



MARKET MATTERS
INVEST

MONTHLY REPORT | APRIL 2023 | ACTIVE HIGH CONVICTION

PORTFOLIO DETAILS

Portfolio Name	Active High Conviction
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	8.68%*

OBJECTIVE

The objective of the Market Matters Active High Conviction 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 High Conviction Portfolio increased by +2.63% in April, outperforming the S&P/ASX 200 Accumulation Index which advanced by 1.85%. The portfolio has returned 10.86% for the rolling 12 months and 17.74% per annum for 3 years.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	2.63	2.74	15.92	10.86	10.27	17.74
BENCHMARK %	1.85	-0.80	8.71	2.83	6.44	14.01
RELATIVE %	0.78	3.54	7.21	8.03	3.83	3.73

Benchmark: S&P/ASX 200 Accumulation

Australian equities rallied in April as slowing inflation prompted a reassessment on the need for any further rate hikes from the RBA. That saw the local market, as measured by the ASX 200 Accumulation Index advance (+1.8%) and outperform other developed markets.

The MSCI Developed Markets Index rose over the month (+1.7%), and the S&P 500 also gained (+1.6%) in local currency terms.

Bond yields were more subdued during April and this provided a tailwind for equities. Australian 10-year yields tracked sideways as the cash rate remained unchanged, increasing a modest 4bps to 3.34%. US yields fell 5bps to 3.45%, on expectations of a pause to the Feds aggressive rate hike path.

Amongst commodity markets, there were mixed results. Brent Oil fell by just US\$0.23c to US\$79.54/bbl, Iron Ore prices fell by \$22.00 to US\$105.00/Mt on lagging steel demand from China while Gold prices remained relatively flat over the month, up by just US \$2.85 to US\$1,983.

Locally, the Materials sector was the top performer up (+5.9%), while Communication Services (+3.4%), Consumer Discretionary (+1.7%), Utilities (+1.5%), Consumer Staples (+0.5%), Industrials (+0.3%) and Healthcare (+0.10%) all made gains.

The Real-Estate sector was the hardest hit during March ending down (-6.8%) while Financials (-4.9%), Energy (-1.5%) and IT (-0.30%) also fell.



PORTFOLIO STOCKS

The portfolio held 20 positions at the end of April with our main sector tilts remaining towards Technology and Gold, although cash now represents a higher proportion of the portfolio.

We made several changes during the month broadly reducing the 'beta' of the portfolio, locking in some profits in technology and resources while increasing healthcare and cash. The resulting changes included the sale of **Altium (ALU)** and **Sandfire Resources (SFR)**, trimming positions in **REA Group (REA)** and **CSL Limited (CSL)**, switching out of **IGO Limited (IGO)** into **Pilbara Minerals (PLS)** and the purchase of **Ramsay Healthcare (RHC)**. Cash in the portfolio increased to -12% by months end.

Altium (ALU) has been a core holding in the portfolio for nearly 2 years however during the month we elected to lock in profit following a strong ~35% advance. While ALU remains a quality technology company with a very strong growth outlook ahead, and importantly, a track record of executing on their stated plans, shares in our opinion had become fully valued ~\$38 and we liquidated the holding. We are likely to revisit this position if/when the risk/reward improves.

We completely exited Copper company **Sandfire Resources (SFR)** having previously trimmed the position on two separate occasions. The stock was a strong performer for the portfolio, up over ~70% in less than 6 months. The share price has significantly outpaced the rise in copper, while we expect bouts of concern percolating from recession fears to underpin ongoing volatility, even though we have a positive bias in the medium term given the demand outlook from decarbonisation projects. Like Altium, we do expect to own Sandfire again.

PORTFOLIO STOCKS

NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	4.27
TOP 5 POSITIONS (% OF AUM)	30.2
TOP 10 POSITIONS (% OF AUM)	55.15

STOCK	CONTRIBUTION (%)
NEWCREST MINING (NCM)	0.55
EVOLUTION MINING (EVN)	0.50
ANZ BANK (ANZ)	0.38
CSL LIMITED (CSL)	0.32
JAMES HARDIE (JHX)	0.27

STOCK	DETRACTION (%)
BHP GROUP (BHP)	-0.40
MINERAL RESOURCES (MIN)	-0.36
RAMSAY HEALTHCARE (RHC)	-0.34
ALTIUM (ALU)	-0.09
TREASURY WINES (TWE)	-0.06

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%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY23	8.16	2.80	-5.71	3.68	7.75	-3.20	8.18	-1.93	2.08	2.63			24.44
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													47.93

In 2021, **IGO Limited (IGO)** acquired Western Areas and increased their exposure to Nickel in the process as they pivoted aggressively towards 'future facing commodities', with Nickel being a key component for batteries used in electric vehicles. However, there is alternative technology being assessed that could reduce the demand for Nickel in the future. While it's very hard to know where all this will land, we are more certain about the ongoing demand outlook for Lithium, and because of that, we sold the last of our IGO position, switching into **Pilbara Minerals (PLS)**. At their last quarterly update, PLS showed net cash of \$2.7bn with significant Free Cash Flow (FCF) likely in the coming quarters. This will underpin rising dividends which should help to support the shares in this more volatile sector.

Mineral Resources (MIN) was a key detractor during the month following a very weak quarterly production report, hitting portfolio returns by -0.36%. They flagged lower Lithium chemical sales, delays with expansion projects, weaker realised pricing, and softer mining services volumes – not a lot to like with the only relative bright spot coming from their Iron Ore division with production inline with expectations. Obviously, never good news when stocks we own disappoint and we think the risk has now increased in this position given they are in ramp-up phase, so earnings are important to fund this development. The update during the period implies a lower dividend payout in a few months' time. We are not planning on increasing our current -4% weighting.

We end April with a more defensive portfolio, reduced beta, and higher cash as we head into 'confession season' before full-year results start landing in August.

Lead Portfolio Manager **James Gerrish** was featured in the [Rules of Investing Podcast](#) during the month, discussing investment style and market views. The wide-ranging discussion covers:

- Benefits of holding short-term views when long-term investing;
- Market signals that matter most;
- Sectors with the best risk adjusted return; and
- The one thing investors should fear.

The episode was recorded on Wednesday April 12, 2023 and can be accessed [here](#).

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