MARKET MATTERS
INVEST

MONTHLY REPORT | JULY 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	9.21%*

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 added +4.82% in July, outperforming the S&P/ASX 200 Accumulation Index which advanced +2.88%. The portfolio has returned +22.08% for the rolling 12 months (against the benchmark return of +11.67%) and +16.66% per annum for 3 years.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	4.82	4.79	7.65	22.08	10.60	16.66
BENCHMARK %	2.88	2.04	1.22	11.67	4.53	12.00
RELATIVE %	1.94	2.75	6.43	10.41	6.07	4.66

Benchmark: S&P/ASX 200 Accumulation

FY24 started on the front foot with solid gains in July underpinned by the local energy sector on the back of rising oil prices. The S&P/ASX 200 Accumulation Index (+2.9%) rose, inline with the MSCI Developed Markets Index (+2.9%), while the S&P 500 gained (+3.2%) in local currency terms.

Australian 10-year bond yields edged marginally lower to 4.05% as the RBA's Jul-23 meeting saw the cash rate stay at 4.10%. US yields on the other hand ticked up 14bps to 3.95%, as the Fed passed through another 0.25% hike to 5.5% in July. Amongst commodities, prices were generally up across the board headlined by Oil which rallied US$10.09 to US$84.99/bbl, on tighter market fundamentals and improved US macroeconomic data. Iron Ore prices rose by US$1.00 to US$114.50/Mt while Gold prices rose despite dollar fluctuations, up by US$42.00 to US$1,954.

There continued to be significant sector divergence locally, with the Energy sector bouncing back from recent weakness, up (+8.8%), while Financials (+4.9%), IT (+4.5%), Utilities (+4.0%), REITS (+3.8%) and Consumer Discretionary (+3.4%) all outperformed.

Most weakness was felt by Healthcare (-1.5%) while Staples (-1.0%) also fell. Materials (+1.4%), Industrials (+2.4%) and Communication Services (+2.7%) were up but trailed the index.

PORTFOLIO STOCKS

The portfolio held 21 positions at the end of July with cash edging higher into the prevailing strength, finishing the month at ~10%. We generally like to increase flexibility across portfolios leading into reporting, giving us some optionality during a period that is typically more volatile for stocks.

At the end of June, we started to tentatively add more value-orientated stocks to the portfolio with three positions that have struggled during FY23 but have a credible road to redemption mapped out into FY24. These included **Elders (ELD)**, **Magellan Financial Group (MFG)** and **Lendlease (LLC)**. To make way, we completely exited **REA Group (REA)**, having trimmed the holding in April, selling ~$150 for a solid return in less than a year.

While we made no increase in our weightings towards commodities, this does remain an area of the market we intend to target. At a macro level, we believe central banks globally have pivoted on rates, and while bond yields have started to taper off, we think there is more to come. 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.

An expectation of Chinese stimulus adds to our conviction in the short term; however, it is the enormity of the energy transition the world is embarking on that provides the longer-term foundation of this view. Very tepid supply growth over recent years across many key commodities is likely to meet growing demand. This view is not only limited to the beneficiaries of the transition, we firmly believe that old-world energy will also benefit in the coming years, given the expected time frame to ramp up in renewables.

Crude oil was an example during the period, as it slowly but surely gathers momentum, underpinning a ~9% monthly advance from the Energy sector. Declining crude stocks as global supplies tighten remains supportive of the complex, although we stress, volatility by the $US and a number of other factors will ensure there are many fits and starts in this new commodities bull run.

We are overweight Gold, and while it has been consolidating over the last few weeks as it dances to the $US and bond yield tune, we maintain our bullish outlook towards precious metals targeting a move this year towards ~US$2,200.

REA Group (REA) was a core holding in the portfolio for almost a year however during the month we elected to lock in profit following a strong ~25% advance. While REA remains a quality technology platform 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 ~$150 and we liquidated the holding. We are likely to revisit this position if/when the risk/reward improves.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	21
ESTIMATED YIELD (%)	4.22
TOP 5 POSITIONS (% OF AUM)	28.19
TOP 10 POSITIONS (% OF AUM)	49.99

STOCK	CONTRIBUTION (%)
SANDFIRE RESOURCES (SFR)	0.67
ANZ BANK (ANZ)	0.55
EVOLUTION MINING (EVN)	0.55
NATIONAL BANK (NAB)	0.53
LENDLEASE (LLC)	0.51

STOCK	DETRACTION (%)
MACQUARIE GROUP (MQG)	-0.09
MAGELLAN FINANCIAL GROUP (MFG)	-0.08

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY24	4.82												**4.82**
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													**52.74**

PORTFOLIO STOCKS CONTINUED

As we often say, elastic bands stretch too far in either direction and this is true in many aspects of investing (and life!). One of the elastic bands we think is due to 'snap-back' is towards active equity managers that can deliver 'alpha'. **Magellan Financial Group (MFG)** is one of these managers that had strong performance, for a time, then weak performance thereafter. That, amongst other things, led to huge outflows with FUM more than halving in less than 2 years. This is an extreme case, and there were multiple factors at play, however, the core of it was performance. Performance impacts flows and flows impact earnings.

Around $9 we believe Magellan is priced for further outflows, not steady FUM, and certainly not for any inflows. Our analysis has Magellan worth north of $12 (+40%) and we see multiple potential catalysts for that value to be recognised, via improved performance that leads to better FUM flows, performance fees, and/or capital management. We have recently added Magellan to the portfolio.

Sandfire Resources (SFR) released their quarterly production numbers during the month, which included more detail on their Motheo Copper Mine in Botswana. They produced the first copper concentrate from that mine, with ramp-up happening in the September quarter of FY24. They went further, saying that contained copper production at Motheo is set to increase to more than 50kt in FY25, which was ahead of expectations sending shares 14% higher during the period, contributing +0.67% to the portfolio return.

Macquarie Group (MQG) on the other hand detracted -0.09% from returns, an uncustomary outcome in a strong market. At their AGM on the 27th July, the investment bank said the 1Q was soft, as both the market-facing and annuity sides of the business struggled, saying profit was substantially down. The group relies on activity to generate earnings and lower capital market deal flow and reduced commodity volatility weighed on results. The annuity side has seen higher earnings from the banking arm thanks to growth in the loan book, however, this has been more than offset by lower asset management returns, particularly in green investment. Consensus had priced in a 7% drop in earnings for the first half, though the commentary suggests the company is tracking below that. While the company has consistently underpromised and over-delivered in the past, clearly external factors will continue to have an influence. We retained our MQG position despite the update.