



MARKET MATTERS
INVEST

MONTHLY REPORT | JANUARY 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	9.11%*

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 dipped -0.08% in January, underperforming the S&P/ASX 200 Accumulation Index which advanced 1.19%. The portfolio has returned 11.95% for the rolling 12 months against the benchmark return of 7.09% and 12.71% per annum for 3 years, outperforming the market return of 9.57%.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	5 YEAR PA
PORTFOLIO %	-0.08	12.54	3.99	11.95	12.75	12.71	9.99
BENCHMARK %	1.19	13.99	5.79	7.09	9.63	9.57	9.71
RELATIVE %	-1.27	-1.45	-1.80	4.86	3.12	3.14	0.28

Benchmark: S&P/ASX 200 Accumulation

More broadly, the MSCI Developed Markets Index rose (+1.8%) over January, while the S&P 500 also rose (+1.7%) in local currency terms in a strong month for equities.

Commodity prices were mixed, Brent Oil rose by US\$4.67 to US\$81.71/bbl, while Iron Ore prices fell by US\$9.50 to US\$133.00/Mt. Gold also slipped over the month, falling by US\$25.15 to US\$2,053.

On a sector basis in Australia, Energy (+5.2%), Financials (+5.0%), and Health Care (+4.3%) all outperformed, more than offsetting the weakness seen in Utilities (-1.5%), and Materials (-4.8%), the only two sectors to lose ground.



PORTFOLIO POSITIONING

The portfolio held 17 positions at the end of January as we moved towards a more defensive stance into prevailing strength, with cash increasing to -12%. We took profits on **Magellan Financial Group (MFG)**, **Altium (ALU)** and **Macquarie Group (MQG)**, while we increased our tilt towards defensive stocks, buying packaging company **Orora (ORA)**, while we took a more speculative position in Lithium company, **Pilbara Minerals (PLS)**, as it traded around 12-month lows.

Our overweight in the Materials sector was the reason for our underperformance in January. While there were some pockets of strength in select commodities such as Uranium, most stocks fell headlined by **Evolution Mining (EVN)** as the Gold/Copper company flagged a big second-quarter production miss.

We viewed the sell-off as overdone in the short term and added to our existing position.

While the second half should be better and they maintained their full-year production and cost guidance, there is now a high degree of scepticism that they'll achieve it. They blamed operational issues partly impacted by rainfall and continued issues at one of their mines, Red Lake as the main drivers.

More pleasingly, Uranium markets have been hot, and this underpinned strong gains from local Uranium stocks. We held **Paladin Energy (PDN)** during the month although others in the sector were also strong, particularly **Boss Energy (BOE)**, which has recently been added to the ASX 200.

Paladin released its December quarter activities report and details of a US\$150m debt facility. The restart of the Langer Heinrich uranium operation in Namibia commenced with the first ore being fed to the front end of the plant on Jan 20th. The project is now 93% complete and is largely on time and on budget. First production is expected in early 2Q24 and the final capital cost is expected to be US\$125m, up slightly from the US\$118m budget.

PORTFOLIO STOCKS

NO. OF HOLDINGS	17
ESTIMATED YIELD (%)	3.87
TOP 5 POSITIONS (% OF AUM)	31.04
TOP 10 POSITIONS (% OF AUM)	55.27

STOCK	CONTRIBUTION (%)
PALADIN ENERGY (PDN)	1.15
RESMED (RMD)	0.76
WHITE HAVEN COAL (WHC)	0.61
NATIONAL AUSTRALIA BANK (NAB)	0.46
ANZ BANK (ANZ)	0.33

STOCK	DETRACTION (%)
MINERAL RESOURCES (MIN)	-0.87
EVOLUTION MINING (EVN)	-0.78
WORLEY (WOR)	-0.70
NORTHERN STAR (NST)	-0.65
BHP GROUP (BHP)	-0.57

%	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						9.24
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													57.16

PORTFOLIO POSITIONING CONTINUED

With cash of US\$61m and the new US\$150m debt facility, Langer Heinrich is fully funded through to first positive cash flow which is expected mid-CY24. While we are bullish on Uranium & Paladin in the medium term, we took profits on our position at the end of January, looking for a better risk/reward re-entry level.

After a tough 12 months, **ResMed (RMD)** released better-than-expected second-quarter earnings which allayed some lingering market concerns around the rise of weight loss drugs and their potential impact on sleep apnoea treatments. While top-line sales beat expectations, the key was margins which expanded vs. expectations of further contraction which led to stronger earnings. The stock price popped nicely, and we remain holders of the stock.

Less positive was our position in **Worley (WOR)** as they suffered an integrity challenge following corruption allegations out of South America. While this is a disappointing update that has cast a shadow over the company in the short term, it has not changed our investment thesis in the medium term. WOR offers significant earnings leverage to the current cycle of global energy investment and decarbonisation projects, and in simple terms, we think the scale of global decarbonisation will ultimately trump a bribery issue. We continue to like WOR and are likely to increase our position over time.

We added the packaging company **Orora (ORA)** to the Active Growth Portfolio, having held the stock in the Active Income Portfolio since November. At a high level, packaging stocks typically outperform in periods of falling inflation and slowing growth, as investors are attracted to defensive earnings growth and solid yields, and 2024, we think, will be one of those years.

Hindsight is a wonderful thing, and when we consider the timing of their large acquisition of Saverglass in 2023, it was not ideal, with a large equity raise weighing on the shares at a time when global spirit/wine volumes have been soft. However, markets are forward-looking, and, in our view, this will be a low/trough in ORA earnings which we believe will improve into 2H24 with a path to double-digit earnings growth available. On an Est PE of 13.25x, a likely yield of 6% (unfranked) with defensive earnings that we think can grow at low double digits in the coming years.

A more speculative addition to the portfolio during the month was **Pilbara Minerals (PLS)**, a stock that is down over 35% in the past year as Lithium prices came under intense pressure, Spodumene down from ~\$6000/mt to ~\$1000/mt.

While this is having a big impact on earnings (revenue in the second quarter of \$246m was down 46%), they showed good cost control (unit operating cost (FOB)/t A\$639, -14% q/q), and are being prudent around their balance sheet, flagging no dividend at the half while they reduced FY24 capex guidance from \$875m-\$975m to a new range of \$820m-\$875m, with a number of non-essential new projects and enhancements deferred. Their cash balance was in line with expectations at \$2.14bn, showing their balance sheet strength.

In an environment like this, many companies will go to the wall, however, PLS is in a strong financial position with the capacity to handle weak Lithium prices better than many others, and potentially capitalise on opportunities. We are now long from ~\$3.50.

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