MARKET MATTERS
INVEST

MONTHLY REPORT | MAY 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	9.6%*

**Inception Date 10.05.2016*

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).

MARKETS & PERFORMANCE

The Market Matters Active Growth Portfolio advanced by 0.34% in May, underperforming the S&P/ASX 200 Accumulation Index which was up 0.92%. The portfolio has returned 17.33% for the rolling 12 months against the benchmark return of 12.93% and 11.48% per annum for 3 years, outperforming the market return of 6.8% per annum.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	5 YEAR PA
PORTFOLIO %	0.34	4.06	13.76	17.33	15.81	11.48	9.48
BENCHMARK %	0.92	1.16	10.66	12.93	7.80	6.80	7.82
RELATIVE %	-0.58	2.90	3.10	4.40	8.01	4.68	1.66

Benchmark: S&P/ASX 200 Accumulation

More broadly, international markets did better than our own, the MSCI Developed Markets Index rose (+4.1%), while the S&P 500 also increased by (+5.0%) in local currency terms. The Australian 10-year government bond yield fell 1 bp over the month to 4.41%, as US yields also decreased, stepping down 19 bps to 4.49%. Easing geopolitical fears saw Brent Oil down by US$6.24 through May, to US$81.62/bbl, whilst Iron Ore prices decreased marginally by US$1.00 to US$117.00/Mt. Over the month. Gold prices rose by US$41.25 to US$2,348.25.

On a sector basis in Australia, IT (+5.4%), Utilities (+3.4%), Financials (+2.6%) and REITs (+1.9%) outperformed the market, while Healthcare (+0.1%), Materials (+0.1%), Industrials (-0.4%), Consumer Discretionary (-0.6%), Energy (-0.7%), Consumer Staples (-1%) & Communication Services (-2.6%) underwhelmed to varying degrees.

PORTFOLIO POSITIONING

The portfolio held 20 positions at the end of May, and after a period of outperformance, it gave back some thanks to an eclectic mix of underperformers.

There were several changes to the portfolio during the month; we sold **Iluka Resources (ILU)** for a profit, and **Corporate Travel (CTD)** for a loss, with two new positions initiated in **AGL Energy (AGL)** & **JB Hi-Fi (JBH)**.

Our investment process combines top-down macroeconomic analysis with bottom-up stock-picking.

At a high level, there is a heightened level of indecision creeping into the market predicated on the potential trajectory of interest rates into the end of 2024/25. As central banks globally grapple with persistently high inflation and more robust economic data, bond markets are second-guessing what comes next, creating volatility in equities. Ultimately, the market is walking a fine line in terms of economic data; Too strong, we won't get rate cuts, and too weak, we could see increased concerns that the economy will slip into a recession.

That said, markets have remained strong, and the buy-the-dip mentality is still alive and well. The bears will site rich valuations and tepid economic growth; however, equities have kept grinding higher, and valuations tend to be ignored in such an environment.

Gold remains an area we like, although we concede, that positive sentiment towards the precious metal has become the 'consensus call'. We're seeing this bullish sentiment reflected in gold's price action, particularly in its ability to hold and stabilise at higher levels. This bullish outlook is grounded on several factors;

First, there is still the expectation that policy easing is more likely to be the Fed's next move despite uncertainty on the timing and the extent of rate cuts.

Second, macro uncertainty and geopolitical risks remain compelling reasons to have an allocation to gold as a hedge and diversifier for

PORTFOLIO STOCKS	
NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	3.46
TOP 5 POSITIONS (% OF AUM)	30.67
TOP 10 POSITIONS (% OF AUM)	54.80

STOCK	CONTRIBUTION (%)
XERO (XRO)	0.52
SOUTH32 (S32)	0.52
GOODMAN GROUP (GMG)	0.32
NATIONAL BANK (NAB)	0.28
ANZ BANK (ANZ)	0.26

STOCK	DETRACTION (%)
CORPORATE TRAVEL (CTD)	-0.59
MAGELLAN FINANCIAL GROUP (MFG)	-0.37
RAMSAY HEALTHCARE (RHC)	-0.34
TREASURY WINES (TWE)	-0.31
PILBARA MINERALS (PLS)	-0.29

%	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	5.69	-1.88	0.34		**15.09**
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													**63.01**

PORTFOLIO POSITIONING CONTINUED

portfolios. From upcoming elections in Europe, the UK and later in the year, the US, we think that on balance the bias is for the overall uncertainty to be viewed as a positive for gold, adding to the list of reasons to have it in the portfolio as a diversifier.

To stocks, we sold **Corporate Travel (CTD)** mid-month, a poor position on multiple fronts. While the travel sector remains firm, with both **Flight Centre (FLT)** and **Corporate Travel (CTD)** maintaining guidance at the recent Macquarie conference, the looming UK election was the catalyst to take our medicine. CTD has a lucrative contract in place housing asylum seekers, and they're banking on earning margins of at least 50% from parts of this controversial deal. This is key for CTD to meet medium-term growth guidance.

However, the UK is heading to the polls and as we all know, during elections, politicians rarely push unpopular policies and with the UK already bursting at the seams, this could easily become a political football with immigration, health services, and the cost-of-living key issues for voters. With such an obvious risk on the table, we elected to sell the position and allocate funds elsewhere.

JB Hi-Fi (JBH) is a new addition to the portfolio, having been sold off on higher yields, improving the risk/reward around $57. We like buying strong stocks, showing strong medium-term trends that pull back in the short term, and JBH is a classic example. We ultimately believe the macro backdrop will improve and JBH is well-positioned to take advantage as headwinds turn into tailwinds.

Mineral sands and soon-to-be rare earth operator **Iluka (ILU)** was sold during the month after they hosted their AGM. While they reiterated positive commentary, highlighting early signs of improving conditions i.e. they believe that overall demand has "turned the corner," there is lingering concern around China's involvement in Rare-Earth pricing as they (according to ILU) "weaponise" the supply of vital materials to force down prices to unviable levels for Australian miners.

We originally bought ILU on valuation grounds after it had almost halved, however, as the stock rallied, more optimism was built into the price, and we ultimately took profits.

We've had a long and generally profitable history in **AGL Energy (AGL)**, though not in our growth portfolio. The energy transition is taking shape and while AGL still holds the mantle as Australia's largest corporate emitter of greenhouse gases, this is changing, and AGL will be a key player as we transition to more sustainable energy sources from wind & solar supported by battery capacity.

Early last month, AGL upgraded its underlying earnings guidance by around 6%, and taking into account the 2H momentum, we believe analysts are underappreciating what they will deliver in FY26 and beyond, bearing in mind the surge in demand for "energy-hungry" data centres will provide a further tailwind to energy providers. We believe these trends make AGL attractive from both an Income and now a Growth perspective. We bought AGL during the month.

We commence the final month of FY24 with the portfolio up 15.35%, 4.37% ahead of its benchmark.

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