MARKET MATTERS

MONTHLY

Portfolio: Active Income SMA

SEPTEMBER 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 returned 0.58% in September, outperforming its 0.33% benchmark while also outperforming the ASX200 Accumulation Index which fell -1.85%. The portfolio has returned 28.35% for the rolling 12-months.

PERIOD	PORTFOLIO	BENCHMARK
September	0.58%	0.33%
3 month	3.74%	1.02%
6 Month	11.28%	2.04%
1 Year	28.35%	4.11%
3 Year pa	10.61%	4.60%

September proved a difficult month for equity markets living up to usual seasonal weakness with the ASX 200 down by -2.59% in absolute terms and -1.85% on an accumulation basis, although that performance was better than other global markets with the S&P 500 down by -4.79%.

The Energy sector was the best performer driven by a resurgence in global energy markets on tightening supply, the sector up an impressive 14.9% in the month. Iron Ore however fell heavily which dragged the material sector off by -11.36%.

Volatility was noticeably higher during the month which has prompted some to question the sustainability of the post covid rally in stocks. At this stage, we view the recent weakness as simply a healthy consolidation of a strong trend and expect equities to move higher for the remainder of the year and into 2022.

The relative performance of the portfolio was strong in September and it's pleasing to provide positive returns in a soft market.

Divergence across sectors became more evident during September on the back of a number of changing market dynamics.

Interest rates are important and while Central Banks remain on the sidelines, bond markets are pricing in higher rates as inflation builds, the US 10-year bond yield moving from 1.3% to 1.5% over the course of the month.

China was also a key focus with concern around their property market following the pending collapse of Evergrande, one of the largest property developers in China.

While we believe they'll contain this situation, weakness in Chinese property will have a negative impact on the consumption of some key commodities whilst also putting a dampener on global growth. This is a key area of risk as we move towards Christmas.

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PORTFOLIO STOCKS

Number of Holdings	19
Estimated Yield	4.42%
Top 5 Positions (% of AUM)	35%
Top 10 Positions (% of AUM)	60%

POSITION	CONTRIBUTION
Smart Group (SIQ)	1.59%
Commonwealth Bank (CBA)	0.32%
Telstra (TLS)	0.24%
ANZ Hybrid (ANZPI)	0.08%
APA Group (APA)	0.06%
STOCK	**DETRACTION**
BHP Billiton (BHP)	-0.57%
IOOF (IFL)	-0.45%
IAG Insurance (IAG)	-0.38%
Metcash (MTS)	-0.20%
Alumina (AWC)	-0.12%

In August we discussed salary packaging & car leasing business **Smart Group (SIQ)** suggesting it was an inexpensive company that provides moderate growth and a sustainable fully franked dividend yield of ~6%. In September, a private equity consortium led by TPG bid for SIQ at $10.35, a 32% premium to the market price before the bid. Due diligence is now underway and while the stock is trading below the bid price, we believe the deal has a strong chance of proceeding. We continue to hold SIQ.

Telstra (TLS) held an investor day during the month to announce their T25 strategy which sounds impressive and the update was. This is a company with better times ahead and the tough decisions taken in recent years are starting to pay off. Their key targets are for mid-single digit underlying EBITDA and high-teens underlying earnings per share (EPS) growth out to FY25 and to maximise fully-franked dividends which will grow over time. We believe Telstra is fully valued ~$4 and a buy closer to $3.50. We recently trimmed our position in TLS reflecting this view although, remain positive on their outlook.

APA Group (APA) is one of Australia's largest energy infrastructure businesses with ~$20b worth of assets around the country that include gas pipelines and other transmission infrastructure. Stable, regulated earnings, a ~6% yield and a depressed share price due to concern around a looming equity issuance if they are successful in acquiring Ausnet Services (AST) saw us add this new position to the portfolio during the month.

To make way, we trimmed **Commonwealth Bank (CBA), National Bank (NAB)** and reduced our large overweight towards wealth manager **IOOF (IFL).**

We also added a new position in **Alumina (AWC)** during the month, increasing our exposure to commodities that have supply side issues and therefore momentum in underlying commodity price.

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	YTD
FY22	0.10%	3.04%	0.58%										**3.72%**
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													**34.68%**

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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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