MARKET MATTERS
INVEST

MONTHLY REPORT | APRIL 2024 | ACTIVE INCOME

PORTFOLIO DETAILS

Portfolio Name	Active Income
Structure	Separately Managed Account
Benchmark	RBA Cash +4%
Management Fee	0.85% incl GST
Platform	Open Wealth | Praemium
Included Assets	Equities, Hybrids, Trusts, ETFs
Portfolio Manager	James Gerrish
Annual Performance	8.85%*

OBJECTIVE

The objective of the Market Matters Active Income Portfolio is to provide a high level of regular tax-effective income with lower volatility than the underlying share market. This is achieved by actively managing a portfolio of high-yielding equities combined with ASX listed income securities that offer diversification benefits to both Australian equities and cash or term deposits.

**Inception Date 05.07.2017*

MARKETS & PERFORMANCE

The Market Matters Active Income Portfolio declined by -1.45% in April, underperforming its RBA Cash +4% benchmark which increased 0.67% (against a backdrop of the ASX which fell -2.94%). The portfolio has returned 6.69% for the rolling 12 months, against the benchmark return of 8.21% and 8.97% per annum for 3 years, 2.93% per annum above its benchmark.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	5 YEAR PA
PORTFOLIO %	-1.45	-0.59	7.67	6.69	6.28	8.97	9.41
BENCHMARK %	0.67	2.03	4.12	8.21	7.16	6.04	5.31
RELATIVE %	-2.12	-2.62	3.55	-1.52	-0.88	2.93	4.10

Benchmark: RBA Cash Rate +4%

More broadly, the MSCI Developed Markets Index fell (-3.2%), while the S&P 500 also decreased (-4.1%) in local currency terms, underperforming local stocks. The Australian 10-year government bond yield moved up 46 bps over the month to 4.42%. US yields also increased, stepping up 48 bps to 4.68%. Geopolitics supported commodity prices, with Brent Oil up by US$0.92 over the month to US $88.40/bbl, whilst Iron Ore prices increased by US$16.00 to US$118.00/Mt. April saw Gold prices hit another record high, increasing by US$119.20 to US$2,333.55 per ounce.

On a sector basis in Australia, Utilities (+4.8%) & Materials (+0.6%) were the only sectors to make gains. Property (-7.8%) was the weakest link after being the strongest in March, Consumer Discretionary (-5.1%), Communication Services (-4.9%), Energy (-4.7%), Industrials (-4.0%), IT (-3.9%), Financials (-3.5%), Consumer Staples (-3.3%) & Healthcare (-2.5%) all declined.

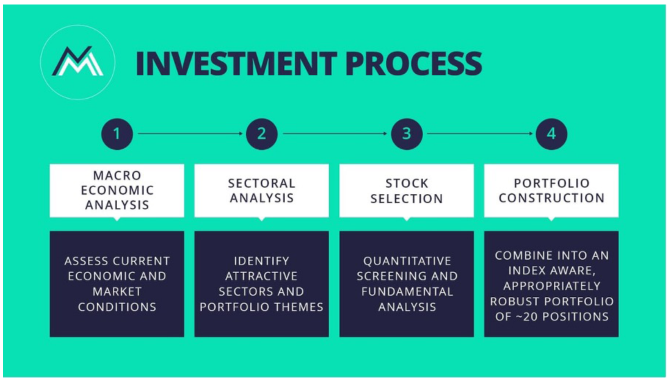
PORTFOLIO POSITIONING

The portfolio held 18 positions at the end of April with a forecast yield of 5.4% plus franking. The portfolio is weighted 47% in Equities, 38% in Hybrids/Fixed Income, 7% in property & 8% in cash.

We made only one change to the portfolio during the month, buying back into **Magellan Financial Group (MFG)**.

At a macro level, April was characterised by a significant change in market pricing of future interest rates; stronger economic (growth) data and stickier inflation led to reduced expectations around interest rate cuts, pushing bond yields sharply higher. The sell-off in bonds cast a shadow over equity markets with broad-based weakness across both developed & emerging markets.

Our investment process (outlined below) incorporates macroeconomic analysis, with top-down views influencing how our multi-asset income portfolio is positioned. We believe the spike in bond yields (weakness in bond prices) is offering an opportunity to fade the move, locking in higher fixed yields and/or increasing our weighting to rate-sensitive equities.



Hybrid securities have been strong pushing the median margin to just 2.16%, the tightest spread we can see going back more than 10 years. The spread is the 'risk premium' offered and although this compression has pushed up prices, we are now more neutral towards this allocation, and we're actively looking to reduce our exposure.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	18
ESTIMATED YIELD (%)	5.40
TOP 5 POSITIONS (% OF AUM)	33.24
TOP 10 POSITIONS (% OF AUM)	60.62

STOCK	CONTRIBUTION (%)
AGL ENERGY (AGL)	0.52
NEW HOPE CORP (NHC)	0.14
ANZ HYBRID (AN3PI)	0.11
SUNCORP HYBRID (SUNPI)	0.09
CBA HYBRID (CBAPG)	0.06

STOCK	DETRACTION (%)
ORORA (ORA)	-0.81
DEXUS (DXS)	-0.39
COMMONWEALTH BANK (CBA)	-0.37
MAGELLAN FINANCIAL GROUP (MFG)	-0.24
TELSTRA (TLS)	-0.23

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY24	2.79	-0.44	0.09	-3.32	2.67	4.63	0.8	-1.45	2.36	-1.45			**6.68**
FY23	4.22	0.30	-3.64	3.31	4.82	-0.07	3.49	-1.61	0.06	2.16	-2.01	2.07	**13.10**
FY22	0.10	3.04	0.58	-1.58	-1.31	3.01	-2.45	4.05	4.25	-0.09	-1.80	-6.54	**1.26**
FY21	1.16	2.22	-1.21	-0.17	9.29	1.46	0.47	0.96	2.73	2.79	1.91	2.39	**24.00**
FY20	1.54	-0.57	2.90	-4.54	1.16	-0.51	1.78	-3.97	-15.53	7.33	6.24	1.94	**-2.23**
FY19	1.35	0.76	-0.62	-3.09	-0.61	-0.40	2.42	3.92	-0.21	1.17	3.13	1.37	**9.19**
CUMULATIVE													**52.00**

PORTFOLIO POSITIONING CONTINUED

Packaging company **Orora (ORA)** provided a disappointing trading update at the start of the month downgrading FY24 earnings guidance only 6 weeks after they reported 1H24 results (at which time they maintained guidance). At the group level, they forecasted a profit of ~$390m which was an 8% downgrade vs our numbers, however, they now expect leverage to be around 2.8x at FY24, which is elevated and is increasingly in focus given a more uncertain earnings growth outlook. The rising stress on their balance sheet was the primary catalyst to cut the position.

Gas and electricity utility **AGL Energy (AGL)** has garnered plenty of press over recent years, with Mike Cannon Brookes and Brookfield both having takeover offers rejected – a rare, good move so far for investors, with the stock trading higher. AGL is more a play on income in outer years; its consensus yield over the coming 12 months is 5.25%. However, that is likely to jump materially in FY26 and beyond as their investments in renewables generate higher earnings and, thus, dividends. UBS, for example, has AGL paying a healthy ~7% yield in FY26 and 9% in 27. We continue to like AGL for its future yield expansion and potential capital gain. AGL was the top-performing stock in the portfolio during the month.

The infrastructure stock **APA group (APA)** has been under pressure for almost two years, falling over 36% from its lofty 2022 high above $12, weighed down by several headwinds, but if we are correct and central banks start cutting rates in 2024/5, it will finally enjoy a macro tailwind that should support it. We continue to see value in APA as a defensive infrastructure holding, supported by its sustainable and growing yield in the 6-7% region. We remain bullish on APA, believing the risk/reward is attractive below $8.50.

On the negative side, property stocks gave back some recent strength with **Centuria Capital (CNI)** and **Dexus (DXS)** ending the period lower, ultimately detracting ~40bps from the month's return on a combined basis, although DXS accounted for most of it. While conditions remain tough in office, the DXS share price reflects the prevailing conditions, however, rising yields have also had a larger impact on less structurally challenged parts of the property sector, such as Self Storage operative **National Storage REIT (NSR)**, a stock we particularly like into a recent pullback ~$2.15. We end the period contemplating a switch.