

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 returned 1.75% in October, outperforming its benchmark of the S&P/ASX 200 Accumulation Index which fell by -0.10%. The portfolio has returned 37.06% for the rolling 12-months.

PERIOD	PORTFOLIO	BENCHMARK
October	1.75%	-0.10%
3 month	5.14%	0.51%
6 Month	9.51%	6.34%
1 Year	37.06%	27.96%
3 Year pa	10.05%	11.92%

October showed general optimism for global equity markets with the US domiciled S&P 500 advancing by 7% while other global markets were strong. In comparison, the Australian market didn't participate in the upside with the ASX 200 falling by 0.10% - repricing of interest rates the main factor for the underperformance.

Bond markets were the tail that wagged the equity market dog with higher inflation data prompting a significant shift in bond yields, particularly at the short end of the curve.

The Australian 3-year yield moved from 0.73% to 1.22% while the 10-year yield rose 59bps to 2.08%, which contrasts to the US where yields increased by less than half that amount. This repricing of higher inflation and tighter monetary policy was significant and has since put enough pressure on the RBA to walk away from their policy of yield curve control. In other words, the RBA was trying to artificially compress shorter dated interest rates but failed miserably.

At Market Matters, we have held the view that inflation and therefore interest rates would move higher at a quicker pace than the market was positioned for, and October saw that play out. In an environment like this we believe it's important to skew portfolios towards inflation hedges, energy, commodities & companies that have pricing power in their given sectors. This positioning has served us well in recent months.

The relative performance of the portfolio was strong in October and it's once again pleasing to provide positive returns in a market that fell, albeit only marginally.

Looking ahead, slowing Chinese growth, supply chain bottlenecks & global energy shortages create elevated risk as we move into early November.

PORTFOLIO STOCKS

Number of Holdings	20
Estimated Yield	2.12%
Top 5 Positions (% of AUM)	28%
Top 10 Positions (% of AUM)	53%

The **portfolio holds concentrated positions in 20 stocks** and looking at the contributors & detractors of performance during the month, some obvious trends become clear.

Contributors were far more evenly spread than detractors, with ~20% of the portfolio adding more than 30bps to portfolio returns while only one position fell by that quantum.

Our more controversial position in **Whitehaven Coal (WHC)** was the main detractor as Chinese authorities moved with intent to stop the recent & rapid price appreciation in Coal markets, and their intervention has worked with blistering success to date.

While markets will over time be dictated by supply & demand dynamics, and our thesis for owning this stock that we discussed last month remains intact, the pullback has been aggressive and highlights why being active in managing position sizes into strength is an important element in our process. Last month we trimmed the position into strength, we now have the mindset to increase its weighting into weakness.

Investment platform **HUB24 (HUB)** launched a bid for **Class (CL1)** during the month, and while the bid was at a large premium (72%) and the deal likely to be dilutive in the short term, we think the medium-term strategic rationale makes total sense, and acquiring scale in a competitive market is key.

STOCK	CONTRIBUTION
Oz Minerals (OZL)	0.45%
Xero (XRO)	0.44%
Newcrest Mining (NCM)	0.40%
NRW Holdings (NWH)	0.35%
HUB24 (HUB)	0.34%

STOCK	DETRACTION
Whitehaven Coal (WHC)	-0.77%
Qantas (QAN)	-0.22%
Zip Co (Z1P)	-0.18%
Alumina (AWC)	-0.16%
BHP Billiton (BHP)	-0.13%

Towards the end of the month, we cut positions in **Crown Resorts (CWN)** following the findings of the Royal Commission and subsequent share price bounce & **IAG Insurance (IAG)** where growth is proving illusive, switching funds into **Resmed (RMD)** following a ~20% correction & **QBE Insurance (QBE)**.

Welcome to the growing number of investors backing this portfolio and reading this monthly update, perhaps for the first time.

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	YTD
FY22	0.25%	2.53%	0.78%	1.75%									5.31%
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													35.38%

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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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