MARKET MATTERS
INVEST

MONTHLY REPORT | AUGUST 2022 | ACTIVE HIGH CONVICTION

PORTFOLIO DETAILS

Portfolio Name	Active High Conviction
Structure	Separately Managed Account
Benchmark	S&P/ASX 200 Accumulation
Management Fee	0.85% incl GST
Platform	Open Wealth | Praemium
Included Assets	Equities, ETFs
Portfolio Manager	James Gerrish
Annual Performance	6.98%*

OBJECTIVE

The objective of the Market Matters Active High Conviction Portfolio is to provide an active exposure to Australian large-cap shares, with reduced volatility. Returns will be achieved through a combination of capital appreciation and income with an overall objective of outperformance of the S&P/ASX 200 Accumulation Index over the medium term, (3 years).

**Inception Date 10.05.2016*

MARKETS & PERFORMANCE

The Market Matters Active High Conviction Portfolio advanced 2.80% in August, outperforming the S&P/ASX 200 Accumulation Index which added 1.18%. The portfolio has returned 0.44% for the rolling 12 months, 12.88% per annum over 2 years, 5.21% per annum over 3 years & 6.98% per annum since inception.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	2.80	2.64	0.84	0.44	12.88	5.21
BENCHMARK %	1.18	-2.39	0.75	-3.43	11.26	5.51
RELATIVE %	1.62	5.03	0.09	3.87	1.62	-0.30

Benchmark: S&P/ASX 200 Accumulation

Global equities struggled in August particularly at the back end following hawkish comments from US Federal Reserve Chair Jerome Powell at the Jackson Hole Symposium. The rhetoric implied that interest rates would need to rise further and would stay high for an extended period to curtail persistently high inflation.

The MSCI Developed World Markets Index lost 3.4% for the month while the US-based S&P 500 lost 4.1% in local currency terms. Australian equities outperformed thanks to a better than feared local reporting season with the S&P/ASX 200 Accumulation Index up by 1.18%. The energy stocks were the best performers in Australia up 7.8% followed by Materials which added 4.4%. On the flip side, property stocks fell 3.5% to lead the decline while consumer staples were also weak, down by 1.8%.

Bond yields rose as bond prices fell; the Australian 10-year yield moved from 3% to above 3.50% as the RBA increased rates by another 50bps to 1.85%. US yields were also higher with the US 10-year moving up 52bps to 3.13%. Markets had moved towards a more neutral stance around interest rates as commentary around cuts in 2023 gathered momentum, however, that was short-lived, and the pendulum has now changed back to a more hawkish stance.

Commodity prices fell in August. Brent Oil prices declined US$14 to US$96/bbl after a de-escalation in Iraq stabilised oil exports. Iron Ore prices also dropped US$19 to US$99/Mt as COVID impacts linger and supply lifts. Gold prices continue to trend lower, moving down US$38 to US$1,716, amid US dollar strength and higher interest rates.

LOCAL REPORTING | 6 THINGS WE LEARNT

1. Despite downbeat headlines, Australian companies are still doing okay with beats outnumbering misses by 3:2 with profit beating consensus expectations by an average of 0.7%. This is an impressive showing given the array of headwinds companies have faced over the past six months.
2. Investors were too bearish ahead of the results which was evident in equity allocations overall plus the type of equities held. Because of more robust results against defensive positioning, investors have had to begin rebuilding back exposure to domestic cyclicals.
3. While FY22 was better than feared, there are larger cuts coming through to FY23 earnings estimates, the most obvious of which is within the Materials sector on a repricing (lower) of the global growth outlook while the building materials stocks struggled against input cost pressures.
4. Higher costs are being largely passed on which has allowed margins to hold. The consumer is in good shape for now and strong end-demand has allowed for costs to be passed through to customers relatively easily.
5. Labour shortages were the No 1 concern expressed by companies and this remains a big unknown. Such tightness in the labour market must be inflationary.
6. Trading statements & feedback from banks (given their intel on spending patterns) suggest the consumer is still spending despite weak sentiment indicators.

PORTFOLIO STOCKS

The portfolio held 17 positions at the end of August with cash having edged up to 14% following net sales during a positive period.

Monthly performance was supported by a cross-section of holdings with corporate activity and strong results driving positive returns both in a relative & absolute sense. We were pleased with the monthly outcome and remain comfortable taking a more conservative stance as we enter the post-reporting vortex of news.

We were active in the portfolio, using the prevailing strength to run up cash. We did hope to find some compelling opportunities to redeploy funds, and that remains our intention, however for now we remain patient.

Portfolio moves included a reduction of our weighting in **Xero (XRO)** into strength, trimming **Oz Minerals (OZL)** following BHP's takeover bid, exiting **Bank of QLD (BOQ)** after **Bendigo Banks (BEN)** soft result and **Woolworths (WOW)** due to input costs pressures while we reduced our weighting to **Resmed (RMD)** to make way for a new purchase in **Ramsay Healthcare (RHC)**.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	17
ESTIMATED YIELD (%)	3.92%
TOP 5 POSITIONS (% OF AUM)	33.59%
TOP 10 POSITIONS (% OF AUM)	58.01%

STOCK	CONTRIBUTION (%)
OZ MINERALS (OZL)	2.10%
IGO LIMITED (IGO)	1.24%
ALTIUM (ALU)	1.15%
BHP GROUP (BHP)	0.41%
WOODSIDE ENERGY (WDS)	0.36%

STOCK	DETRACTION (%)
TPG TELECOM (TPG)	-1.04%
GOODMAN GROUP (GMG)	-0.29%
NEWCREST MINING (NCM)	-0.25%
RESMED (RMD)	-0.23%
XERO (XRO)	-0.16%

We also added Mineral Sands producer **Iluka (ILU)** following a strong report.

The earnings report we were most impressed with was **Altium (ALU)**, the Printed Circuit Board (PCB) design platform reported FY22 results that were well above our expectations and their guidance for the year ahead (and beyond) was also strong. Revenue of $221m was solid and that drove an ~8% beat at the profit line. They also tweaked their longer-term revenue target for $500m by FY26 providing more clarity around its implied composition, confirming it is now on an organic basis versus the prior assumption that was supported by a 10-20% boost from acquisitions. That in itself is a quasi-upgrade for coming years.

Oz Minerals (OZL) was the primary contributor to portfolio performance having attracted a takeover bid from BHP at $25 per share, a 40% premium to the price at the time. While we believe a higher bid may well eventuate, there are always risks in any corporate transaction, particularly during a complex operating environment as is the case now. We therefore sold ~50% of our holding, leaving the remainder in play. The subsequent earnings report from OZL was below our expectations.

Back in April, Australia's largest private hospital operator **Ramsay Healthcare (RHC)** received a takeover bid from a consortium led by global private equity firm KKR at $88.

In the months that passed the market became sceptical of the bid progressing with the RHC share price falling back to near pre-bid levels of $70.

We used that weakness to establish a position on the belief that a) a bid would ultimately eventuate or b) the value in the underlying business had been established and the downside was limited. While the all-cash bid has now been officially withdrawn, and an alternative bid was put forward with an implied value of ~$84, zzwe remain of the view that Ramsay's assets are worth more than ~$70 a share and either the market or a private buyer will recognise this.

Our biggest detractor through the period was **TPG Telecom (TPG)** which missed earnings expectations for FY22 and failed to provide guidance for FY23. Lower Average Revenue Per User (ARPU) and higher costs were to blame, and while they talked to a better 2H, the rhetoric lost substance when it was not accompanied by financial guidance. **Woolworths (WOW)** was another of our weaker holdings as they battle with higher input costs & inflation. We reallocated capital elsewhere from this position and will revisit when the backdrop becomes more certain.

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY23	8.16	2.80											**10.96**
FY22	0.25	2.53	0.78	1.75	-3.49	2.72	-4.00	2.06	5.51	-2.30	-4.69	-7.70	**-6.58**
FY21	0.27	4.94	-4.10	-1.07	14.87	1.34	-0.50	3.08	0.66	4.10	1.17	2.70	**27.46**
FY20	1.21	-2.16	3.75	-1.55	0.80	0.34	2.06	-10.25	-24.12	12.66	5.30	2.02	**-9.94**
FY19	1.11	1.64	-0.77	-2.16	-1.22	-1.94	3.39	4.98	-1.00	2.39	1.72	4.41	**12.55**
CUMULATIVE													**34.45**

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