MARKET MATTERS
INVEST

MONTHLY REPORT | APRIL 2023 | 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	9.29%*

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.

**Inception Date 05.07.2017*

MARKETS & PERFORMANCE

The Market Matters Active Income Portfolio advanced by 2.16% in April, outperforming its absolute return benchmark of 0.61%. The portfolio has returned 5.87% for the rolling 12 months and 16.74% per annum over 3 years.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	2.16	0.58	10.81	5.87	10.13	16.74
BENCHMARK %	0.61	1.80	3.56	6.36	5.18	4.81
RELATIVE %	1.55	-1.22	7.25	-0.49	4.95	11.93

Benchmark: RBA Cash Rate +4%

Australian equities rallied in April as slowing inflation prompted a reassessment on the need for any further rate hikes from the RBA. That saw the local market, as measured by the ASX 200 Accumulation Index advance (+1.8%) and outperform other developed markets.

The MSCI Developed Markets Index rose over the month (+1.7%), and the S&P 500 also gained (+1.6%) in local currency terms.

Bond yields were more subdued during April and this provided a tailwind for equities. Australian 10-year yields tracked sideways as the cash rate remained unchanged, increasing a modest 4bps to 3.34%. US yields fell 5bps to 3.45%, on expectations of a pause to the Feds aggressive rate hike path.

Amongst commodity markets, there were mixed results. Brent Oil fell by just US$0.23c to US$79.54/bbl, Iron Ore prices fell by $22.00 to US$105.00/Mt on lagging steel demand from China while Gold prices remained relatively flat over the month, up by just US$2.85 to US$1,983.

Locally, the Materials sector was the top performer up (+5.9%), while Communication Services (+3.4%), Consumer Discretionary (+1.7%), Utilities (+1.5%), Consumer Staples (+0.5%), Industrials (+0.3%) and Healthcare (+0.10%) all made gains.

The Real-Estate sector was the hardest hit during March ending down (-6.8%) while Financials (-4.9%), Energy (-1.5%) and IT (-0.30%) also fell.

PORTFOLIO STOCKS

The portfolio held 20 positions at the end of April with a forecast yield of 5.88% plus franking. We are defensively set holding 45% in Equities, 36% in Hybrids/Fixed income, 7% in property and 12% cash (NB: equities equate to 52% if we include the property exposure).

We reduced our market exposure during the month, selling out of toll road operator **Transurban (TCL)**, while we trimmed positions in **AGL Energy (AGL)**, **Telstra (TLS)** and **Wesfarmers (WES)**, increasing cash as a result.

Despite underperformance in the broader property sector, one of the key positive contributors to portfolio performance was property fund manager **Centuria Capital (CNI)** which bounced off long-term support in late March with a dip in bond yields supportive of their performance.

Centuria has typically grown faster than peers which had helped the stock outperform, however, that outperformance was handed back in 2022 and the stock is now "back to the pack." Centuria Capital manages, and co-invests in, several funds traditionally exposed to industrial and office while they have added Healthcare, Agriculture, and Credit more recently, diversifying the earnings pool. We continue to back management with Centuria being our preferred, deep-value, high-yield property play, and over time, we expect earnings to become more diversified.

Childcare operator **G8 Education (GEM)** held its AGM in April, and while there was no real new news, that is a positive outcome for a business undergoing a turnaround amid challenging operating conditions They have done a very good job in recent times to improve occupancy which will continue to drive a recovery in earnings, while maintaining a solid balance sheet and more recently, buying back stock The positive share price reaction (+13%) highlights the progress being made and supports the view we took to remain patient in our position.

Brookfield Asset Management sold their 2.65% stake in **AGL Energy (AGL)** early in the month at $8.30, a 9c premium to the last price at the time, about a week after inking a deal to buy Origin's energy markets unit. Brookfield had acquired the stake last year when it teamed up with Mike Cannon-Brookes for two quickly rejected takeover attempts, although Cannon-Brookes was willing to pay more than Brookfield to get the deal done. Given the price achieved was above the market at the time, and seller-led, it implies there is a healthy demand for AGL stock from fund managers. While we trimmed our holding in AGL late in the month, we remain optimistic on their earnings recovery and therefore, the price of the shares.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	5.88
TOP 5 POSITIONS (% OF AUM)	27.34
TOP 10 POSITIONS (% OF AUM)	50.08

STOCK	CONTRIBUTION (%)
CENTURIA CAPITAL (CNI)	0.45
PERPETUAL (PPT)	0.39
NATIONAL BANK (NAB)	0.25
TELSTRA (TLS)	0.22
AGL ENERGY (AGL)	0.19

STOCK	DETRACTION (%)
BHP GROUP (BHP)	-0.37

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY23	4.22	0.30	-3.64	3.31	4.82	-0.07	3.49	-1.61	0.06	2.16			**13.04**
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													**45.26**

BHP Group (BHP) was the only detractor on performance in April, impacting returns by -0.37%. The Big Australian released 3Q production numbers, though much of the weakness can be attributed to softness in Iron ore prices. Their iron ore production was strong, hitting a record for the 9 months to March. The 3rd quarter was flat on 3Q22 but could have been better if not for some unplanned downtime, and -11% below the 2nd quarter mostly on seasonal weakness. Coal production was mixed, with energy coal seeing better numbers on improved strip ratios but met coal was soft and lowered guidance on the back of wet weather. Copper was weak though with grade issues at Escondida causing problems. They maintained FY guidance, expecting to see better performance out of their smaller operations to offset. We see value emerging as shares drift towards ~$40.

The median margin of **ASX-listed hybrids** to BBSW finished the month lower, meaning prices of hybrids edged higher. Investors in major bank notes are generally achieving a 2.8% margin over the 90-day bank bill rate meaning yields to first call are sitting around 6.5% grossed for franking. We have ~22% of the portfolio allocated to bank Hybrids.

Lead Portfolio Manager **James Gerrish** was featured in the Rules of Investing Podcast during the month, discussing investment style and market views. The wide-ranging discussion covers:

- Benefits of holding short-term views when long-term investing;
- Market signals that matter most;
- Sectors with the best risk adjusted return; and
- The one thing investors should fear.

The episode was recorded on Wednesday April 12, 2023 and can be accessed here.