MARKET MATTERS
INVEST

MONTHLY REPORT | NOVEMBER 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	8.85%*

**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 4.82% in November, outperforming its absolute return benchmark of 0.32%. The portfolio has returned 9.11% to date in FY23, 11.66% pa over 2 years & 9.76% pa over 3 years, 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 %	4.82	4.38	1.98	9.09	11.66	9.76
BENCHMARK %	0.32	1.39	2.71	4.79	4.44	4.40
RELATIVE %	4.50	2.99	-0.73	4.30	7.22	5.36

Benchmark: RBA Cash Rate +4%

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 21 positions at the end of November split broadly between Australian Equities (52%), Fixed Income (36%), Property (8%) and a small cash weighting.

Monthly performance was driven mainly by domestic shares & property accounting for 4.55% of returns while fixed income added 0.53% to the bottom line. Capital growth over income was the primary driver.

We were relatively quiet in the portfolio during the month with only two notable changes, selling **Service Stream (SSM)** and using the proceeds to buy **New Hope Coal (NHC)**, which we view as having better upside, and that has proved to be true since the amendment.

While we continue to view **Service Stream (SSM)** as an undervalued turnaround opportunity, we believe progress will be slow and, in any case, meaningful information is unlikely to be provided before their next report in February.

We used the proceeds to buy **New Hope Coal (NHC)** 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 NHC (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.

The saga between **Pendal (PDL)**, **Perpetual (PPT)** and more recently **Regal Partners (RPL)** had multiple twists and turns throughout the month leading to significant share price volatility. We took the view that we wanted to own Pendal, and if the Perpetual bid happened that was a bonus.

It seemed at one stage that a consortium that included Regal would be successful in scuttling the deal, however that now seems unlikely given some complexity around the quantum of damages that PDL could seek if they are left high and dry. While volatile, we ended the period on the right side of the trade holding a patient position in Pendal that is now sitting ~20% above our entry price.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	21
ESTIMATED YIELD (%)	6.50
TOP 5 POSITIONS (% OF AUM)	32.36
TOP 10 POSITIONS (% OF AUM)	56.31

STOCK	CONTRIBUTION (%)
BHP GROUP (BHP)	1.69
AGL ENERGY (AGL)	0.48
WESFARNERS (WES)	0.4
CENTURIA CAPITAL (CNI)	0.36
APA GROUP (APA)	0.26

STOCK	DETRACTION (%)
SUNPI	0.01
NEW HOPE COAL (NHC)	0.01
GSBG25	0.02
ANZPI	0.07
NABPF	0.08

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY23	4.22	0.30	-3.64	3.31	4.82								**9.01**
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													**41.23**

AGL Energy (AGL) held their much-anticipated AGM during the month with the Mike Cannon-Brookes led Grok Ventures securing four board seats which is significant given they have an economic interest of 11.8%. Change is afoot at AGL and we remain of the view that the embedded value in the AGL asset base will be unlocked. AGL was the 2nd most influential holding during the month, adding 0.48% to returns, behind BHP which contributed 1.69%.

On face value, toll road operator **Transurban (TCL)** is a solid defensive stock, offering a reasonable ~4%, largely unfranked 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 which 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. On UBS estimates, we have cycled the low point in yield from Transurban (TCL) and by FY24 the yield will be back up above pre-covid levels and will rise steadily from there.

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.

The 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**