.49% for the rolling 12-months.**

PERIOD	PORTFOLIO	BENCHMARK	RELATIVE
February	2.06%	2.14%	-0.08%
3 month	0.64%	-1.72%	2.36%
6 Month	-0.40%	-4.15%	3.75%
1 Year	11.49%	10.19%	1.30%
2 Year	10.47%	8.32%	2.15%
3 Year pa	7.18%	8.43%	-1.25%

February was a better month for Australian equities with the ASX 200 adding 2.14% on an accumulation basis, outperforming most other global markets, particularly those with a technology focus such as the US which declined by ~5%. Geopolitical events overshadowed local reporting season, however, both aspects are highly relevant.

On the geopolitical front, Russia's invasion of Ukraine is a humanitarian disaster and our heart goes out to those facing this escalating conflict.

From a market's perspective, Russia & Ukraine are major producers of energy & other industrial & agricultural commodities and as conflict has risen, so too has the price of these important global inputs. While rising prices have had a positive influence on the shares of the companies that produce them, and this has been supportive of the portfolio overall, these rising prices at a time when inflation is already high is a key risk factor, which may ultimately prompt more aggressive tightening from central banks.

In terms of the domestic reporting season, overall, it was strong and on UBS numbers, beats have outnumbered misses 4:3 while we've seen overall earnings growth estimates upgraded by ~2%. Often in Australia, we see downgrades post reporting given analysts are too optimistic ahead of results. This is an impressive outcome given the complex set of conditions businesses faced over the period.

The Energy, Financials, and Media sectors were particularly strong, Energy due to price support however Financials & Media provide a positive read-through for the broader economic picture. Supply chains and labour shortages were an issue and most companies think these will persist, that's also feeding inflationary pressures however most companies are successfully passing through

increased costs to the end consumer, therefore maintaining margins. Cost control was also a highlight while we were positively surprised to see solid guidance for the FY.

## PORTFOLIO STOCKS

Number of Holdings	20
Estimated Yield	2.20%
Top 5 Positions (% of AUN)	32%
Top 10 Positions (% of AU)	56%

The **portfolio holds concentrated positions in 20 stocks** and applies specific stock & sector tilts with a focus on risk-adjusted returns over the medium term. It was a reasonable month from a return perspective with the portfolio up +2.06%, recouping over half of the losses from January. The past 6 months have been challenging and it's pleasing to see the portfolio outperform by 3.75% and a more modest 2.15% per annum over the past 2 years. Consistency in delivering returns in excess of the market with lower risk & volatility is the primary objective of this portfolio.

Commodity stocks were key contributors to performance while our technology holdings dragged. Our biggest error of judgment was towards the artificial intelligence business, **Appen (APX)** which cost the portfolio 76bps following a poor FY21 result and a change in their policy around forward guidance. By doing this, they all but confirmed the main bear thesis on the stock, which is a lack of earnings visibility.

A number of stocks we hold in this portfolio positively surprised us this reporting period, with investment platform **HUB24 (HUB)** top of the list. HUB delivered a very strong result along with upbeat guidance for FY22. Importantly, margins improved (not declined) like their competitors. The stock deserved its post results bump.

STOCK	CONTRIBUTION
Newcrest Mining (NCM)	1.53%
Whitehaven Coal (WHC)	1.03%
BHP Group (BHP)	0.44%
Oz Minerals (OZL)	0.37%
Alumina (AWC)	0.28%
STOCK	DETRACTION
Appen (APX)	-0.76%
Xero (XRO)	-0.74%
Altium (ALU)	-0.54%
Aristocrat Leisure (ALL)	-0.37%
Goodman Group (GMG)	-0.10%

**Commonwealth Bank (CBA)** was another standout result and it's not often we see CBA rally ~6% in one session. While their earnings were above our expectations by around 5%, the quality of the result was good and their positive forward-looking economic commentary was also a feature.

Overall, we were pleased with reporting season, content with the amount we learned from our companies, and we leave February in better shape than we entered.

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	YTD
<b>FY22</b>	0.25%	2.53%	0.78%	1.75%	-3.49%	2.72%	-4.00%	2.06%					<b>2.60%</b>
<b>FY21</b>	0.27%	4.94%	-4.10%	-1.07%	14.87%	1.34%	-0.50%	3.08%	0.66%	4.10%	1.17%	2.70%	<b>27.46%</b>
<b>FY20</b>	1.21%	-2.16%	3.75%	-1.55%	0.80%	0.34%	2.06%	-10.25%	-24.12%	12.66%	5.30%	2.02%	<b>-9.94%</b>
<b>FY19</b>	1.11%	1.64%	-0.77%	-2.16%	-1.22%	-1.94%	3.39%	4.98%	-1.00%	2.39%	1.72%	4.41%	<b>12.55%</b>
<b>CUMULATIVE</b>													<b>32.67%</b>

## DISCLOSURE

Market Matters, its employees, associates and / or contributors may hold stocks mentioned in this report.

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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