

Portfolio: Active High Conviction SMA

NOVEMBER 2021

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

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 fell by -3.49% in November, underperforming its benchmark of the S&P/ASX 200 Accumulation Index which fell by -0.54%. The portfolio has returned 15.16% for the rolling 12-months.

PERIOD	PORTFOLIO	BENCHMARK
November	-3.49%	-0.54%
3 month	-1.03%	-2.48%
6 Month	4.48%	3.35%
1 Year	15.16%	15.48%
3 Year pa	9.20%	12.56%

A weaker month for Australian and international equity markets in November as concerns around a new variant of COVID-19 at a time when central banks globally transitioned towards a tightening bias had investors on edge.

The US domiciled S&P 500 fell by ~1% while other global markets also struggled. Stark underperformance in October by Australian equities reversed in November with some slight outperformance relative to global peers, although the quantum of outperformance only partially offset the prior months lag.

1-year performance numbers took a big hit this month simply because last November (2020) was an incredibly strong period for stocks with the ASX200 up ~11% while the Market Matters Portfolio added more than ~14%. Now we've cycled out of that extraordinary period, performance will be more indicative of what should be expected going forward.

Volatility returned in November, particularly in some parts of the market, the small ordinaries experiencing a ~7% intra-month swing while at a sector level, there was significant divergence between the likes of Energy & Financials which declined by 9.45% & 7.56% respectively and Materials which rallied 5.84%.

While the effectiveness of the current suite of vaccines will be critical for the markets near term prospects, we heard upbeat commentary from most Australian companies during November AGM season.

Domestic economic conditions remain the best we have seen for over a decade and as the economy continues to build momentum, we believe the RBA will be forced to act sooner than current guidance implies and begin to raise interest rates. Banks have started this process already in response to falling margins with an increase to fixed rate mortgages which should help to stabilise a hot housing market.

The relative performance of the portfolio was weak in November and materially so with underperformance of 2.95%. That's a disappointing outcome after a period of strong relative gains. Our exposure to Energy & Financials hurt our short-term numbers however ultimately, we like the composition of the portfolio having made several changes at the stock level during the month, although we retained our sector biases.

This positioning has us more heavily skewed towards resources and IT, the former a key bet into 2022 as inflationary pressures build plus of course the demand for key commodities will rise as the world transitions towards more renewables. Our skew towards IT is more reflective of our views around individual companies as higher global interest rates will provide more of a headwind to these highly priced stocks – a key risk we are acutely conscious of.

PORTFOLIO STOCKS

Number of Holdings	21
Estimated Yield	2.49%
Top 5 Positions (% of AUM)	29%
Top 10 Positions (% of AUM)	53%

The portfolio holds concentrated positions in 21 large cap Australian stocks targeting capital growth and some yield.

It was a disappointing month for the portfolio after a very positive October that saw the portfolio up strongly in a weak market. That wasn't the case in November with the market down, but the portfolio down by more.

During the month, five stocks took more than 0.50% from portfolio performance which is high. Our two banking positions suffered as the sector battled with falling margins, rising short term interest rates relative to long term interest rates the key reason. We continued to hold **Commonwealth Bank (CBA)** however we transitioned out of **National Bank (NAB)** into **Bank of QLD (BOQ)** during the period. We believe this margin pressure will ease as banks raise rates.

A falling oil price hurt **Santos (STO)** while the market showed extreme scepticism towards **Virgin Money's (VUK)** updated digitization strategy which requires additional investment.

Artificial Intelligence (AI) business **Appen (APX)** was a key disappointment during the month, a new portfolio position that fell soon after purchase. Analysts at Macquarie raised concerns about their full year guidance – something the company is yet to respond to.

On the positive side, **Altium (ALU)** rallied ~12% for the month, contributing 0.74% to portfolio performance.

MONTHLY PERFORMANCE

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	YTD
FY22	0.25%	2.53%	0.78%	1.75%	-3.49%								1.82%
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													31.89%

The confidence shown by management to decline the offer from US based Autodesk was rewarded, with shares now trading ~10% above the bid price.

ATTRIBUTION

STOCK	CONTRIBUTION
Altium (ALU)	0.74%
BHP Billiton (BHP)	0.47%
IGO Limited (IGO)	0.40%
Oz Minerals (OZL)	0.19%
CSL Limited (CSL)	0.13%
STOCK	DETRACTION
Bank of QLD (BOQ)	-0.64%
Appen (APX)	-0.63%
Virgin Money (VUK)	-0.58%
Commonwealth Bank (CBA)	-0.55%
Santos (STO)	-0.50%

We also enjoyed a strong rally from **IGO Limited (IGO)** with the Nickel & Lithium company being muted as a likely buyer of **Western Areas (WSA)**. We used prevailing strength to sell the stock and will await more information on this potential tie up while we have also become more cautious on Lithium prices in the short term.

Fortescue Metals (FMG) was added to the portfolio during the month, a stock we haven't held for some time. Since August, the Iron Ore price had effectively halved prompted a ~50% decline in the FMG share price. While Chinese growth has cooled and therefore demand for Iron Ore has too, commodities tend to be cyclical with levels around \$US90/tonne consistent with a pullback in production from higher cost mines. We view this as a shorter-term position.

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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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