The objective of the Market Matters Active Income Portfolio 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 fell -2.45% in January, underperforming its +0.34% benchmark, although the ASX200 Accumulation Index fell -6.35%. The portfolio has returned 12.65% for the rolling 12-months.

PERIOD	PORTFOLIO	BENCHMARK
January	-2.45%	0.34%
3 month	-0.83%	1.02%
6 Month	1.16%	2.05%
1 Year	12.65%	4.10%
3 Year pa	10.35%	4.46%

January was a tough month for equities with the ASX 200 down 6.35% in aggregate, while taking the extremes, the pullback was more than 10% from monthly high to monthly low – putting the decline into correction territory.

Higher valuation sectors such as Healthcare (-12%) & Information Technology (-18%) were weakest, more than 50% of IT stocks are now down 20% for the year which is a startling statistic.

The steep decline has made the quarterly range one of the largest in the last decade, especially if we remove the initial panic when COVID first entered our lives back in early 2020.

While the broader market was weak, one sector stood out on the upside with Energy defying the bearish fossil fuel rhetoric to rally nearly 8% in the month. While it is clear the world is moving towards renewables, and rightly so, this will take time and a lack of new investment when global demand is increasing is likely to support prices.

Higher energy prices along with COVID related supply chain issues have fed into rising inflation. This is now a concern for markets.

When inflation rises it takes interest rates along for the ride which flows down to multiple contraction / a drop in valuations i.e., people are prepared to pay less for a company's potential earnings because they can suddenly get an improving return on their risk-free funds at the bank – in other words, a major tailwind for stocks has become a headwind.

While this is not entirely new news, it is not lost on us that the world has been awash with effectively "free money" over recent years fuelling the almost incomprehensible appreciation of assets. While we are not bearish equities, we believe 2022 will be a volatile year as this support is gradually normalised - active management will be of critical importance for portfolio returns.

MARKET MATTERS

MONTHLY

Portfolio: Active Income

JANUARY 2022

PORTFOLIO STOCKS

Number of Holdings	19
Estimated Yield	4.95%
Top 5 Positions (% of AUM)	35%
Top 10 Positions (% of AUM)	62%

The **portfolio holds concentrated positions in 19 securities,** delivering an expected yield of 4.95%, a large part of which is franked.

While the portfolio was down in January with performance below its absolute return benchmark, the level of drawdown relative to a -6.35% decline by the ASX highlights the defensive nature of the portfolio.

As interest rate expectations have firmed, the expected yield from our allocation to **floating rate hybrids** has increased. Major bank tier 1 hybrids continue to offer reasonable value paying a yield to first call date of almost 4% grossed for franking.

Metcash (MTS) was our weakest portfolio holding during January, accounting for -0.76% of portfolio performance as supply chain bottlenecks hurt the sector. We remain very comfortable holders of Metcash and see the pullback to ~$4 as a strong buying opportunity.

BHP Billiton (BHP) was a strong relative and absolute performer during the month adding 1.08% to portfolio performance ahead of their delisting in the UK. A significant index rebalance saw BHP move from a ~6% weighting to a ~10% weighting in the ASX 200 which underpinned outperformance.

The portfolio also enjoyed a strong month from **AGL Energy (AGL)** which has increased by ~40% since we initiated the holding. While we are cognisant of the challenges they face from an earnings perspective, the value of their underlying asset base remains attractive.

POSITION	CONTRIBUTION
BHP Group (BHP)	1.08%
AGL Energy (AGL)	0.55%
Alumina (AWC)	0.04%
Crown Hybrid (CWNHB)	0.00%
NAB Hybrid (NABPF)	-0.01%
STOCK	**DETRACTION**
Metcash (MTS)	-0.76%
Smart Group (SIQ)	-0.56%
Commonwealth Bank (CBA)	-0.56%
National Storage (NSR)	-0.44%
Bank of QLD (BOQ)	-0.38%

During the month, **Insignia Financial Group (IFL)** reported a better than feared quarterly trading update which showed early signs that their turnaround is working. While outflows continued and there are some swings and roundabouts in terms of adviser numbers declining again, the rate of outflows slowed markedly and there are positive signs emerging in the platforms and asset management side of the business.

Based on current consensus earnings, IFL is trading on just ~9x FY23 earnings with those earnings expected to grow by mid to high single digits with a dividend yield of 6.85% in FY22 jumping to 7.69% fully franked in FY23.

	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%						**1.39%**
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													**32.35%**

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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