MARKET MATTERS
INVEST

MONTHLY REPORT | MARCH 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	8.27%*

**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 increased by +2.08% in March, outperforming the S&P/ASX 200 Accumulation Index which declined by -0.16%. The portfolio has returned 5.53% for the rolling 12 months and 21.46% per annum for 3 years.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	2.08	8.29	17.10	5.53	11.05	21.46
BENCHMARK %	-0.16	3.46	13.19	0.10	7.29	16.54
RELATIVE %	2.24	4.83	3.91	5.43	3.76	4.92

Benchmark: S&P/ASX 200 Accumulation

Aussie equities tracked sideways in March as moderating inflation strengthened the case for a pause in rate hikes. The S&P/ASX 200 was down (-0.16%), underperforming most other developed markets as the RBA pushed through another 25bps rate hike to 3.60%. Australian 10-year bond yields moved in reaction to slowing inflation, down 56bps to 3.30%. US yields also fell 42bps to 3.49%, amid concern around the stability of US regional banks following multiple failures.

Elsewhere, the MSCI Developed Markets Index advanced (+2.6%), and the S&P 500 increased by (+3.7%) in local currency terms.

Commodity prices saw mixed results. Brent Oil fell by US$4.12 to US$79.77/bbl, on global growth concerns, although it did rally towards the end of the month. Iron Ore prices were unchanged at US$126/Mt while Gold was the big mover, up by US$155.10 to US$1,980, banking volatility and hopes for easing Fed policy pushed the $US lower.

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.

Clearly some significant variance across sectors which lends itself to active portfolio management.

END OF QUARTER

A busy and volatile quarter for markets which included interim reporting for ASX-listed companies, quarterly earnings for US stocks, bank failures, continued cooling of inflationary pressures, lower bond yields and the strong likelihood of a looming pivot by Central Banks on interest rates.

Markets started 2023 with strong gains in January (+6.20%), which were primarily driven by a continued decline in widely followed inflation indicators. February was softer (-2.4%) as growing optimism for an economic soft landing was delivered a setback as economic data implied a still very tight labour market. Additionally, interim results for the 1st half of FY23, which were reported in February, were reasonable, and perhaps “better than feared”. The resilient nature of earnings, both in Australia and the US during their quarterly updates stoked optimism that both an economic and earnings recession could be avoided.

March began with investors still focused on inflation and potential interest rate hikes, but the sudden failure of Silicon Valley Bank, at the time the 16th largest bank in the United States, shifted investor focus to the potential for a severe banking crisis. Signature Bank of New York failed just days later, Credit Suisse was forced into a deal with UBS, and concerns about a banking crisis surged.

In response, the Federal Reserve and the Treasury Department acted to prevent a run on the banks by creating new lending programs but concerns about the health of the financial system persisted and those fears weighed on markets through the middle of March. However, while the Federal Reserve hiked interest rates again at the March meeting, US policymakers signalled that they are very close to ending the current rate hike campaign. That admission, combined with no additional large bank failures, eased concerns about a growing banking crisis, and markets recovered to close essentially unchanged for the month, having been down more than 4% at their low point.

In summary, markets were impressively resilient in the first quarter as a looming end to rate hikes, further declines in inflation and quick and effective actions by government officials in response to regional bank failures helped shore up confidence in the banking system. Stocks logged modest gains in Q1, despite the threat of a regional banking crisis in the US and still-elevated market volatility.

PORTFOLIO STOCKS

The portfolio held 20 positions at the end of March with our main sector tilts remaining towards Technology and Gold while we used weakness during the month to increase our market exposure by around ~10%, dropping cash back to ~8% in the process.

We made some changes during the month, increasing our still underweight exposure to banks via additions to **ANZ Bank (ANZ)**, **National Australia Bank (NAB)** and **Macquarie Group (MQG)**, while we also bought back into **Seek (SEK)** and initiated a new position in **Mineral Resources (MIN)**, however it was existing positions that drove portfolio performance, most notably in gold via **Newcrest (NCM)** and **Evolution Mining (EVN)** and Technology exposed holdings like **Xero (XRO)** and **REA Group (REA)**.

Cloud based accounting platform **Xero (XRO)** released a positive update early in the month, outlining a definite pivot to a more balanced approach around growth. XRO previously ran operating expenses at 84% of revenue, with a lot of this going into growth initiatives. The new CEO Sukhinder Singh Cassidy announced plans to pare this back to 75% with a 15% reduction in the workforce the major saving. She also announced plans for a redesign of their technology function in the upcoming quarter which could see further efficiencies. The move will increase earnings over the coming 3 years by a meaningful amount and is the sort of roadmap that is becoming common place amongst larger technology companies that have established business models with a large user base. Ultimately, we think this is a strong/positive catalyst for XRO and a sign of what comes next in tech i.e., a focus on earnings rather than growth at all costs.

Banks were in focus during the month following the regional banking crisis in the US and forced takeover of **Credit Suisse** by **UBS**. However, despite consistent comparisons in the financial media between what happened in March and the 2007-2008 financial crisis, there are important differences between the two periods and regulators have already demonstrated their commitment to ensuring we do not experience a repeat of those difficult days, and we believe these comparisons will prove off the mark.

PORTFOLIO STOCKS CONTINUED

Regulators and government officials have proven they are ready to use current tools (or create new ones) to prevent a broader spread of the US regional banking crisis, and that's an important, and positive, difference from 2008. **We used weakness across the local sector to increase our holdings**, although we are still underweight the sector given some earnings headwinds, but now have a more positive bias after their meaningful pullback.

I know, I know, **Mineral Resources (MIN)** is a well-loved stock involved in a hyped up commodity (Lithium) and we usually stay clear of these sorts of 'crowded trades', however a ~20% pullback in the share price during the month we think shook out a lot of this hype and we therefore initiated a position. It's a high-quality company using their Iron Ore earnings to push hard into Lithium, which we think will bear fruit in the short term (via a potential spin off of the Lithium business) or in the medium term as they bring production to market which will dramatically increase their earnings. It trades on a valuation of 10x FY23 Est Earnings while if they execute on their current plans, this will drop down towards 6x for FY24.

Woodside Energy (WDS) had a choppy month, and while we did previously trim our position at higher levels, we retain a smaller weighting in the portfolio. Like most large cap commodity companies, getting the direction of the underlying commodity right goes a long way in determining the success or otherwise of a position, although holders of Santos (STO) do have grounds to disagree with that assumption over the past 12 months! We now believe oil will ultimately test the $US90/barrel area which should provide a healthy tailwind for the Australian Energy Sector and with WDS's solid dividend due for shareholders in August, we are planning to hold our position.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	3.75
TOP 5 POSITIONS (% OF AUM)	31.69
TOP 10 POSITIONS (% OF AUM)	58.61

STOCK	CONTRIBUTION (%)
NEWCREST MINING (NCM)	1.13
XERO (XRO)	0.81
REA GROUP (REA)	0.61
BHP GROUP (BHP)	0.52
EVOLUTION MINING (EVN)	0.45

STOCK	DETRACTION (%)
NATIONAL AUSTRALIA BANK (NAB)	-0.40
MACQUARIE GROUP (MQG)	-0.39
ANZ BANK (ANZ)	-0.35
WHITEHAVEN COAL (WHC)	-0.27
GOODMAN GROUP (GMG)	-0.27

%	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				**21.81**
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													**45.30**