MARKET MATTERS

MONTHLY

Portfolio: Active Income SMA

NOVEMBER 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 fell -1.31% in November, underperforming its 0.33% benchmark while also underperforming the ASX200 Accumulation Index which fell -0.54%. The portfolio has returned 14.27% for the rolling 12-months.

PERIOD	PORTFOLIO	BENCHMARK
November	-1.31%	0.33%
3 month	-2.30%	1.01%
6 Month	3.18%	2.04%
1 Year	14.27%	4.10%
3 Year pa	10.90%	4.56%

A weaker month for Australian and international equity markets in November as concerns around a new variant of COVID-19 at a time when central banks globally transitioned towards a tightening bias had investors on edge.

The US domiciled S&P 500 fell by ~1% while other global markets also struggled. Stark underperformance in October by Australian equities reversed in November with some slight outperformance relative to global peers, although the quantum of outperformance only partially offset the prior months lag.

1-year performance numbers took a big hit this month simply because last November (2020) was an incredibly strong period for stocks with the ASX200 up ~11% while the Market Matters Income Portfolio added more than ~9%. Now we've cycled out of that extraordinary period, performance will be more indicative of what should be expected going forward.

Volatility returned in November, particularly in some parts of the market, the small ordinaries experiencing a ~7% intra-month swing while at a sector level, there was significant divergence between the likes of Energy & Financials which declined by 9.45% & 7.56% respectively and Materials which rallied 5.84%.

While the effectiveness of the current suite of vaccines will be critical for the markets near term prospects, we heard upbeat commentary from most Australian companies during November AGM season.

Domestic economic conditions remain the best we have seen for over a decade and as the economy continues to build momentum, we believe the RBA will be forced to act sooner than current guidance implies and begin to raise interest rates. Banks have started this process already in response to falling margins with an increase to fixed rate mortgages which should help to stabilise a hot housing market.

The relative performance of the portfolio was weak in November underperforming it's absolute return benchmark by 1.64%. While this is a disappointing outcome for the month, the portfolio remains well ahead of its objective over longer time periods and has consistently delivered high levels of income with reduced portfolio volatility.

The portfolio remains skewed towards equities with ~66% of assets held across 13 high yielding shares, the majority fully franked while the fixed income allocation is split between Hybrids, bonds and corporate loans.

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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.

Weakness amongst the financial sector in November was the primary reason for the decline in the portfolio, the bank holdings taking a collective 1.73% from portfolio returns while wealth manager IOOF (IFL) and insurer IAG Insurance (IAG) also contributed meaningfully to the weakness.

Our two banking positions suffered as the sector battled with falling margins, rising short term interest rates relative to long term interest rates the key reason. We continued to hold **Commonwealth Bank (CBA)** however we transitioned out of **National Bank (NAB)** into **Bank of QLD (BOQ)** during the period. We believe this margin pressure will ease as banks raise rates.

Regulated utility **APA Group (APA)** bounced back strongly during the month on confirmation they were out of the running to buy poles and wires business **AusNet Services (AST)**. This would have been a large acquisition and while we supported the play, a large equity raise would have been necessary. Shares in APA rallied ~13% for the month, contributing 0.62% to overall portfolio performance.

Magellan Financial Group (MFG) has had an awful year down more than 40% as portfolio underperformance has led to large outflows prompting a re-rate of the multiple the market is prepared to pay for the once market darling.

While a lot has gone wrong, we took the view that the majority of day news was captured in the price. We initiated a small ~3% position late in the month.

ATTRIBUTION

POSITION	CONTRIBUTION
APA Group (APA)	0.62%
BHP Billiton (BHP)	0.51%
Telstra (TLS)	0.19%
National Storage REIT (NSR)	0.30%
Crown Hybrid (CWNHB)	0.19%
STOCK	**DETRACTION**
Bank of QLD (BOQ)	-0.87%
Commonwealth Bank (CBA)	-0.86%
IOOF (IFL)	-0.42%
IAG Insurance (IAG)	-0.40%
Alumina (AWC)	-0.36%

Telstra (TLS) has been a quiet achiever and while we trimmed our 7% weighting back to 5%, we remain positive on the stock overall. As we have consistently suggested since initiating a position below $3, the dividend of 16cps is sustainable now with a strong chance of growth in outer years.

AGL Energy (AGL) is the 4th worst performing stock in the ASX 200 year to date having gone from $13.50 to $5. While much of the fall is justified given the decline in earnings, in our view the shares are now trading at a large discount to their asset base and if the market does not reprice them higher, someone else will. This is the sort of play that private equity companies like, buying at a discount to asset value with a restructuring opportunity. We bought AGL during the month.

MONTHLY PERFORMANCE

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	YTD
FY22	0.10%	3.04%	0.58%	-1.58%	-1.31%								0.83%
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													31.79%

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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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