

Portfolio: Active Income SMA

FEBRUARY 2022

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 +4.05% in February, outperforming its 0.31% benchmark while also outperforming the ASX200 Accumulation Index which added +2.14%. The portfolio has returned 16.10% for the rolling 12-months.

PERIOD	PORTFOLIO	BENCHMARK	RELATIVE
February	4.05%	0.31%	3.74%
3 month	4.56%	1.00%	3.56%
6 Month	2.15%	2.01%	0.14%
1 Year	16.10%	4.10%	12.00%
2 Year	14.34%	4.16%	10.18%
3 Year pa	10.40%	4.42%	5.98%

February was a better month for Australian equities with the ASX 200 adding 2.14% on an accumulation basis, outperforming most other global markets, particularly those with a technology focus such as the US which declined by ~5%. Geopolitical events overshadowed local reporting season, however, both aspects are highly relevant.

On the geopolitical front, Russia's invasion of Ukraine is a humanitarian disaster and our heart goes out to those facing this escalating conflict.

From a market's perspective, Russia & Ukraine are major producers of energy & other industrial & agricultural commodities and as conflict has risen, so too has the price of these important global inputs. While rising prices have had a positive influence on the shares of the companies that produce them, and this has been supportive of the portfolio overall, these rising prices at a time when inflation is already high is a key risk factor, which may ultimately prompt more aggressive tightening from central banks.

In terms of the domestic reporting season, overall, it was strong and on UBS numbers, beats have outnumbered misses 4:3 while we've seen overall earnings growth estimates upgraded by ~2%. Often in Australia, we see downgrades post reporting given analysts are too optimistic ahead of results. This is an impressive outcome given the complex set of conditions businesses faced over the period.

The Energy, Financials, and Media sectors were particularly strong, Energy due to price support however Financials & Media provide a positive read-through for the broader economic picture. Supply chains and labour shortages were an issue and most companies think these will persist, that's also feeding inflationary pressures however most companies are successfully passing through increased costs to the end consumer, therefore maintaining margins. Cost control was also a

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highlight while we were positively surprised to see solid guidance for the FY.

PORTFOLIO STOCKS

Number of Holdings	19
Estimated Yield	4.53%
Top 5 Positions (% of AUM)	34%
Top 10 Positions (% of AUM)	60%

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, ~5% in listed property with the balance in cash.

The portfolio had a very strong month in both absolute and relative terms and is above benchmark on all time frames. This is important when preservation of capital and income are the portfolio's key priorities. Delivering 14.34% per annum over the past 2 years & 10.40% per annum over the past 3 years is pleasing, however, this is also achieved with ~50% less volatility, than the market.

Car leasing & salary packaging business **Smart Group (SIQ)** was best on ground for the month, delivering a great scorecard and announcing a large special dividend, equivalent to over 9% yield for the half grossed for franking.

AGL Energy (AGL) has been in the headlines as a consortium led by Atlassian founder Mike Cannon-Brookes attempted a low premium takeover. While we support their rationale, we believe the company is worth more than the \$7.50 that was initially offered (before being increased to \$8.25 & rejected)

POSITION	CONTRIBUTION
Smart Group (SIQ)	1.17%
BHP Group (BHP)	0.75%
IOOF (IFL)	0.37%
AGL Energy (AGL)	0.34%
Bank of QLD (BOQ)	0.31%
STOCK	DETRACTION
G8 Education (GEM)	-0.09%
XARO	-0.08%
NAB Hybrid (NABPF)	-0.01%
CBA Hybrid (CBAPG)	0.01%
Metrics (MXT)	0.04%

We added a new deep-value turnaround story to the portfolio during the month in child care operator, G8 Education (GEM). Childcare has been a very challenging business over the last 2 years and being one of the largest operators in the space, G8 has certainly felt the brunt of these challenges. In February, they reported FY21 results that were around 5% better than expectations and in MM's view, show signs the turnaround is gaining traction. They also announced a share buy-back, reinstated the dividend and announced a 6% fee increase to help boost margins.

	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%	-2.45%	4.05%					5.44%
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													36.40%

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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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