

## Portfolio: Active Income SMA

**OCTOBER 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

<b>Structure:</b>	Separately Management Account
<b>Benchmark:</b>	RBA Cash +4%
<b>Management Fee:</b>	0.70% incl GST
<b>Performance Fee:</b>	10% over benchmark with high water mark
<b>Platform:</b>	Praemium
<b>Portfolio Manager:</b>	James Gerrish

### MARKETS & PERFORMANCE

**The Market Matters Active Income portfolio fell -1.58% in October, underperforming its 0.34% benchmark while also underperforming the ASX200 Accumulation Index which fell -0.10%. The portfolio has returned 26.54% for the rolling 12-months.**

PERIOD	PORTFOLIO	BENCHMARK
October	-1.58%	0.34%
3 month	2.00%	1.02%
6 Month	6.54%	2.05%
1 Year	26.54%	4.10%
3 Year pa	11.16%	4.56%

October showed general optimism for global equity markets with the US domiciled S&P 500 advancing by 7% while other global markets were strong. In comparison, the Australian market didn't participate in the upside with the ASX 200 falling by 0.10% - repricing of interest rates the main factor for the underperformance.

Bond markets were the tail that wagged the equity market dog with higher inflation data prompting a significant shift in bond yields, particularly at the short end of the curve.

The Australian 3-year yield moved from 0.73% to 1.22% while the 10-year yield rose 59bps to 2.08%, which contrasts to the US where yields increased by less than half that amount. This repricing of higher inflation and tighter monetary policy was significant and has since put enough pressure on the RBA to walk away from their policy of yield curve control. In other words, the RBA was trying to artificially compress shorter dated interest rates but failed miserably.

At Market Matters, we have held the view that inflation and therefore interest rates would move higher at a quicker pace than the market was positioned for, and October saw that play out. In an environment like this we believe it's important to skew portfolios towards inflation hedges, energy, commodities & companies that have pricing power in their given sectors. This positioning has served us well in recent months.

The relative performance of the portfolio was weak in October however the decline was a direct consequence of a takeover bid being pulled for our largest portfolio position – **Smart Group (SIQ)**.

Looking ahead, slowing Chinese growth, supply chain bottlenecks & global energy shortages create elevated risk as we move into early November.

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## SEPTEMBER 2021

### 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 ~58% of capital in equities, ~18% in listed hybrid securities, ~10% in listed fixed income & ~9% in property, providing a blended investment return made up of yield & some capital growth.

The portfolio underperformed during the month however 1.36% of the decline was related to the failed bid for salary packaging & leasing company **Smart Group (SIQ)**. While disappointing that the bid did not progress at \$10.35 as originally proposed, we support the board's decision to walk away from the revised \$9.25 offer. SIQ finished the month ~\$8.00. We remain holders.

Another stock held in the portfolio involved in corporate activity is regulated utility **APA Group (APA)**. Shares were under pressure during the month as they launched an aggressive bid for **AusNet Services (AST)**, joining Canadian based Brookfield in a battle for the owner of 'poles and wires'. Energy transmission is of critical importance for Australia, and we believe it makes sense for these assets to remain Australian owned – APA would offer that assurity, however at time of writing, this looks unlikely

While a successful bid would result in an equity raise, this would likely be completed on a pro-rata basis making it attractive for existing shareholders. Whatever the outcome, we continue to like APA.

POSITION	CONTRIBUTION
Crown Hybrid (CWNHB)	0.25%
National Bank (NAB)	0.22%
Metcash (MTS)	0.19%
National Storage REIT (NSR)	0.15%
Metrics Credit (MXT)	0.08%
STOCK	DETRACTION
Smart Group (SIQ)	-1.36%
IOOF (IFL)	-0.26%
APA Group (APA)	-0.25%
Alumina (AWC)	-0.21%
Transurban (TCL)	-0.16%

After a lengthy process, **Crown Resorts (CWN)** have retained their Victorian Casino licence. While harsh conditions were rightly imposed which will be a challenge for earnings, as Hybrid security holders we see this outcome as positive, and hold the view that the **CWNHB** that pay 400bps over bank bills will prove to be expensive debt for Crown and they will ultimately redeem the notes at \$100 face value. They are currently trading at ~\$92

Welcome to the growing number of investors backing this portfolio and reading this monthly update, perhaps for the first time.

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	YTD
<b>FY22</b>	0.10%	3.04%	0.58%	-1.58%									<b>2.14%</b>
<b>FY21</b>	1.16%	2.22%	-1.21%	-0.17%	9.29%	1.46%	0.47%	0.96%	2.73%	2.79%	1.91%	2.39%	<b>24.00%</b>
<b>FY20</b>	1.54%	-0.57%	2.90%	-4.54%	1.16%	-0.51%	1.78%	-3.97%	-15.53%	7.33%	6.24%	1.94%	<b>-2.23%</b>
<b>FY19</b>	1.35%	0.76%	-0.62%	-3.09%	-0.61%	-0.40%	2.42%	3.92%	-0.21%	1.17%	3.13%	1.37%	<b>9.19%</b>
<b>CUMULATIVE</b>													<b>33.10%</b>

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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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