

Portfolio: Active High Conviction

JANUARY 2022

The objective of the Market Matters Active High Conviction Portfolio 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

Structure:	Separately Management Account
Benchmark:	ASX 200 Accumulation Index
Management Fee:	0.70% incl GST
Performance Fee:	10% over benchmark with high water mark
Platform:	Praemium
Portfolio Manager:	James Gerrish

MARKETS & PERFORMANCE

The Market Matters Active High Conviction portfolio returned -4.00% in January, outperforming its benchmark of the S&P/ASX 200 Accumulation Index which fell -6.35%. The portfolio has returned +12.61% for the rolling 12-months.

PERIOD	PORTFOLIO	BENCHMARK
January	-4.00%	-6.35%
3 month	-4.83%	-4.30%
6 Month	0.06%	-3.81%
1 Year	12.61%	9.44%
3 Year pa	8.19%	9.77%

January was a tough month for equities with the ASX 200 down 6.35% in aggregate, while taking the extremes, the pullback was more than 10% from monthly high to monthly low – putting the decline into correction territory. Higher valuation sectors such as Healthcare (-12%) & Information Technology (-18%) were weakest, more than 50% of IT stocks are now down 20% for the year which is a startling statistic.

The steep decline has made the quarterly range one of the largest in the last decade, especially if we remove the initial panic when COVID first entered our lives back in early 2020.

While the broader market was weak, one sector stood out on the upside with Energy defying the bearish fossil fuel rhetoric to rally nearly 8% in the month. While it is clear the world is moving towards renewables, and rightly so, this will take time and a lack of new investment when global demand is increasing is likely to support prices.

Higher energy prices along with COVID related supply chain issues have fed into rising inflation. This is now a concern for markets.

When inflation rises it takes interest rates along for the ride which flows down to multiple contraction / a drop in valuations i.e., people are prepared to pay less for a company's potential earnings because they can suddenly get an improving return on their risk-free funds at the bank – in other words, a major tailwind for stocks has become a headwind.

While this is not entirely new news, it is not lost on us that the world has been awash with effectively “free money” over recent years fuelling the almost incomprehensible appreciation of assets.

While we are not bearish equities, we believe 2022 will be a volatile year as this support is gradually normalised - active management will be of critical importance for portfolio returns.

Portfolio: Active High Conviction

JANUARY 2022

PORTFOLIO STOCKS

Number of Holdings	21
Estimated Yield	2.24%
Cash Weighting	3.85%
Top 5 Positions (% of AUM)	31%
Top 10 Positions (% of AUM)	54%

The **portfolio holds concentrated positions in 21 stocks** and applies specific stock & sector tilts with a focus on risk adjusted returns over the medium term.

It was a tough month from a return's perspective with the portfolio down 4%, the only silver lining being that we did +2.35% better than the market. That being said, we can't eat relative returns, nor do they put fuel in the 4wd that tows the caravan!

We took the opportunity to incrementally improve the quality of the portfolio during the month, adding to our recent addition in **Goodman Group (GMG)**, buying **Macquarie (MQG)** which had declined ~20%, using the sale proceeds from **QBE Insurance (QBE)** and a reduction in our large overweight in **BHP Group (BHP)** prior to the unification of shares.

Technology positions were among the weakest in January with **Altium (ALU)** accounting for -1.33% of the portfolio losses. While it is difficult to argue that Altium is 'cheap' this is a high-quality technology stock with real, sustainable & growing earnings, while their smarts are instrumental in the design of all types of electronic circuitry.

Unlike many unprofitable technology stocks that are priced solely on future promise, Altium is delivering earnings now that will likely grow strongly in the future. Equally, our holding in online accounting platform **Xero (XRO)** suffered during the month and is now back at levels that represent solid value for a business with such a strong competitive advantage.

STOCK	CONTRIBUTION
BHP Group (BHP)	1.04%
Santos (STO)	0.62%
Fortescue Metals (FMG)	0.62%
Virgin Money (VUK)	0.27%
Whitehaven Coal (WHC)	0.10%
STOCK	DETRACTION
Altium (ALU)	-1.13%
Newcrest (NCM)	-0.93%
Xero (XRO)	-0.89%
Oz Minerals (OZL)	-0.82%
CSL Limited (CSL)	-0.54%

BHP Billiton (BHP) was a strong relative and absolute performer ahead of their delisting in the UK. A significant index rebalance saw BHP move from a ~6% weighting to a ~10% weighting in the ASX 200 which underpinned outperformance. We used prevailing strength to reduce our large holding in the 'big Australian'.

While we think the easy money has been made in energy, we are still positive on the dynamics for the oil price over the next 12-18 months and we think our position in **Santos (STO)** will continue to perform. We intend to stay long Santos.

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	YTD
FY22	0.25%	2.53%	0.78%	1.75%	-3.49%	2.72%	-4.00%						0.54%
FY21	0.27%	4.94%	-4.10%	-1.07%	14.87%	1.34%	-0.50%	3.08%	0.66%	4.10%	1.17%	2.70%	27.46%
FY20	1.21%	-2.16%	3.75%	-1.55%	0.80%	0.34%	2.06%	-10.25%	-24.12%	12.66%	5.30%	2.02%	-9.94%
FY19	1.11%	1.64%	-0.77%	-2.16%	-1.22%	-1.94%	3.39%	4.98%	-1.00%	2.39%	1.72%	4.41%	12.55%
CUMULATIVE													30.61%

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.

DISCLAIMER

All figures contained from sources believed to be accurate. Market Matters does not make any representation of warranty as to the accuracy of the figures and disclaims any liability resulting from any inaccuracy.

Reports and other documents published on this website and email ('Reports') are authored by Market Matters and the reports represent the views of Market Matters.

The Reports contain general, as opposed to personal, advice. That means they are prepared for multiple distributions without consideration of your investment objectives, financial situation and needs ('Personal Circumstances'). Accordingly, any advice given is not a recommendation that a particular course of action is suitable for you and the advice is therefore not to be acted on as investment advice. You must assess whether or not any advice is appropriate for your Personal Circumstances before making any investment decisions. You can either make this assessment yourself, or if you require a personal recommendation, you can seek the assistance of a financial advisor.

Market Matters or its author(s) accepts no responsibility for any losses or damages resulting from decisions made from or because of information within this publication. Investing and trading in financial products are always risky, so you should do your own research before buying or selling a financial product. The Reports are published by Market Matters in good faith based on the facts known to it at the time of their preparation and do not purport to contain all relevant information with respect to the financial products to which they relate. Although the Reports are based on information obtained from sources believed to be reliable, Market Matters does not make any representation or warranty that they are accurate, complete or up to date and Market Matters accepts no obligation to correct or update the information or opinions in the Reports. Market Matters may publish content sourced from external content providers.

If you rely on a Report, you do so at your own risk. Past performance is not an indication of future performance. Any projections are estimates only and may not be realised in the future. Except to the extent that liability under any law cannot be excluded, Market Matters disclaims liability for all loss or damage arising as a result of any opinion, advice, recommendation, representation or information expressly or impliedly published in or in relation to this report notwithstanding any error or omission including negligence.