MARKET MATTERS
INVEST

MONTHLY REPORT | FEBRUARY 2024 | ACTIVE GROWTH

PORTFOLIO DETAILS

Portfolio Name	Active Growth
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	9.30%*

OBJECTIVE

The objective of the Market Matters Active Growth 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).

**Inception Date 10.05.2016*

MARKETS & PERFORMANCE

The Market Matters Active Growth Portfolio advanced 1.70% in February, outperforming the S&P/ASX 200 Accumulation Index which advanced 0.79%. The portfolio has returned 16.09% for the rolling 12 months against the benchmark return of 10.64% and 12.19% per annum for 3 years, outperforming the market return of 9.32% per annum.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	5 YEAR PA
PORTFOLIO %	1.70	9.32	7.40	16.09	12.53	12.19	9.28
BENCHMARK %	0.79	9.39	7.42	10.64	8.89	9.32	8.61
RELATIVE %	0.91	-0.07	-0.02	5.45	3.64	2.87	0.67

Benchmark: S&P/ASX 200 Accumulation

More broadly, the MSCI Developed Markets Index rose (+4.6%), while the S&P 500 also strengthened (+5.3%) in local currency terms highlighting the underperformance of Australian stocks.

Commodity prices were mixed in February. Brent Oil rose by US$1.97 to US$83.68/bbl, whilst Iron Ore prices fell by US$15.50 to US$117.50/Mt. Over the month, Gold fell by US$20.80 to US$2,032 as bullion markets recalibrated Fed expectations.

On a sector basis in Australia, IT (+19.5%) was a standout driven primarily by corporate activity, Consumer Discretionary (+9.1%), Real-Estate (+5.1%), Financials (+3.5%) and Industrials (+2.7%) all outperformed, more than offsetting the weakness seen in Energy (-5.9%), Materials (-5.0%) and Healthcare (-0.27%).

REPORTING - WHAT WE LEARNT

February results saw almost twice as many earnings beats versus misses, but this is somewhat misleading given analysts entered the period with unusually low profit expectations.

ASX200 FY24 earnings growth slipped by 0.6% overall and now sits at -5.5% year on year, although this is driven primarily by weakness in the energy sector. Cost-cutting was a dominant theme and the primary talking point, though most companies still highlighted sticky input prices. That said, the peak rate of upward momentum in cost growth looks to be over, with roughly 30% of reporting companies saying cost pressures have now passed peak intensity.

Profit margin improvements were the key to results, and the ability to pass costs onto the consumer remained robust. This is underpinned by a fully employed economy combined with significant investment from governments, meaning that for most companies, end demand remains solid. Combined with a focus on companies managing internal costs, this meant that around 75% of the companies that reported were able to expand or maintain profit margins, which is the main takeaway in our view.

Top-line growth does appear to be slowing though, with evidence of a decelerating sales trajectory coming through in forward guidance, with cost-of-living pressure and higher rates still to blame.

All in all, a solid results period, and when combined with easing pressure from a macro perspective, we came out the other side feeling more confident about the outlook from here.

PORTFOLIO POSITIONING

The portfolio held 19 positions at the end of February and while we maintained a higher cash allocation throughout, we still managed to handily outperform the market during a busy reporting period.

The month started with frustration, a position we had only just sold, **Altium (ALU)** received a takeover offer at a substantial premium to our sale price. While hindsight is a wonderful investor, the timing of our sale before the bid ultimately cost the portfolio ~150bps of lost upside.

Elsewhere, our decision to reduce risk ahead of reporting led us to sell **Macquarie (MQG)**, while we incrementally added positions as the month progressed, buying into the more defensive packaging company **Orora (ORA)** while we increased our bullish positioning in resources, buying Mineral Sands/Rare-Earths company **Iluka (ILU)** near 52-week lows and **Paladin Energy (PDN)** after it pulled back ~20% offering improved risk/reward.

We had made a larger title towards Lithium in January, and this paid dividends in February, Pilbara Minerals was up over 18% for the month, while several holdings reported well and rallied, **Goodman Group (GMG)**, **Treasury Wines (TWE)** and **Worley (WOR)** were three examples.

While the portfolio was solid overall, commodity companies **BHP Group (BHP)**, **Whitehaven Coal (WHC)** and **Evolution Mining (EVN)** were key detractors while **Lendlease (LLC)** reported poorly again, the shares declined, and we've ultimately exited that position post month end.

PORTFOLIO POSITIONING CONTINUED

Goodman Group (GMG) has hit a new post-GFC high with the stock rallying on upgraded FY24 earnings guidance; they now see 11% operating earnings per share (EPS) growth up from 9%.While analysts already thought they were under-promising and consensus was sitting at ~11% growth, it gives us more confidence they'll meet and probably beat the target.

For the 1H, operating profit was $1.13bn, ahead of expectations driven by strong development earnings while they talked up the growth available in data centres, which should drive the rest of FY24 and beyond. A great result from a great operator, nothing to do here but stay long.

There always seem to be a few issues in **Worley (WOR)** results, however, they're getting fewer, and the core part of their business is improving, albeit, it's coming off a low base. 1H24 results showed aggregated revenue of $5.61bn, up 7.8% on the year and around 3% ahead of consensus producing an underlying net profit after tax (NPAT) of $188m, ahead of expectations for ~$178m. The dividend of 25cps is not the reason we own the stock, however, the improvement in margins is, as the proportion of work linked to decarbonisation continues to grow. They reconfirmed guidance for aggregate revenue to grow in FY24 with EBITDA margins rising to 7.5-8% (ex-procurement). Lead indicators on their business also looked strong and with a good balance sheet, WOR remains in a very solid spot to take advantage of the global shift to net zero.

As they continue to increase margins on a big revenue line, core profitability will ultimately grow and in our view, could surprise on the upside.

A volatile month for mineral sands operator **Iluka (ILU)**, on the surface, they delivered a solid FY24 result considering the tough backdrop facing the company, which the market initially embraced, sending the stock to fresh 5-month highs before surrendering all of the gains plus a few per cent more.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	19
ESTIMATED YIELD (%)	3.87
TOP 5 POSITIONS (% OF AUM)	31
TOP 10 POSITIONS (% OF AUM)	55

STOCK	CONTRIBUTION (%)
GOODMAN GROUP (GMG)	0.86
PILBARA MINERALS (PLS)	0.79
XERO (XRO)	0.76
TREASURY WINES (TWE)	0.74
MINERAL RESOURCES (MIN)	0.59

STOCK	DETRACTION (%)
WHITEHAVEN COAL (WHC)	-0.96
BHP GROUP (BHP)	-0.67
LENDLEASE (LLC)	-0.54
RESMED (RMD)	-0.49
EVOLUTION MINING (EVN)	-0.43

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY24	4.82	-1.54	-1.48	-4.76	4.70	7.58	-0.08	1.70					**10.94**
FY23	8.16	2.80	-5.71	3.68	7.75	-3.20	8.18	-1.93	2.08	2.63	-1.72	1.71	**24.43**
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													**58.86**

PORTFOLIO POSITIONING CONTINUED

Group earnings were 7% higher than market consensus, translating to stronger group profit, around 20% above market expectations. However, the company's net cash position of $201mn after lease liabilities was light on which has tempered some analyst's outlook, namely Macquarie, which downgraded the stock.

Macquarie's move highlights the market concern facing the business over the next couple of years, i.e., a persistently weak Chinese property market presents an integral risk for zircon demand (and therefore ILU earnings) at a time when they are spending up on the Eneabba phase-3 rare-earths project, with some lingering concern remaining around further cost escalation.

While we get their conservative logic and take note of the concerns raised, especially as the market dislikes uncertainty, our base case is for an improving backdrop in China as Beijing continues to deliver targeted stimulus with property front and centre of their goal.

Our more positive take on China is yet to materialise and some patience is a likely requirement, however, we think the risks are captured in the price below $7, and as rare earths ramp up in the coming years, ILU remains one of our favoured picks in the resource space, albeit, at the risker end of the spectrum.

The Uranium Sector had been one of the hottest in town, with **Paladin (PDN)** and **Boss Energy (BOE)** both up ~50% after only a few weeks of 2024, but by the end of February, the vast majority of the gains had evaporated. US giant **Cameco Corp (CCJ US)** was the catalyst after reporting its FY23 results earlier in the month. Cameco, along with state-owned Kazatomprom from Kazakhstan, are the two most important companies in the global Uranium market, and both had reduced production forecasts during 2023 at a time when demand was increasing, and speculative flows had risen through vehicles like the Sprott Physical Uranium Trust.

We often discuss the importance of market positioning, and in this instance, the market had been anticipating another tweak lower from Cameco at their results, but they maintained 2024 guidance (for now), hurting the bull case for prices in the short term. The most significant issue in this case was how optimistic and committed to uranium stocks investors had become, magnifying the impact of the news.

We remain bullish towards the Uranium Sector as the world strives to achieve its net zero targets over the years ahead.

Paladin (PDN) corrected aggressively on the news in anticipation of lower Uranium prices. However, we considered this pullback in a previously "too hot" sector that we had owned previously and had sold at higher levels, as an opportunity to start accumulating again.

We enter March with a large overweight towards resource stocks, looking for $US weakness on impending rate cuts.

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