MARKET MATTERS
INVEST

MONTHLY REPORT | JULY 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	9.39%*

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 2% in July, underperforming the S&P/ASX 200 Accumulation Index which increased 4.2%. The portfolio has returned 10.4% for the rolling 12 months, 16.1% per annum for 2 years and 10.5% per annum for 3 years, 3.1% per annum above its benchmark.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	5 YEAR PA
PORTFOLIO %	2.03	0.63	6.13	10.36	16.10	10.51	8.34
BENCHMARK %	4.19	6.21	7.31	13.53	12.59	7.44	7.52
RELATIVE %	-2.16	-5.58	-1.18	-3.17	3.51	3.07	0.82

Benchmark: S&P/ASX 200 Accumulation

More broadly, international markets underperformed the ASX, the MSCI Developed Markets Index rising by (+1.3%), while the S&P 500 also increased by (+1.2%) in local currency terms. Australian 10-year government bond yield fell 19 bps over the month to 4.12%, as US yields also decreased, stepping down 32 bps to 4.05%. Commodity prices were mixed in July. Brent Oil fell by US$5.69 to US$80.72/bbl, whilst Iron Ore prices fell by US$4.50 to US$102.00/Mt. By contrast, Gold prices rose by US$95.40 over the month to US$2,426 per ounce after softer-than-expected US inflation data was released.

On a sector basis in Australia, Consumer Discretionary (+9.1%), Property (+6.8%), Financials (+6.3%), Industrials (+5.6%), Communication Services (+5.3%) and Healthcare all outperformed, while Consumer Staples (+4.0%), IT (+0.2%), Materials (-0.1%), Energy (-0.4%) and Utilities (-2.9%) underwhelmed to varying degrees.

PORTFOLIO POSITIONING

The portfolio held 19 positions at the end of July with cash sitting circa 5%. Underperformance continued for the month and while the portfolio was up 2.03%, it underperformed the market's 4.19% advance, a frustrating trend over recent months. A high-conviction portfolio holding ~20 positions has a greater probability of variance to the index over shorter periods, and having been on the right side for several years, the last 6 weeks of FY24 and now the start of FY25 has reversed that trend. This is a direct result of our tilt towards commodities with key portfolio detractors in **South 32 (S32)** -0.8%, **Paladin (PDN)** -0.3% and **BHP Group (BHP)** -0.1%. We are now running below benchmark over 1,3 & 6 months, plus 1 year time frames, while we're outperforming over 2,3 & 5 years at an average of 2.5% per annum.

During the month, we reduced our holdings in **Goodman Group (GMG)** and **Xero (XRO)** at good levels, sold **Ramsay Healthcare (RHC)** for a loss and bought a new position in **Mirvac (MGR)**.

We've subsequently sold out of GMG, our best-performing position in FY24. We think GMG is a great business, and applaud their move into Data-Centres which looks like another master stroke by CEO Greg Goodman, however, our concern in the short term is predicated on the dislocation between a great strategy, and the timing around the actual earnings that strategy will generate i.e. there is a lot of optimism built in, yet some patience will be needed to see tangible financial benefits – much like the concern about AI being a huge theme, but not yet generating returns.

Investing is a relative game, and many property companies are still trading at very depressed levels. While the quality of GMG can't be questioned, relative valuation can.

We also started reducing our exposure to online accountancy platform **Xero (XRO)** in mid-July, similarly on valuation grounds after a strong period of performance. While we have retailed a 4% weighting, we are more likely to reduce further into strength.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	19
ESTIMATED YIELD (%)	3.81
TOP 5 POSITIONS (% OF AUM)	32.82
TOP 10 POSITIONS (% OF AUM)	55.90

STOCK	CONTRIBUTION (%)
MAGELLAN FINANCIAL GROUP (MFG)	0.86
JB HI-FI (JBH)	0.63
NATIONAL BANK (NAB)	0.50
EVOLUTION MINING (EVN)	0.47
NATIONAL STORAGE (NSR)	0.36

STOCK	DETRACTION (%)
SOUTH32 (S32)	-0.79
PALADIN ENERGY (PDN)	-0.31
AGL ENERGY (AGL)	-0.19
BHP GROUP (BHP)	-0.07
CAR GROUP (CAR)	-0.05

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY25	2.03												**2.03**
FY24	4.82	-1.54	-1.48	-4.76	4.70	7.58	-0.08	1.70	5.69	-1.88	0.34	-1.71	**13.38**
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													**63.33**

PORTFOLIO POSITIONING CONTINUED

From a macro standpoint, we believe interest rates/bond yields will decline over the next 18 months making economically exposed stocks more attractive in a relative sense than high valuation growth. While we have no plans to shun tech, as falling yields is a positive when valuing their long-duration earnings, plus there are some incredible businesses in this area, as the drivers of the market broaden, our portfolios are likely to reflect that transition.

To that end, we bought a new position in **Mirvac (MGR)**. The diversified Australian property business is exposed in multiple areas from Industrial, Office, Residential & Retail making it a play on the broader space as opposed to picking the eyes out of one specific area, which is generally our preference.

In terms of commentary on their residential property business at their recent update, MGR said "Momentum in the residential business remains sluggish and margins tight," and while this should improve noticeably over the coming years, it does highlight how tough it remains for developers of new residential real estate in this country.

MGR is a solid operator, well positioned in the space and will benefit from lower interest rates and an uptick in building should it play out through 2025/26.

South32 (S32) was the significant detractor in July, after flagging major impairments across two assets, calling out slightly soft 4Q24 production and downgrading FY25 production guidance – no good news there and the stock was rightly sold off. They said Aluminium was largely in line, though FY25 guidance was downgraded, Alumina missed and guidance was lowered for FY25, while they impaired Worsley Alumina (~US$554M pre-tax) and Cerro Matoso (~US$264M pre-tax) which will be recognised in FY24 results, the former being the main issue given its one of their flagship assets. Copper was a miss, but not a big surprise while Met Coal was inline with expectations, plus a few hits and misses elsewhere.

RE the Worsley issue, they noted that the WA Government's imposed environmental conditions create "significant operating challenges… and impact its LT viability", clearly a concern. They will appeal, so more to play out here, however, it was a large hit. On the more positive side, they expect completion of their Coal sale in 1QFY25 while they also talked about meeting cost guidance, and benefitting from some working capital unwind in 2H24.

Private Hospital Operator **Ramsay Healthcare (RHC)** has been a thorn in our side for more than a year, and the turnaround we've been looking for is still not materialising. While we purchased RHC after it had fallen ~20% from its KKR bid high, it still was not a pretty entry around $68.

There are several headwinds facing RHC, headlined by their holding in French-based **Ramsay Générale de Sante (GDS FP)**, which has recently been hamstrung by a French government that doesn't like private healthcare. There are also financial issues playing out at unlisted Healthscope as they work to renegotiate their pile of debt with lenders. Unfortunately, the backdrop is not great for a potential debt-funded buyout of RHC, similar to the failed bid launched by KKR back in 2022 at $88/sh. We finally cut the position, a move we should have made earlier.

On a more positive note, **Magellan Financial Group (MFG)** contributed 0.9% to portfolio performance as they continue to show promise. The turnaround is progressing and the market is becoming more comfortable with their strategy.

We also enjoyed a strong rally from recent portfolio addition **JB Hi-Fi (JBH)** +0.6%, **National Australia Bank (NAB)** +0.5% and **Evolution Mining (EVN)** +0.5%.

PORTFOLIO POSITIONING CONTINUED

We end July with equities near record highs, underpinned by a more benign domestic inflation picture. The seasonally strong month delivered an impressive 4.2% gain, eclipsing the average return over the last decade of 3%. We remain positive about the market following this important economic read, and aggressive re-pricing around interest rates, removing the expectations around a potential hike.

We will continue to focus on stock and sector rotation, especially as August/September is historically the weakest seasonal period – the average decline over the last decade for these 2-months is -3.8%.

Thank you for your ongoing support, we value your trust, and look forward to getting the portfolio humming again in the coming months.