

Portfolio: Active Income SMA

DECEMBER 2021

The objective of the Market Matters Active Income SMA is to provide a high level of regular tax-effective income with lower volatility than the underlying share market. This is achieved by actively managing a portfolio of high yielding equities combined with ASX listed income securities that offer diversification benefits to both Australian equities and cash or term deposits.

PORTFOLIO DETAILS

Structure:	Separately Management Account
Benchmark:	RBA Cash +4%
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 Income portfolio added +3.01% in December, outperforming its 0.34% benchmark while also outperforming the ASX200 Accumulation Index which added +2.75%. The portfolio has returned 16.02% for the rolling 12-months.

PERIOD	PORTFOLIO	BENCHMARK
December	3.01%	0.34%
3 month	0.05%	1.02%
6 Month	3.80%	2.05%
1 Year	16.02%	4.10%
3 Year pa	12.16%	4.49%

December is traditionally positive for equity markets with specific focus on the Christmas rally that takes place more often than not, and while it was very late turning up this year, it did arrive pushing the market higher late in the month. The ASX 200 finished up +2.75% on an accumulation basis bringing the quarterly performance into positive territory.

This month we saw Materials bounce back ~6% after recent weakness however the technology stocks remained under pressure (down~5%) as a

result of rising interest rates.

Looking internationally, US stocks were stronger than our own while the Australian Dollar ended a very volatile quarter higher, settling just shy of 73c.

Sector rotation has been a dominant theme over the past year or so and it's a dynamic that is likely to persist. Significant changes to expectations around economic growth, inflation and subsequently monetary policy and the markets interpretation of this has a profound influence of market segments.

While Information Technology has been a market leader in recent years as growth was hard to find, we are now seeing more cyclical parts of the market show growth reducing the relative appeal of this more expensive subset.

Alternatively, the outlook for resources & energy in our view are very strong. In an environment of higher inflation at a time when a large energy transition towards renewables is taking place underpins demand for raw materials and prices should rise.

We believe these are standout sectors for the remainder of the year.

PORTFOLIO STOCKS

Number of Holdings	19
Estimated Yield	4.86%
Top 5 Positions (% of AUM)	36%
Top 10 Positions (% of AUM)	63%

The portfolio holds concentrated positions in 19 securities with a current tilt towards Australian equities. It's important to note that this changes over time with periods where more defensive assets dominate. Currently, the portfolio is ~61% domestic shares, 28% fixed income, ~6% in listed property with the balance in cash.

The portfolio had a strong month in both absolute and relative terms recovering from a poor November. That said, there were some pain points with the most obvious being **Magellan Financial Group (MFG)** which lost a large mandate and took 1.10% from our portfolio returns.

While we clearly bought this stock too early, we have a small weighting (~3% at initiation) with the bias to add to the position rather than liquidate. We believe the market has already priced in further outflows and fee compression; the former is likely overblown while we see the main risk from the latter given MFG's high fee model.

Metcash (MTS) released 1H results during the month that were strong, hardware driving growth while their IGA business is starting to fulfil it's potential – we remain bullish.

POSITION	CONTRIBUTION
Metcash (MTS)	0.82%
Commonwealth Bank (CBA)	0.62%
BHP Billiton (BHP)	0.49%
AGL Energy (AGL)	0.44%
National Storage REIT (NSR)	0.40%
STOCK	DETRACTION
Magellan Financial (MFG)	-1.10%
IOOF (IFL)	-0.11%
Crown Hybrid (CWNHB)	0.01%
XARO	0.02%
CBA Hybrid (CBAPG)	0.03%

We added a fairly controversial stock into the portfolio in November, buying **AGL Energy (AGL)**. While it's a dangerous play to buy stocks in defined downtrends, we believe they simply got too cheap to ignore based on their assets (not earnings).

AGL is one of Australia's largest vertically integrated utility businesses however what many don't appreciate is that they also hold the mantle as our largest private owner, operator and developer of renewable generation assets.

Given well documented challenges, AGL effectively went from a stable, predictable business to anything but, however we now believe there is growing corporate appeal in energy retailing and AGL should move higher as a consequence.

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	YTD
FY22	0.10%	3.04%	0.58%	-1.58%	-1.31%	3.01%							3.84%
FY21	1.16%	2.22%	-1.21%	-0.17%	9.29%	1.46%	0.47%	0.96%	2.73%	2.79%	1.91%	2.39%	24.00%
FY20	1.54%	-0.57%	2.90%	-4.54%	1.16%	-0.51%	1.78%	-3.97%	-15.53%	7.33%	6.24%	1.94%	-2.23%
FY19	1.35%	0.76%	-0.62%	-3.09%	-0.61%	-0.40%	2.42%	3.92%	-0.21%	1.17%	3.13%	1.37%	9.19%
CUMULATIVE													34.80%

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.