

Portfolio: Active Income

MARCH 2022

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

Portfolio Name	Active Income
Structure	Separately Managed Account (SMA)
Benchmark	RBA Cash Rate +4%
Platform Availability	Praemium & OpenInvest
Estimated fee	1.2%
Portfolio Manager	James Gerrish

MARKETS & PERFORMANCE

The Market Matters Active Income portfolio added +4.25% in March, outperforming its 0.33% benchmark. The portfolio has returned 17.82% for the rolling 12-months, 27.06% pa over 2 years & 12.02% pa over 3 years.

PERIOD	PORTFOLIO	BENCHMARK	RELATIVE
March	4.25%	0.33%	3.92%
3 month	5.82%	0.99%	4.83%
6 Month	5.87%	2.01%	3.86%
1 Year	17.82%	4.14%	13.68%
2 Year	27.06%	4.61%	22.45%
3 Year pa	12.02%	4.42%	7.60%

March was a strong month for Australian equities, the strongest March since 2009 with the ASX 200 adding +6.89% on an accumulation basis.

It's not often that the Utilities sector rallies 9.04% in a month, particularly against a backdrop where interest rates have risen so sharply. Energy +8.58% & Materials were also strong while Healthcare's +1.20% move was the weakest sector performance.

Our market also enjoyed strong outperformance versus our overseas peers supported by a broadly positive domestic reporting season in February and higher exposure in the large-cap index toward later-cycle industry sectors such as retail banks, supermarkets, and resources.

Commodities & Energy remained front & centre. Having already started to rally on supply chain issues & inflationary expectations, the ongoing conflict in Ukraine, the world's largest exporter of grain by one of the largest global energy producers continued to fuel a fire that was already burning bright.

Inflation often provides the death knell for bull markets and it certainly felt that way back in January, with the majority of global equity markets experiencing their worst monthly decline since March 2020.

However, February started the recovery that continued into March and now we find equity markets back near all-time highs even though interest rates have risen sharply.

While this has been one of the more challenging periods in recent history, we're pleased to say that the portfolio has handled the volatility well, and we believe our active strategy is very well

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positioned for the likely volatility as the year progresses.

PORTFOLIO STOCKS

Number of Holdings	19
Estimated Yield	4.42%
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. The portfolio had a very strong month in both absolute and relative terms and is significantly above benchmark on all time frames.

However, not all positions are performing well and our weakest holding is in **Magellan Financial Group (MFG)**. While performance and fund outflows remain a problem, recent corporate activity in the sector could be an indication of what's to come. GQG Partners (GQG) is a global fund manager that listed last year on the ASX and has a current market capitalisation of \$4bn managing ~\$90bn in assets. MFG has a market capitalisation of \$3.1bn managing \$77bn. We can't help but think a scrip deal here from GQG could be a good outcome for MFG's current woes, creating a significantly more diversified global fund manager, with scale. We continue to hold MFG for now.

On the other side of the coin, the infrastructure company **APA Group (APA)** was a strong performer, its defensive qualities being sort after

while the proceeds from the sale of Sydney Airports landing in investor accounts could have provided another supportive tailwind.

POSITION	CONTRIBUTION
BHP Group (BHP)	1.01%
Commonwealth Bank (CBA)	0.97%
Smart Group (SIQ)	0.84%
Metcash (MTS)	0.60%
Bank of QLD (BOQ)	0.58%
STOCK	DETRACTION
Magellan Financial (MFG)	-0.40%
G8 Education (GEM)	-0.18%
ANZ Hybrid (ANZPI)	-0.04%
Metrics (MXT)	-0.01%
NAB Hybrid (NABPF)	0.00%

The portfolio holds a position in the **Crown Hybrid (CWNHB)** where-by the interest has been deferred as CWN has breached a leverage ratio. While not a positive development, the dividend payments accrue and earn interest and will likely be paid at a later date. More broadly, if the Blackstone bid succeeds, they have a decision to make. Redeem the Hybrids paying back the face value plus any accrued interest or leave the Hybrids outstanding. If they leave them outstanding, there is a step up in the margin from bank bills + 4% to bank bills + 9% which is very unappealing for Blackstone. Our view as a holder of these securities is that the interest will be deferred until the change of control event occurs, and at that time, the notes will be redeemed, and outstanding interest paid.

	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%	4.25%				9.69%
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													40.65%

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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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