

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 0.78% in August, outperforming its benchmark of the S&P/ASX 200 Accumulation Index which fell by -1.85%. The portfolio has returned 33.27% for the rolling 12-months.

PERIOD	PORTFOLIO	BENCHMARK
September	0.78%	-1.85%
3 month	3.59%	1.71%
6 Month	12.04%	10.14%
1 Year	33.27%	30.56%
3 Year pa	8.62%	9.65%

September proved a difficult month for equity markets living up to usual seasonal weakness with the ASX 200 down by -2.59% in absolute terms and -1.85% on an accumulation basis, although that performance was better than other global markets with the S&P 500 down by -4.79%.

The Energy sector was the best performer driven by a resurgence in global energy markets on tightening supply, the sector up an impressive 14.9% in the month. Iron Ore however fell heavily which dragged the material sector off by -11.36%.

Volatility was noticeably higher during the month which has prompted some to question the sustainability of the post covid rally in stocks. At this stage, we view the recent weakness as simply a healthy consolidation of a strong trend and expect equities to move higher for the remainder of the year and into 2022.

The relative performance of the portfolio was strong in September and it's pleasing to provide positive returns in a soft market.

Divergence across sectors became more evident during September on the back of a number of changing market dynamics.

Interest rates are important and while Central Banks remain on the sidelines, bond markets are pricing in higher rates as inflation builds, the US 10-year bond yield moving from 1.3% to 1.5% over the course of the month.

China was also a key focus with concern around their property market following the pending collapse of Evergrande, one of the largest property developers in China. While we believe they'll contain this situation, weakness in Chinese property will have a negative impact on the consumption of some key commodities whilst also putting a dampener on global growth. This is a key area of risk as we move towards Christmas.

PORTFOLIO STOCKS

Number of Holdings	20
Estimated Yield	2.26%
Top 5 Positions (% of AUM)	29%
Top 10 Positions (% of AUM)	49%

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

As global decarbonisation becomes increasingly important, traditional energy sources have had supply curtailed at a time when demand has accelerated. While we firmly believe in backing future facing commodities, that doesn't preclude us from investing in shorter dated themes & during the month **Whitehaven Coal (WHC)** & **Santos (STO)** contributed to portfolio outperformance.

As confidence builds around re-opening, and NSW pushes hard for the resumption of travel, **Qantas (QAN)** shares rallied during the month. We believe that aggressive restructuring during the pandemic will ensure Qantas is more profitable in the future than they were in the past, while the short-term bump from pent up demand will likely drive near term performance.

Higher bond yields are a negative influence on growth stocks and our positions in accounting software business **Xero (XRO)** and global

healthcare company **CSL Limited (CSL)** fell during the month. We remain bullish on both however our view that interest rates have seen their low and will rise from here means you should expect the portfolio to have a lower allocation to higher value growth versus lower priced cyclicals from here.

STOCK	CONTRIBUTION
Whitehaven Coal (WHC)	1.71%
Santos (STO)	0.94%
Altium (ALU)	0.78%
Qantas (QAN)	0.52%
A2 Milk (A2M)	0.30%

STOCK	DETRACTION
BHP Billiton (BHP)	-0.70%
Xero (XRO)	-0.62%
Newcrest Mining (NCM)	-0.58%
NRW Holdings (NWH)	-0.46%
CSL Limited (CSL)	-0.33%

We took one new position in the portfolio during the month, increasing our exposure to commodities that have supply side issues and therefore momentum in underlying commodity price. We bought **Alumina (AWC)** while we also added to an existing position in Lithium & Nickel company **Independence Group (IGO)**. We remain comfortable with our current tilt towards commodities while we continue to prefer cyclical value over and above expensive growth.

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	YTD
FY22	0.25%	2.53%	0.78%										3.56%
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													33.63%

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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