MARKET MATTERS
INVEST

MONTHLY REPORT | NOVEMBER 2023 | 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	8.01%*

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 added 4.7% in November, underperforming the S&P/ASX 200 Accumulation Index which advanced 5%. The portfolio has returned 9.06% for the rolling 12 months against the benchmark return of 1.45% & 10.33% per annum for 3 years, outperforming the market return of 7.16%.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	4.70	-1.76	3.14	9.06	7.98	10.33
BENCHMARK %	5.03	-1.80	2.05	1.45	3.22	7.16
RELATIVE %	-0.33	0.04	1.09	7.61	4.76	3.17

Benchmark: S&P/ASX 200 Accumulation

More broadly, the MSCI World Index in Australian dollar terms rose during November (4.44%), while US indices had one of their best months in the past century, the S&P 500 up an impressive (9.1%) in local currency terms – materially outperforming the ASX. Australian 10-year bond yields fell 52bps to finish November at 4.4%, now only 5bps above the cash rate, having peaked at 5%.

In the US, the Federal Reserve kept interest rates on hold while their rhetoric turned more balanced (as opposed to hawkish), the subtle but important change had a large influence on yields with the US 10-year down by 61bps to 4.32%, ~100bps below the fed funds rate.

Commodity prices were mixed, Brent Oil fell 5.2% to US$82.80/bbl, despite extensions to production cuts. Iron Ore prices were strong, rising by 7.8% to US$132.00/Mt, while $US weakness has continued to drive gold higher, rising by 2.6% to US$2036.

Healthcare (+11.69%) stormed higher after a soft period, Real Estate (+10.79%) followed closely while Information Technology (+7.27%), Industrials (+6.58%), Materials (+4.89%), Consumer Discretionary (+4.68%), Financials (+4.12%) and Communication Services (2.8%) all ended the month higher i.e., 8 out of 11 sectors were up.

Energy (-7.41%) was a notable underperformer while Utilities (-6.03%) and Consumer Staples (-0.88%) also lost ground.

PORTFOLIO POSITIONING

The portfolio held 20 positions at the end of November with cash finishing the month at ~4%.

Having been active in October, we were largely inactive in November, with a slight increase in the weighting of **Lendlease (LLC)** being the only portfolio change.

The 4.7% advance was slightly behind the index return of 5%, however, we remain very comfortable with portfolio positioning as we enter the last month of the calendar year, with the portfolio currently up 12.66% for 11 months, 7.85% ahead of the ASX 200 Accumulation Index.

While most portfolio holdings did well in November, three positions dragged on returns.

Treasury Wines (TWE) was the most notable detractor, taking 66bps from portfolio performance after announcing the $1.6bn acquisition of upmarket Californian unlisted wine group Daou Vineyards, another foray into the US late in October. The acquisition was largely funded through a $US825mn equity raising at $10.80 per share, with an attached retail entitlement offer.

In last month's report, we flagged our intention to take up the rights, however, as the share price tracked below the issue price, we elected not to for the model, maintaining the existing portfolio weighting.

Xero (XRO) had a volatile month, rallying early on before experiencing a sharp pullback after reporting 1H24 results that were a slight disappointment to our expectations. The good news was a great core Australia & NZ result with a combined 139k subs added and a small revenue beat. Free Cash Flow (FCF) at $NZ107m was solid, though this was driven by lower capex in the period as shown by the ~5% EBITDA miss.

The company maintained FY24 guidance for 75% operating expenses to revenue, though we suspect the market was looking for an upgrade here given the focus on costs at the FY23 result in May. They talked to an improved strategy around the US market which will be key to growth longer term but may cause some short-term pain.

Overall, we thought the reaction to the miss has been overdone and primarily driven by the market being long/overweight the stock after May's strong earnings report. The business is moving towards a more solid, balanced footing as they leverage the nearly 4 million customers they have globally, although, we suspect the stock will struggle to push meaningfully higher in the short term

More pleasingly, **Altium (ALU)** was a key contributor in the month, having been added back into the portfolio early in October. The company showed very positive trends in their FY23 result, however, shares suffered from a rise in yields presenting another solid risk/reward entry point. We rate their management team highly, making this our favoured local tech stock with a scalable business model. The company doesn't report until February, taking that risk off the table for the foreseeable future.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	3.77
TOP 5 POSITIONS (% OF AUM)	31.42
TOP 10 POSITIONS (% OF AUM)	55.92

STOCK	CONTRIBUTION (%)
ALTIUM (ALU)	0.69
EVOLUTION MINING (EVN)	0.57
RESMED (RMD)	0.54
NORTHERN STAR RESOURCES (NST)	0.48
MAGELLAN FINANCIAL GROUP (MFG)	0.46

STOCK	DETRACTION (%)
TREASURY WINES (TWE)	-0.66
XERO (XRO)	-0.17
WHITEHAVEN COAL (WHC)	-0.17

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY24	4.82	-1.54	-1.48	-4.76	4.70								**1.74**
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													**49.66**

PORTFOLIO POSITIONING CONTINUED

As markets turned more dovish towards interest rates, bond yields pulled back materially during November, putting downward pressure on the $US. The direction of currencies is largely determined by interest rate differentials, and it seems likely the US will be the first to cut rates, reducing the spread.

A weaker $US proved very bullish for Gold and thus gold equities. The portfolio is overweight the sector via holdings in **Northern Star Resources (NST)** and **Evolution Mining (EVN)**. Given our core macro views, we are forecasting further downside for the $US and further upside for Gold stocks. We intend to remain overweight in this portfolio.

We have covered **ResMed's (RMD)** fall from grace several times recently, as the combination of Ozempic compounded a disappointing FY23 result leading to a large ~30% pullback in the stock. The uncertainty that the weight loss drug (for diabetes) on future demand for Sleep Apnoea treatments has weighed heavily, however, the sell-off could be interpreted as turning RMD into a cheap defensive depending on one's view towards Ozempic & Co.'s ability to cure the global obesity problem.

A Market Matters, we believe the markets significantly overcooked the silver bullet view on weight loss, and we firmly believe the sell-off in RMD is overdone. While we are not increasing our weighting (~5%) given our higher risk premium attached to the position, we do plan to hold.

From all the team at Market Matters, wishing all our investors a safe and happy festive period, and here's to a great 2024. We thank you for your ongoing trust and support.