MARKET MATTERS
INVEST

MONTHLY REPORT | JANUARY 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	8.53%*

**Inception Date 10.05.2016*

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).

MARKETS & PERFORMANCE

The Market Matters Active High Conviction Portfolio advanced 8.18% in January, outperforming the S&P/ASX 200 Accumulation Index which added 6.23%. The portfolio has returned 13.53% for the rolling 12 months, 13.09% per annum over 2 years, 6.81% per annum over 3 years & 8.53% per annum since inception.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	8.18	12.83	13.40	13.53	13.09	6.81
BENCHMARK %	6.23	9.59	10.32	12.21	10.83	5.96
RELATIVE %	1.95	3.24	3.08	1.32	2.26	0.85

Benchmark: S&P/ASX 200 Accumulation

A bullish start to the new year with global equity markets enjoying some clear air, at least for now, with stabilising recessionary expectations and easing rate hike fears permeating from softer-than-expected US growth data.

For January, the MSCI Developed Markets Index rose +6.5%, the S&P 500 gained +5.3% in local currency terms, while local stocks did better, the ASX 200 inclusive of dividends up by +6.2%.

Moves such as these highlight the importance of investor positioning in performance outcomes, with bearish rhetoric and defensive asset allocation very evident at the back end of 2022. Simply put, if the majority are underweight equities and overweight cash, positioned for looming economic pain, it leaves a void of natural sellers.

When ‘less bad’ news emerges then buying becomes amplified, January was certainly a case in point and a lesson to remain open-minded for the year ahead.

The more tepid growth outlook was reflected in bond markets, as the Australian 10-year yield fell by 50bps to 3.55% while US 10-year yield also moved down by 35bps from 3.88% to 3.53%.

Amongst commodities, Brent Oil prices fell US$1.01 to US$84.90/bbl, Iron Ore prices increased US$11.5 to US$129/Mt on optimism around Chinese re-opening, however, it was the gold price that benefitted most from a fall in the USD, adding US$110.35 to US$1,924.

There are growing signs that inflation has now peaked, and the lion’s share of interest rate hikes are now in the rearview mirror. This impacts sectors & stocks to varying degrees which sets up more opportunities for actively managed portfolios – we are excited for the year ahead and happy with how portfolios are positioned.

Locally, the consumer discretionary sector was the top performer up (+9.9%) for the month, while Materials (+8.9%) `& Property (+8.1%), also outperformed.

Utilities (-3.0%) was the only sector that fell while energy (+1.3%) and Healthcare (+3.9%) underperformed.

PORTFOLIO STOCKS

The portfolio held 19 positions at the end of January with a skew towards technology and resource companies while being underweight financials. This contributed to the outperformance against a strong market during the month, with interest rate-sensitive areas enjoying strong buying. We intend to progressively fade this move as it progresses. Cash was sitting at ~12% by month end as we took profits into prevailing strength.

We liquidated one of our favoured stocks during the month, being investment platform business **HUB24 (HUB)**, taking a reasonable profit in the process. While we like the medium to longer-term drivers of HUB and the independent platform space more broadly, near-term growth is slowing across the sector which could lead to lower multiples. At their quarterly update, net inflows of $2.8b were down from $3b in the first quarter and $3.3b in 2Q22. Net inflows were 13% lower in the first half compared to the same period last financial year. We think growth in the year ahead will be harder to come by, so we exited our position (for now).

We also trimmed our exposure to the copper company, **Sandfire Resources (SFR)** following a very strong appreciation in share price. Whilst the underlying copper price has rallied, Sandfire has benefited from **BHP's** takeover of **Oz Minerals (OZL)** at a time when their operational performance has also improved. We like SFR, although selling strength remains our preferred path.

James Hardie (JHX) was added to the portfolio in the December quarter and was a frustrating position at the outset, however, this worm has turned with JHX rallying strongly over the course of the month to be the biggest positive contributor to portfolio performance (+0.93%).

The business is highly leveraged to the US housing market which has struggled as interest rates have exploded on the upside. However, after halving in less than 12 months we believe the stock is now providing excellent value with plenty of bad news already factored into the share price. Material stocks generally turn before the housing cycle does, and we are seeing signs that this is now playing out. We remain high conviction on JHX in the low $30's.

Gold stocks have enjoyed a resurgence over the last few months as the sector benefits from a softening in bond yields and a "wobbly" $US Dollar.

It's important to remember that if macro influences remain flat that gold stocks remain cheap creating plenty of upside potential, especially if inflation looks to have peaked, as we think it has.

The portfolio is overweight Gold with positions in **Evolution Mining (EVN)** and **Newcrest Mining (NCM)**, and we intend to remain patient holders of both. NB. Newcrest has subsequently received a takeover offer from a larger international rival, Newmont, highlighting this point nicely.

Elsewhere, **Whitehaven Coal (WHC)** released a solid quarterly update during January, maintaining full-year cost and production guidance while Lithium & Nickel producer IGO Limited (IGO) was less impressive, flagging delays within their Lithium business, higher costs, and weaker realised pricing – a position we have trimmed.

BHP Group (BHP) reported a strong 2Q production update sending the shares up towards ~$50 for the 4th time post-Covid, a level where we 'trimmed' our position. This is undoubtedly a great company but if commodity prices struggle under the weight of a global recession this stock is likely to follow in the downdraft.

We remain active in our approach to this portfolio and are very optimistic on our strategy for the year ahead.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	19
ESTIMATED YIELD (%)	3.34
TOP 5 POSITIONS (% OF AUM)	32.07
TOP 10 POSITIONS (% OF AUM)	56.58

STOCK	CONTRIBUTION (%)
JAMES HARDIE (JHX)	0.93
MACQUARIE GROUP (MQG)	0.88
SEEK (SEK)	0.84
ALTIUM (ALU)	0.75
GOODMAN GROUP (GMG)	0.74

STOCK	DETRACTION (%)
WHITEHAVEN COAL (WHC)	-0.41

%	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						**21.66**
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													**45.15**

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