MARKET MATTERS
INVEST

MONTHLY REPORT | SEPTEMBER 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	8.75%*

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 -1.48% in September, outperforming the S&P/ASX 200 Accumulation Index which fell by -2.84%. The portfolio has returned +22.17% for the rolling 12 months against the benchmark return of +13.46% and +15.25% per annum for 3 years, outperforming the market return of 11.01%.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	-1.48	1.69	4.33	22.17	7.16	15.25
BENCHMARK %	-2.84	-0.77	0.24	13.46	2.35	11.01
RELATIVE %	1.36	2.46	4.09	8.71	4.81	4.24

Benchmark: S&P/ASX 200 Accumulation

More broadly, the MSCI Developed Markets Index fell during September (-3.7%), while the S&P 500 also declined (-4.8%) in local currency terms. Australian 10-year bond yields finished the month at 4.49%, up a significant 46bps despite the RBA leaving the cash rate unchanged.

In the US, the Federal Reserve delivered a ‘hawkish pause’, keeping their target rate unchanged but implied higher rates were a distinct possibility, 10-Year US Treasury yields increased 49bps to 4.57%, having a significant influence on stocks.

Commodity prices were mixed over Sept. Brent Oil rose by US$8.45 to US$95.31/bbl, on a resilient US economy and bullish demand sentiment around China over Golden Week holidays. Iron Ore prices held, rising by US$2.00 to US$119.50/Mt, however depressed rebar prices and spreads signal softening steel demand by China. Gold prices fell on a strong dollar, falling by US$71.80 to US$1,871.

Energy (+1.6%) was the only sector to make gains while Financials (-1.6%), Consumer Staples (-1.8%), Materials (-1.8%) and Utilities (-1.9%) outperformed the benchmark.

Property (-8.6%) struggled most while IT (-7.9%), Healthcare (-6.2%) Consumer Discretionary (-3.7%), Communication Services (-3.5%) and Industrials (-3.2%) all dipped more than the market.

WHAT'S OUR TAKE ON THE MACRO?

Markets have become decidedly more anxious over the past month, but it's important to realise that while the ASX 200 did hit multi-month lows in September and there are legitimate risks to the outlook, underlying fundamentals remain generally robust.

First, while there are reasonable concerns about a future economic slowdown, the latest economic data remains solid. Employment, consumer spending and business investment were all resilient in the first quarter and there simply isn't much actual economic data that points to an imminent economic slowdown. So, while a future economic slowdown is certainly possible given higher interest rates, the actual economic data is clear: It isn't happening yet.

Second, fears that inflation may bounce back are also legitimate, given the rally in oil prices. But the Reserve Bank of Australia, The US Federal Reserve and other central banks typically look past commodity-driven inflation and instead focus on "core" inflation and that metric continued to decline throughout the period. Additionally, declines in housing prices from the recent peak are only now beginning to work into the official inflation statistics, and that should see core inflation continue to move lower in the months and quarters ahead.

Finally, regarding monetary policy, the US Federal Reserve's historic rate hike campaign is nearing an end. And while we should expect the Fed to keep rates "higher for longer," high interest rates do not automatically result in an economic slowdown. Interest rates have merely returned to levels that were typical in the 1990s and early 2000s, before the financial crisis, and the economy performed well during those periods. Yes, the risk of higher rates causing an economic slowdown is one that must be monitored closely, but for now, higher rates are not causing a material loss of economic momentum.

To be clear, there are real risks to both the markets and the economy as we move deeper into FY24. But these are largely the same risks that markets have faced throughout FY23 and over that period the economy and markets have remained impressively resilient.

So, while these risks and others must be monitored closely, they don't present any new significant headwinds on stocks that haven't existed for much of the year. We intend to remain invested, holding stocks that we believe offer good risk/reward dynamics, that align with our broader macro views. We don't believe now is the right time to significantly increase cash, or turn aggressively defensive.

PORTFOLIO POSITIONING

The portfolio held 20 positions at the end of September with cash finishing the month at ~6.5%.

With the first quarter of the new financial year now in the books, the portfolio has outperformed by 2.46% in aggregate which is pleasing and sets up a good foundation for the year ahead.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	4.08
TOP 5 POSITIONS (% OF AUM)	32.22
TOP 10 POSITIONS (% OF AUM)	54.59

STOCK	CONTRIBUTION (%)
PALADIN ENERGY (PDN)	0.94
WHITEHAVEN COAL (WHC)	0.66
TREASURY WINES (TWE)	0.30
BHP GROUP (BHP)	0.17
MAGELLAN FINANCIAL GROUP (MFG)	0.13

STOCK	DETRACTION (%)
NORTHERN STAR (NST)	-0.58
XERO (XRO)	-0.58
EVOLUTION MINING (EVN)	-0.45
SANDFIRE RESOURCES (SFR)	-0.39
RESMED (RMD)	-0.37

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY24	4.82	-1.54	-1.48										**1.8**
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													**49.72**

PORTFOLIO POSITIONING CONTINUED

At a high level, we had a strong start and end to the period (July and September outperformance), but a soft middle (August underperformance).

The quarter remained an active one, with a noticeable 'shift' into more value-orientated stocks that have been unloved over the past few years but importantly, have a credible path to redemption. Buying depressed stocks means identifying a catalyst that can change their fortune, and while it's difficult to get the timing right in the very short term, we ultimately think patience will be rewarded as easing volatility in the macro environment combines with better operational performance, delivering a double positive for the stocks that fit this bill.

To that end, we bought unloved fund manager **Magellan Financial Group (MFG)**, depressed property company **Lendlease (LLC)** and Australia's largest network of self-storage facilities, **National Storage REIT (NSR)**. MFG had a positive impact on portfolio performance, while the latter two detracted from returns.

We made a modest increase in our weightings towards commodities, and this remains an area of the market we like. At a macro level, we believe central banks globally have pivoted on rates, and while bond yields are yet to taper off, we think this non-consensus view will come to fruition at some point. The $US is moving in tandem `with bond yields, and if/when these yields follow our roadmap lower the likelihood is that the $US will fall which should prove very supportive of commodities.

Very tepid supply growth over recent years across many key commodities is likely to meet growing demand as the energy transition takes hold, which dovetails into another major 'tilt' to the portfolio.

Decarbonisation is a theme with decades of runway and will have a profound impact on the market broadly, and the returns of portfolios that pick the beneficiaries of this tectonic change.

We believe we've identified a nice blend of companies to own, from those that are benefitting from the multi-decade-long build towards renewables to more traditional old-world companies that will benefit from the enormity and complexity and thus time to reach scale.

Professional Services company **Worley (WOR)** remains a key pick for this thematic, however we also have exposure to Copper via **Sandfire Resources (SFR)**, **BHP Group (BHP)** and **Evolution Mining (EVN)**, Coal via **Whitehaven (WHC)** and Uranium via Paladin Energy (PDN), which was the portfolios top performer in September.

Holdings in Healthcare companies have detracted from recent returns. The biggest drag has been **ResMed (RMD)**, driven largely by investor focus on the rise of weight loss drugs, particularly in the US, and their potential impact on Obstructive Sleep Apnea (OSA). While this has not impacted RMD earnings at this stage, the uncertainty has led to a large drawdown in the stock. **Ramsay Healthcare (RHC)** was also soft and combined was the area we got most wrong during the period.

The portfolio holds a ~13% weighting to major banks split across **ANZ Bank (ANZ)** and **National Bank (NAB)** against the ASX 200, which has a 19.8% weighting to the majors and a 24% weighting to banks when the regionals are included (ex SUN and MQG).

Banks have underperformed the broader market YTD, down 3.5% vs. a flat market. WBC has been the poorest of the majors while ANZ has been the best performer.

From a sector perspective, positives include better economic conditions driving a better credit cycle. In other words, bad debts are still very low even with the significant increase in interest rates, while capital levels are incredibly strong, and this opens the door for higher dividend payouts and other forms of supportive capital management. Put simply, banks are in incredible shape from a capital position which makes them safer, but they do have some headwinds around earnings.

There remains some pressure on margins, a result of irrational pricing on mortgages (to win market share), and pressure to attract deposits (both are good for the consumer), although there is evidence that this has subsided more recently. Funding costs are also going up while cost pressures have been obvious.

Overall, consensus expectations have major bank earnings contracting ~6.5% in FY24 and only returning to the levels seen in FY23 by FY27, which is a pessimistic outlook. While we don't expect significant capital growth in the banks, which is why we remain underweight the sector, their strong capital positions will support yields, and any share price weakness could create an opportunity to add to the sector. We see most upside in ANZ, highest safety in CBA, while NAB and WBC offer the most attractive yields. We remain negative on the regionals given scale issues.

DISCLOSURE

Market Matters, its employees, associates and / or contributors may hold stocks mentioned in this report.

DISCLAIMER

Market Matters Invest is distributed by Market Matters, ACN 137462536, AFSL 488 798; and administered by OpenInvest Limited ACN 614 587 183, the responsible entity of the Service, via the OpenInvest Portfolio Service ARSN 628 156 052. It is general advice only and is not intended to provide you with financial advice, and has been prepared without taking into account your objectives, financial situation or needs.

Before making any investment decision, please review the PDS and Target Market Determination (available here at www.openivest.com.au). Should you require assistance in determining whether an investment in the service is right for you, you may wish to seek personal advice from an appropriately licensed financial adviser.

All figures contained from sources believed to be accurate. Past performance is not an indication of future performance. Investing and trading carry financial risk, when judging performance please consider the different types of investments and levels of risk associated.

Market Matters does not make any representation of warranty as to the accuracy of the figures and disclaims any liability resulting from any inaccuracy. Performance of the Portfolio is based on a model portfolio and is gross of investment management, administration fees and transaction costs. The total return performance figures quoted are historical and include franking credits. Total returns assume the reinvestment of all portfolio income.