MARKET MATTERS
INVEST

MONTHLY REPORT | MARCH 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	10.17%*

**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 5.69% in March, outperforming the S&P/ASX 200 Accumulation Index which advanced 3.27%. The portfolio has returned 20.21% for the rolling 12 months against the benchmark return of 14.45% and 14.01% per annum for 3 years, outperforming the market return of 9.62% per annum.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	5 YEAR PA
PORTFOLIO %	5.69	7.41	7.40	20.21	12.63	14.01	10.72
BENCHMARK %	3.27	5.33	7.42	14.45	7.03	9.62	9.15
RELATIVE %	2.42	2.08	-0.02	5.76	5.60	4.39	1.57

Benchmark: S&P/ASX 200 Accumulation

More broadly, the MSCI Developed Markets Index rose (+3.4%), while the S&P 500 also strengthened (+3.2%) in local currency terms. The Australian 10-year government bond yield moved down 17 bps over the month to 3.97%. US yields also decreased, stepping down 4 bps to 4.20%.

Commodity prices were mixed in March. Brent Oil rose by US$3.86 to US$87.48/bbl, whilst China macro concerns saw Iron Ore prices fall by US$15.50 to US$102.00/Mt. Over the month, Gold prices hit another record high, increasing by US$166.30 to US$2,214.35 per ounce.

On a sector basis in Australia, Real-Estate (+9.7%) was a standout as bond yields declined, Energy (+5.3%), Utilities (+4.8%), and Materials (+3.7%) all outperformed, while the underperformers included Communication Services (-0.6%), Consumer Discretionary (+0.9%), Healthcare (+1.7%), Staples (+2.5%), Industrials (+2.9%) and Financials (+3.1%) – although only one sector lost ground showing the broadening nature of the market rally.

PORTFOLIO POSITIONING

The portfolio held 20 positions at the end of March and while cash remained above average, the portfolio still experienced a strong outperformance of 242bps relative to its benchmark.

There were three changes to the portfolio during the month; we sold **Lendlease (LLC)** after a weak result, bought **Corporate Travel (CTD)** after they reported and re-entered **Magellan Financial Group (MFG)** on a pullback, having taken profits earlier in the year.

As the March quarter progressed, we saw a much more evenly distributed rally compared to the December quarter of 2023, where tech and tech-aligned sectors outperformed the rest of the market. Markets are now seeing gains distributed more equitably amongst various sectors and industries, and this was true for the portfolio, with only two positions detracting from performance in the month, while the top five contributors were spread across four different sectors.

Overall, news flow was positive, implying stable growth (no recession), still falling inflation, looming rate cuts and a broadening of the market rally. We remain positive on equities overall, while the outlook for bonds is also constructive, implying that portfolio returns should remain above average for the remainder of the year and well into 2025.

Lendlease (LLC) was sold from the portfolio early in the month following a weak result and muted guidance. While the turnaround in LLC is progressing, the timing of improved returns was pushed back which has ramifications from a balance sheet perspective creating an outside chance they may need to raise capital, depending on the patience of lenders and how they look at covenants. We think there remains more downside risk, so we cut the position for a loss.

We were very critical of the **Corporate Travel (CTD)** result on the day it landed (here), a big miss to expectations and it was messy. At a high level, revenue was down -5% and earnings a touch more for the half, while FY24 guidance was cut by ~15% – the stock was rightly hit over 16% on the day of their result.

However, on reflection, we believe the market may have become too short-term focused, and although our initial reaction to their result was to step aside, CTD looks suitable for patient investors over the coming years. We see significant upside potential in the vast North American market, where CTD still has a market share of less than 1%. Hence, our conclusion was the recent sell-off provided a good risk/reward opportunity to enter a quality business that plans to double its FY24 profits organically in 5 years. We added CTD to the portfolio early in March.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	3.84
TOP 5 POSITIONS (% OF AUM)	30.44
TOP 10 POSITIONS (% OF AUM)	55.23

STOCK	CONTRIBUTION (%)
EVOLUTION MINING (EVN)	1.03
SANDFIRE RESOURCES (SFR)	0.90
GOODMAN GROUP (GMG)	0.70
RESMED (RMD)	0.64
MAGELLAN FINANCIAL GROUP (MFG)	0.35

STOCK	DETRACTION (%)
PILBARA MINERALS (PLS)	-0.42
LENDLEASE (LLC)	-0.13

%	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				**16.63**
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													**64.55**

PORTFOLIO POSITIONING CONTINUED

Magellan (MFG) is back in the portfolio after we took profit back in January, the stock correcting towards $8. The crux of our attraction to MFG is threefold:

- Approx. 50% of the company's value is tied up in cash and investments, which could easily lead to future buybacks and other capital management initiatives.
- The company has a strong balance sheet and carries no debt, with cash recently bolstered by ~$80m of sold fund investments, while capital disclosures indicate ~$311m of (liquid) strategic capital.
- The company's earnings are linked to the stock market's performance, and we're bullish on the fate of markets this year.

While FUM flows will remain important, performance is improving, and this is the key to retaining and attracting capital. We believe MFG is worth somewhere in the range of $11-12.

China's Ministry of Commerce has recently announced the removal of one of its last major sanctions on $20 billion of Australian exports which were imposed when relations soured under the Morrison government - tariffs on Australian wine finally dropped to zero at the end of last month. **Treasury Wines (TWE)** owned Penfolds are extremely well positioned to leverage off the good but largely anticipated news with the brand remaining prominent in China - they kept more than 100 staff in the country even after Beijing slapped the huge 175% tariffs on its Australian exports – price rises are now set to follow on its top-quality labels as demand is set to outstrip supply.

The world's second-largest economy is an extremely attractive wine market for TWE, which has been sorely missed over recent years, but now it's set to create a more diversified revenue base for the Australian winemaker after it was forced to evolve into other markets. The improving supply / demand dynamics are set to lift margins, with China the accelerant as America continues to reposition itself as a growing luxury wine market for TWE and especially its Penfolds brand.

TWE has been planning for this day for a long time, and we believe the company is extremely well positioned to execute such plans moving forward, e.g. reallocate a portion of Penfolds luxury wine from other markets into China and expand sales and marketing into the region to re-establish its luxury labels.

We have remained patient holders of Treasury Wines for almost a year, and we now expect the position to contribute more favourably to performance.

Goodman Group (GMG) has been a top portfolio performer in recent periods, and it remained well supported in March, following their upgraded earnings guidance in February. GMG remains a core portfolio holding, and we're backing their tilt towards data centres, a theme we think will only grow over the coming years as AI continues to build momentum – as JP Morgan CEO Jamie Dimon recently said, AI could be as transformational as the Steam Engine!

While GMG was on the podium this month, Evolution Mining (EVN) was the portfolio's top contributor, having been a drag in recent periods. The gold price is at record highs, and Copper is at the highest level in over a year, yet EVN still trades ~40% below its 2020 high. Operational issues, cost pressures and an equity raise to make an acquisition have seen EVN in the naughty corner at the end of CY23, however, things are improving, and we are confident that EVN is well-positioned to take advantage of the prevailing commodity price tailwinds.

Copper company **Sandfire Resources (SFR)** was volatile during the month and is garnering plenty of attention due to its ongoing strength. Many in the market think it's simply too expensive, with several downgrades from brokers, and cautious rhetoric from fund managers, but there are a few moving parts in this equation. The central bearish thesis is around valuation, with SFR up significantly more than the copper price.

PORTFOLIO POSITIONING CONTINUED

Copper remains our preferred commodity as we travel through 2024 and while **BHP Group (BHP)** and **Evolution Mining (EVN)** offer solid exposure to the industrial metal, SFR provides investors with the purest play towards a growing production profile.

Like **Commonwealth Bank (CBA)**, which has been making new highs in price and valuation terms and is the best bank available to investors (although analysts are universally bearish due to relative valuation), SFR sits on top of the podium locally for copper. Hence, while we remain bullish towards the industrial metal, we are likely to maintain our SFR position. While it is fully priced around $9 based on copper at $US4.00, they are on track to increase production by ~50% over the next two years into what we think will be a very strong pricing environment.

Commodities more generally are an area we are bullish on, and the portfolio is now overweight the sector. March saw signs that sentiment towards China was improving, backed by stimulus and a centralised Government that needs to sort out the ongoing issues impacting growth, largely stemming from the property sector. We are now heavily overweight commodities in the Active Growth Portfolio, with a ~35% weighting, around 14% above the benchmark.