MARKET MATTERS
INVEST

MONTHLY REPORT | OCTOBER 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	7.25%*

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 fell -4.76% in October, underperforming the S&P/ASX 200 Accumulation Index which fell by -3.78%. The portfolio has returned 12.23% for the rolling 12 months against the benchmark return of 2.95% & 13.79% per annum for 3 years, outperforming the market return of 8.89%.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	-4.76	-7.60	-3.18	12.23	3.67	13.79
BENCHMARK %	-3.78	-7.19	-5.30	2.95	0.44	8.89
RELATIVE %	-0.98	-0.41	2.12	9.28	3.23	4.90

Benchmark: S&P/ASX 200 Accumulation

More broadly, the MSCI Developed Markets Index fell during October (-2.6%), while the S&P 500 also declined (-2.1%%) in local currency terms – both outperforming the ASX. Australian 10-year bond yields finished the month at 4.92%, up a significant 44bps, and 82bps above the cash rate, implying further rate hikes are expected – quite an extraordinary move really.

In the US, the Federal Reserve kept interest rates on hold while continuing to jawbone the possibility of additional hikes if economic conditions warrant, the rhetoric pushed bond yields higher with the US 10-year yield up by 33bps to 4.90%, but yields remain below the cash rate implying interest rate cuts remain on the agenda.

Commodity prices were mixed, Brent Oil fell by US$7.86 to US$87.45/bbl, despite growing tensions in the Middle East. Iron Ore prices held, rising by US$2.50 to US$122.00/Mt, while safe-haven demand has continued to drive gold higher, rising by US$127.10 to US$1,998.

Utilities (+1.%) were the only sector to make gains while Materials (-0.80%), Communication Services (-2.9%) and Financials (-3.6%) outperformed the benchmark.

IT (-7.6%) and Healthcare (-7.2%) struggled, while Industrials (-6.4%), REITs (-5.8%), Energy (-5.1%), Consumer Discretionary (-4.8%) and Staples (-4.0%) all dipped more than the market.

PORTFOLIO POSITIONING

The portfolio held 20 positions at the end of October with cash finishing the month at ~4.5%.

It was a disappointing month from both an absolute and relative sense for the Growth Portfolio, with several individual positions coming out with negative updates which compounded the broader market weakness, leading to 98bps of underperformance.

We made three changes to the portfolio in October, selling out of **Woodside Energy (WDS)** as it failed to embrace higher energy prices, **Cleanaway (CWY)** ahead of its AGM on concerns (that ultimately proved unfounded) around the potential for weaker guidance for the year ahead while we bought back into **Altium (ALU)** following their strong FY23 results.

Cleanaway (CWY) had been struggling since they reported FY23 results in August that were solid/in line with expectations, although they put off providing a trading update and guidance until their AGM. We interpreted this as a sign of potential weakness and sold the stock as a result. CWY has had some challenges, with labour availability being a big one, and given inflationary pressures more broadly, we exited the holding for a small loss to allocate elsewhere.

Altium (ALU) was added back into the portfolio in October following a strong FY23 result and guidance in August that saw the stock surge, before drifting back ~15% on broader market-related weakness. We were most impressed with the composition of their earnings which supports strong ongoing growth in subscriptions. They reiterated their FY26 aspirational target of US$500m revenue and a 38-40% EBITDA margin and while they maintained their intention to reach 100k subscribers by FY26, they did say revenue could be achieved with only 75-90k seats on subscription.

Whitehaven Coal (WHC) announced the purchase of the Daunia & Blackwater met coal mines in QLD from BHP Mitsubishi Alliance (BMA) with a sticker price of $US3.2bn a touch below what we expected. On spot prices, they paid 1.8x EV / FY2024F EBITDA i.e. very cheap, noting this could increase if met coal prices remain strong with some potential sweeteners for BMA.

Importantly, these are met coal mines used in steel making, not thermal coal used in power generation as the bulk of WHC production is currently. This transforms WHC into a primarily met coal company, generating ~70% of sales from a product that has a long future.

Also worth noting, is that the shift towards met coal will deliver financial market benefits i.e. a greater degree of funding optionality and an increase in the number of funds that could own WHC (thermal coal is the one being snubbed from an ESG perspective), a company with 70% in met coal should be enough to overcome some mandate restrictions.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	3.88
TOP 5 POSITIONS (% OF AUM)	32.00
TOP 10 POSITIONS (% OF AUM)	56.69

STOCK	CONTRIBUTION (%)
NORTHERN STAR (NST)	0.55
EVOLUTION MINING (EVN)	0.30
WHITEHAVEN COAL (WHC)	0.19
BHP GROUP (BHP)	0.05
LENDLEASE (LLC)	0.51

STOCK	CONTRIBUTION (%)
MAGELLAN FINANCIAL GROUP (MFG)	-1.29
PALADIN (PDN)	-0.58
LENDLEASE (LLC)	-0.53
MINERAL RESOURCES (MIN)	-0.46
NATIONAL STORAGE REIT (NSR)	-0.44

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY24	4.82	-1.54	-1.48	-4.76									**-2.96**
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													**44.96**

PORTFOLIO POSITIONING CONTINUED

Steel is required for urbanisation, but importantly, steel is also required to build infrastructure for the energy transition, with very little new supply on the horizon. We remain patiently long WHC.

At the end of October, **Treasury Wines (TWE)** announced the $1.6bn acquisition of upmarket Californian unlisted wine group Daou Vineyards, another foray into the US, which some would argue hasn't been a great hunting ground for the winemaker over the last decade. This is a reasonably bold play by CEO Tim Ford; considering its chequered history in the US, we admire his belief and, unlike many, the confidence to take the hard/bold calls. The definite alignment with this purchase is the company's continued focus on the luxury end of the market, and it will make TWE a market leader in the US luxury wine segment with over 11% market share.

The acquisition will be largely funded through a $US825mn equity raising at $10.80 per share, which we intend to participate in.

The major detractor on performance came from the embattled fund manager, **Magellan Financial Group (MFG)** which took 1.29% from portfolio performance. They flagged the resumption of big outflows exacerbated by weakness across financial markets, while their CEO announced he was leaving.

Our bullish thesis was predicated on improving performance stemming outflows, and in time leading to inflows – which looks wrong. Performance impacts flows and performance fees - it's the lifeblood of an active manager. MFG had turned the performance corner at their last update, however, last month's numbers imply otherwise.

Two parts make up the value in MFG:

1. Cash and investments held on their balance sheet.
2. The fund management business.

Most analysts have a base case for cash and investments worth between $5-6 per share. At the low end, that now implies the funds business is ~$2/sh of the total.

At current prices, investors are buying $35bn of funds under management for ~$300m, or less than 3x earnings. The key for Magellan in our view will be a simplification of the business, a realignment of remuneration to incentivise new management, and a focus on building trust through the products they already have rather than focusing on growth and at the same time, launching a more widespread capital management initiative. We believe the departure of the CEO is a positive step towards this end, and remain holders of MFG.`

While performance in October was weak, the portfolio remains ahead of its benchmark on all key timeframes.