MARKET MATTERS
INVEST

MONTHLY REPORT | NOVEMBER 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	7.79%*

**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 7.75% in November, outperforming the S&P/ASX 200 Accumulation Index which added 6.58%. The portfolio has returned 17.12% to date in FY23, 10.97% pa over 2 years and 6.01% pa over 3 years.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	7.75	5.33	8.11	6.90	10.97	6.01
BENCHMARK %	6.58	6.04	3.51	5.00	10.13	5.93
RELATIVE %	1.17	-0.71	4.60	1.90	0.84	0.08

Benchmark: S&P/ASX 200 Accumulation

Global equities enjoyed a strong November as early signs that central banks globally will curb the pace of interest rate hikes. That buoyed generally bearish investor sentiment which was positioned defensively. The rhetoric towards the end of the month implies that interest rates will peak at lower levels than previously forecast and this is playing out through declining bond yields.

The MSCI World Markets Index added 4.67% for the month while the S&P 500 advanced 5.38% in local currency terms. Australian equities outperformed thanks to our larger weighting towards resources with the S&P/ASX 200 Accumulation Index up by 6.58%. The Utility stocks were the best performers in Australia up 20.85% followed by the more influential Materials which added 16.34%. On the flip side, Consumer Services (Telco) stocks underperformed up 2.12% for the period followed by the Energy Sector which added 2.72%.

Bond yields fell as bond prices rose; the Australian 10-year yield moved from 4.05% to below 3.50% as signs that inflation has peaked allowing the RBA to be less aggressive on future rate hikes. US yields were also lower with the US 10-year moving down 63bps to 3.60%. Markets have moved towards a less hawkish stance around interest rates which has underpinned strength across growth assets.

Commodity prices were mixed in November. Brent Oil prices declined 6.42% to US$86.87/bbl. Iron Ore prices were strong, up 25.61% to US$103/Mt on optimism towards Chinese stimulus. Gold prices trended higher, moving up 8.43% to US$1,771, amid US dollar weakness and lower real yields.

PORTFOLIO STOCKS

The portfolio held 20 positions at the end of November with cash having edged up to around 10% following net sales during a sustained two-month rally in the markets.

Portfolio moves included the complete exit of **Oz Minerals (OZL)** following BHP's revised takeover bid at $28.25 with further bids unlikely, selling **Aristocrat Leisure (ALL)** following their non-committal guidance for the year ahead, **Ramsay Healthcare (RHC)** to use as a funding vehicle for better opportunities elsewhere, while we also trimmed **Woodside Energy (WDS)** and **IGO Limited (IGO)** into strength to provide more flexibility in the portfolio, and lock in strong partial profits in both positions. NB: we still hold reduced positions in IGO & WDS.

On the buy-side, we re-entered **Whitehaven Coal (WHC)** into a deep pullback and bought into **James Hardie (JHX)** as they traded near 52-week lows, while we also topped up an existing position in **Sandfire Resources (SFR)**.

Oz Minerals (OZL) was a positive contributor to portfolio performance during the month and we recognised the gain given the likely drawn-out process for BHP to complete the deal, which should see shareholders vote in April 2023. We own BHP in this portfolio and believe they have gotten a high-quality asset, an exceptional management team at a fair price. As shareholders in OZL, some contestability in the bid would have been preferred.

Alternative copper company **Sandfire Resources (SFR)** benefitted from funds moving out of Oz Minerals, a move we had pre-empted and positioned ahead of time for. SFR was the top performer in the ASX 200 during the month up more than 40% despite raising $200m in new equity. SFR was the largest contributor to portfolio performance for the period.

Two positions that have added to portfolio performance in recent times were future-facing commodities producer **IGO Limited (IGO)** and **Woodside Energy (WDS)**, both up ~40% in less than 6 months. While we believe both companies have a great future, we used prevailing strength to dial back our exposure, reducing portfolio weightings in each.

We made an error of judgement earlier in the year by selling **Whitehaven Coal (WHC)** too soon in its run, having bought the stock well around ~$1.50. While it was our biggest contributor to performance in FY22, we left a lot on the table.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	4.01
TOP 5 POSITIONS (% OF AUM)	35.45
TOP 10 POSITIONS (% OF AUM)	59.65

STOCK	CONTRIBUTION (%)
Sandfire Resources (SFR)	1.79
BHP Group (BHP)	1.63
Iluka (ILU)	0.70
Goodman Group (GMG)	0.56
CSL Limited (CSL)	0.54

STOCK	DETRACTION (%)
Xero (XRO)	-0.38
James Hardie (JHX)	-0.36
Aristocrat Leisure (ALL)	-0.22
Resmed (RMD)	-0.06

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY23	8.16	2.80	-5.71	3.68	7.75								**16.68**
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													**40.17**

During the month we re-entered WHC thanks to a pullback in price due to weakness in Coal markets that we view as short-term in nature (warmer than expected start to European Winter). Shares in WHC (and other coal stocks) peaked in early October and subsequently corrected ~30% (excluding dividends) into a November low, setting up a strong risk/reward entry level. At the time, we funded the purchase by reducing **Woodside (WDS)** to maintain our skew across towards the Energy sector.

James Hardie (JHX) is a new entrant to the portfolio, and mid-way through building a position the company downgraded its FY23 guidance by around 7%, another example of the vagaries of reporting season. However, the stock and sector appear to be slowly regaining their mojo after an annus horribilis and we still believe JHX has the right strategy to drive margin recovery through FY23. We have no doubt that the US construction industry is slowing down but we're conscious that JHX was trading around $58 only 12 months ago i.e. there's already plenty of bad news built into JHX's share price. We are targeting the $35-37 area for JHX in the next 6-12 months, although we could easily see this play out sooner.

Our biggest detractor in November was accounting platform **Xero (XRO)**, with a soft first-half result pushing shares down to levels not seen since March 2020. While subscription growth in the mature markets of Australia & NZ was strong, international growth weighed with the group coming in ~2% below expectations at 3.5m subs. While average revenue per user (ARPU) climbed as price rises came through, up 13%, EBITDA of $NZ109m missed expectations. Xero also announced it had hired ex-Google and Stubhub executive Sukhinder Singh Cassidy to replace the current CEO as Steve Camos vacates the position early next year. We continue to hold XRO although we had trimmed our position ~$100 a few months ago.

To hear about our views on resources, Lead Portfolio Manager James Gerrish sat down with Resource Analyst Peter O'Connor, both of whom have strong views around the sector and the stocks that should do well. Watch Here