MARKET MATTERS

INVEST

MONTHLY REPORT | OCTOBER 2022 | ACTIVE INCOME

PORTFOLIO DETAILS

Portfolio Name	Active Income
Structure	Separately Managed Account
Benchmark	RBA Cash +4%
Management Fee	0.85% incl GST
Platform	Open Wealth | Praemium
Included Assets	Equities, Hybrids, Trusts, ETFs
Portfolio Manager	James Gerrish
Annual Performance	7.9%*

**Inception Date 05.07.2017*

OBJECTIVE

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.

MARKETS & PERFORMANCE

The Market Matters Active Income Portfolio added 3.31% in October, outperforming its absolute return benchmark of 0.55%. The portfolio has returned 2.71% for the rolling 12 months, 14.02% per annum over 2 years, 8.47% per annum over 3 years & 7.90% per annum since inception, with significantly less volatility than the underlying share market.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	3.31	-0.12	-4.46	2.71	14.02	8.47
BENCHMARK %	0.55	1.55	2.75	4.80	4.44	4.41
RELATIVE %	2.76	-1.67	-7.21	-2.09	9.58	4.06

Benchmark: RBA Cash Rate +4%

Equities had a strong month in October as investors started to price in the prospect that central banks globally are nearing the peak of policy tightening, following the cue from our very own Reserve Bank. The MSCI Developed Markets Index rose (+7.5%), and the S&P 500 gained (+8.1%) in local currency terms. The S&P/ASX 200 underperformed the rally having outperformed on the way down in September, the S&P/ASX 200 in accumulation terms up (+6.04%) in October, as the RBA tempered the size of rate hikes from 50bps to 25bps.

This was reflected in Australian bond markets, the Australian 10-year yield moved down by 13bps to 3.76%. Meanwhile, US yields continued to rise, up a further 28bps to 4.07%.

Brent Oil prices increased US$7 to US$95/bbl amid EU trade embargos lowering supply and production while Iron Ore prices dropped US$16 to US$82/Mt due to concern around Chinese growth. Gold prices also lost ground, off by US$24 to US$1,648, as US dollar strength weighed on the precious metal.

Locally, the financial sector was the top performer up (+12.2%) for the month, while Property (+9.9%), Energy (+9.5%), Consumer Discretionary (+8.9%), Utilities (+7.2%) & Industrials (+6.5%) all outperformed a strong market.

The underperforming sectors included Information Technology (+5.4%), Communications (+4.9%), Healthcare (+0.6%), Materials (-0.10%) & Staples (-0.20%).

PORTFOLIO STOCKS

The portfolio held 20 positions at the end of October with 55% of capital allocated to Australian Equities, 38.5% in Fixed Interest, 4% in Listed Property and 2.5% in cash. The portfolio is expected to yield ~6% over the coming 12 months, largely franked.

Having moved the portfolio back to fully invested during September, October saw the investment team sit back and monitor the progression of positions. Equities added +3.03% to performance and given their portfolio allocation (55%) this was broadly aligned with the market return, while property was also positive. Fixed income however detracted from returns, down by 0.05% as US bond yields continued higher.

Transurban (TCL) has been held in the portfolio since COVID-induced weakness in early 2020 and remains a core holding with a ~4% weighting. On face value, the toll road operator is a solid defensive stock, offering a reasonable yield while their high levels of debt are seen as a risk in this sort of interest rate environment, however, there is more to this story that underpins our positive view on the stock.

Growth in earnings and therefore dividends will be strong over the next 5 years with consensus growth rates of 8.5% from FY23-FY27 driven by new assets ramping up (WestConnex Stage 2 & North Connex) and continued recovery from covid impacted assets. This is also supported by revenue linked to CPI which as we all know is running hot along with expected capital releases which will also support dividend growth over the coming years – now more important with dividends derived from free cash flow + capital returns.

For a defensive earnings stream backed by critical and irreplaceable infrastructure with a compound annual growth rate of ~8.5% over the next 5 years that benefits from inflation, it's hard not to like **Transurban (TCL)**, and this remains a core holding in our income portfolio.

Perpetual (PPT) has a bid in play for rival fund manager **Pendal (PDL)** which we currently hold in the portfolio, the combination of PPT's takeover bid, an attractive valuation, and an apparent bottoming of outflows means this is our preferred exposure, however, there is a lot going on in this space.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	5.78
TOP 5 POSITIONS (% OF AUM)	34.67
TOP 10 POSITIONS (% OF AUM)	59.86

STOCK	CONTRIBUTION (%)
COMMONWEALTH BANK (CBA)	1.09
STOCKLAND (SGP)	0.41
PENDAL (PDL)	0.40
APA GROUP (APA)	0.38
WESFARMERS (WES)	0.38

STOCK	DETRACTION (%)
BHP GROUP (PDL)	-0.26
NABPF	-0.11
ANZPI	-0.06
SUNPI	-0.03
AGL ENERGY (AGL)	-0.01

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY23	4.22	0.30	-3.64	3.31									**4.19**
FY22	0.10	3.04	0.58	-1.58	-1.31	3.01	-2.45	4.05	4.25	-0.09	-1.80	-6.54	**1.26**
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													**36.41**

It was just announced that Regal Partners (RPL), alongside a Private Equity firm have made a bid to buy Perpetual at $30. While PPT's board was quick to say the offer is uncertain & conditional, and significantly undervalues the group, there is clearly more to play out here and this deal may impact the PPT's takeover pitch on PDL. We remain holders of **Pendal (PDL)**.

During the month, **Telstra (TLS)** restructured into four distinct subsidiaries and is now known as Telstra Group. InfraCo Fixed is now housing the physical infrastructure assets including fibre data centres & exchanges which are TLS's fixed telecoms network. ServeCo is the customer-facing businesses such as mobile radio access networks and mobile spectrum assets, Telstra International includes subsea cables & Amplitel is the mobile tower infrastructure.

This is clearly an exercise to highlight the embedded value in each division, while we would expect a sale of Amplitel at some point. We continue to like TLS as an undervalued income play.