MARKET MATTERS
INVEST

MONTHLY REPORT | OCTOBER 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	6.19%*

**Inception Date 10.05.2016*

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).

MARKETS & PERFORMANCE

The Market Matters Active High Conviction Portfolio advanced 3.68% in October, underperforming the S&P/ASX 200 Accumulation Index which added 6.04%. The portfolio has returned -4.25% for the rolling 12 months, 14.58% per annum over 2 years, 3.69% per annum over 3 years & 6.19% per annum since inception.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	3.68	0.50	-4.37	-4.25	14.58	3.69
BENCHMARK %	6.04	0.67	-5.41	-2.01	11.99	4.82
RELATIVE %	-2.36	-0.17	1.04	-2.24	2.59	-1.13

Benchmark: S&P/ASX 200 Accumulation

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 a skew towards technology and resource companies while being underweight financials. This contributed to the underperformance against a strong market during the month, however, we intend to maintain this stance given our prevailing macro-economic views.

Macquarie Group (MQG) released first-half results towards the end of the month which came in ahead of our expectations. The result was driven by a $2b net profit from their commodities business, and the company lifted guidance for this segment from a small fall for the full year, to a small increase. Banking and Financial Services also came in better than expected but MacCap and the Asset Management arm were weak. The company was largely cautious near term as financial market activity remains constrained. We remain bullish on MQG as we run into Christmas.

A position that failed to impress was **Megaport (MP1)** & having only just added the position to the portfolio, we were particularly disappointed with their quarterly update. They said that ports, services, and customer additions grew only slightly in the first quarter plus CAPEX came in higher than expected and while the stock is coming off a low base, we took the decisive decision to become a spectator for now.

James Hardie (JHX) had been on our radar for many months, and we remained patient as the sector was clearly in the naughty corner. The business is highly leveraged to the US housing market which has struggled as interest rates have exploded on the upside. However, after halving in less than 12 months we believe the stock is now providing excellent value with plenty of bad news already factored into the share price. We like JHX in the low $30 region and started to accumulate stock during the month.

The latest Bank of America Fund Managers Survey identified long ESG assets at 8% making it one of the three most crowded trades. We hold **IGO limited (IGO)** which was the biggest positive contributor to performance during the month, however, we are very aware that crowded trades can often see knee-jerk reactions against them. While we like IGO medium/long term, we are less certain about the position in the short term.

Independent platform provider **HUB24 (HUB)** announced an excellent quarterly update during the month, taking it to the number one listed platform position for net flows. While it is certainly not a cheap stock, we believe it's delivering on performance to justify its current valuation - HUB is winning more business than **Netwealth (NWL)** despite trading on a significantly lower enterprise value. We remain high conviction holders of HUB.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	4.01
TOP 5 POSITIONS (% OF AUM)	36.36
TOP 10 POSITIONS (% OF AUM)	61.80

STOCK	CONTRIBUTION (%)
IGO LIMITED (IGO)	0.77
COMMONWEALTH BANK (CBA)	0.66
WOODSIDE ENERGY (WDS)	0.65
HUB 24 (HUB)	0.59
SEEK (SEK)	0.58%

STOCK	DETRACTION (%)
MEGAPORT (MP1)	-0.65
SANDFIRE RESOURCES (SFR)	-0.65
BHP GROUP (BHP)	-0.23
OZ MINERALS (OZL)	-0.22
ILUKA (ILU)	-0.20

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY23	8.16	2.80	-5.71	3.68									**8.93**
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													**32.42**

Goodman Group (GMG) has been under pressure over the past six months and their quarterly update did not turn the dial during the month. The integrated industrial property company reconfirmed prior guidance for EPS growth of 11% and a distribution per security of 30c. They did highlight the challenging environment in the shorter term, refocussing the conversation towards the long-term drivers for their business, saying:

- Customer demand for space continues to be supported by structural drivers such as e-commerce, productivity improvement through supply chain optimisation and investment in automation and technology
- Ongoing growth in data storage requirements globally
- Sees work in progress (WIP) to remain strong in FY23
- Actively considering strategic opportunities around the world that are aligned with its strategy, while remaining patient and cautious, looking to only implement opportunities that provide deep value

We will remain patient towards our holding in GMG.