



MARKET MATTERS

INVEST

MONTHLY REPORT | JULY 2022 | 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	6.43%*

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 advanced 8.16% in July, outperforming the S&P/ASX 200 Accumulation Index which added 5.75%. The portfolio has returned 0.17% for the rolling 12 months, 14.04% per annum over 2 years, 3.49% per annum over 3 years & 6.43% per annum since inception.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	8.16	-4.85	0.11	0.17	14.04	3.49
BENCHMARK %	5.75	-6.04	1.71	-2.17	12.17	4.27
RELATIVE %	2.41	1.19	-1.60	2.34	1.87	-0.78

Benchmark: S&P/ASX 200 Accumulation

Global equities rebounded strongly in July as the market eased back on expectations around future interest rate hikes, the Australian 10-year yield lowered by 60bps to 3.06% while US yields also dropped 33bps to 2.64%. The MSCI Developed Markets Index rose (+8.0%), driven by a strong month for the S&P 500 which gained (+9.2%). The S&P/ASX 200 underperformed other developed markets but still lifted (+5.75%).

While stocks ran hot in July, Commodity prices broadly fell, Brent Oil down US\$5 to US\$110/bbl as bans on Russian shipments are delayed. Iron Ore prices also dropped US\$5 down to US\$118/Mt as Brazilian shipments hit record highs and demand remains soft. Gold saw large falls as prices fell by US\$60 to US\$1,753, as moderating inflation expectations improve investor risk sentiment.

Looking ahead, we now see markets starting to price interest rate cuts in 2023 and as markets are forward-looking, this provides a more favourable backdrop for equities.

Corporate America has continued to hold up relatively well with quarterly reporting providing a positive earnings surprise -78% of the time, which is about average, and certainly not the disaster that many had feared. Locally, FY22 results have started to land and this will likely be the next driver of the market's performance. For now, investors are positioned very cautiously with low embedded expectations.

We were pleased with our July returns across the Market Matters Portfolios and look forward to further outperformance as the year progresses.



PORTFOLIO STOCKS

The portfolio holds a collection of strong or strengthening ASX listed companies, many are well-known brands, priced reasonably that we believe will help the portfolio achieve its specific objectives. This is a high conviction approach, holding around 20 portfolio positions at any one time.

Monthly performance was underpinned by growth stocks, with a strong rebound in online accountancy platform Xero (XRO) and circuit design business, Altium (ALU). On the flip side, while we held an underweight position, our exposure to BHP Billiton (BHP) was a drag.

We were active in the portfolio during the month, using the prevailing strength to run up some cash ahead of earnings season, while also using the performance differential between technology and resources to play a contrarian card, reducing our exposure to high-value growth, and increasing our tilt toward resources.

Overall, the portfolio cut CSR Limited (CSR), Qantas (QAN) and reduced Goodman (GMG), Macquarie (MQG), Aristocrat Leisure (ALL) and Xero (XRO), while we increased BHP Group (BHP), Oz Minerals (OZL) and Woodside Energy (WDS).

As we pen this note, portfolio holding **Oz Minerals (OZL)** has rejected an unsolicited, conditional, and non-binding takeover proposal of \$25.00 per share in cash from BHP, which we also own. The board rejected the approach on valuation grounds despite the price representing a 32% premium to the last close, but looking further out, it was only a 13% premium to the 6-month volume weighted average price.

Based on a 30% premium to NPV for OZL, which is a typical sort of resource premium for a change of control transaction, OZL is worth ~\$30 per share.

While we trimmed **Xero (XRO)** during July, there's no real change with our view towards the online accounting firm, we like the business, but it struggled to maintain its challenging high valuation in today's environment of quantitative tightening. We held ~7% of the portfolio in XRO, we view this as too aggressive in today's uncertain macro environment hence we trimmed this back to ~5% around \$100.

PORTFOLIO STOCKS

NO. OF HOLDINGS	17
ESTIMATED YIELD (%)	4.16
TOP 5 POSITIONS (% OF AUM)	35.02
TOP 10 POSITIONS (% OF AUM)	62.64

STOCK	CONTRIBUTION (%)
Xero (XRO)	1.28
Altium (ALU)	0.89
Goodman Group (GMG)	0.82
Resmed (RMD)	0.69
Macquarie (MQG)	0.65

STOCK	DETRACTION (%)
BHP Group (BHP)	-0.41
Newcrest (NCM)	-0.35
Qantas (QAN)	-0.10

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY23	8.16												8.16
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													31.65

IGO Limited (IGO) hosted a very well-attended site visit towards the end of July, particularly by Fund Managers, which is not surprising considering this miner ticks the ESG mandates of many a manager through its nickel & lithium exposure i.e. prominent battery elements.

- Nickel: the company owns and operates the Nova nickel mine in WA - the nickel price has more than halved from its panic “Russian invasion” March high dragging the stock lower in the process.
- Lithium: IGO effectively owns 25% of the Greenbushes Spodumene mine and 49% of the Kwinana Lithium Hydroxide refinery - the pure lithium stocks have corrected in a very similar fashion to IGO e.g. Allkem (AKE) has corrected 35% from its 2022 high.

We remain a big fan of this \$8.2b Australian miner despite a weak month, and were pleased to see a marked increase in interest from fund managers.

While Gaming machine operator **Aristocrat Leisure (ALL)** released a positive trading update and announced a \$500mn buy-back, the share price has been very muted in recent times. We suspect this is because Aristocrat is a very well-owned Australian growth stock that offers solid growth at a solid price; however, this leaves very few marginal new buyers and the stock price can often languish. We used strength to trim our weighting during the period.

US Investment banks reported quarterly results during the month before **Macquarie Group (MQG)** gave a trading update of their own. All signs point to a tougher environment and a level of caution, which feels prudent, however ultimately that will have a likely impact on earnings. We’ve also elected to play a more cautious stance towards MQG, and while we’re not pessimistic, our large ~7% position was high for this point of the economic and stock market cycle, so we reduced it to a more palatable ~5%.

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