MARKET MATTERS
INVEST

MONTHLY REPORT | JULY 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	7.76%*

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 advanced 3.2% in July, outperforming its RBA Cash +4% Benchmark which increased 0.7%. The portfolio has returned 8.83% for the rolling 12 months, 11.31% per annum for 2 years and 9.13% per annum for 3 years, 2.75% per annum above its benchmark.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	5 YEAR PA
PORTFOLIO %	3.10	4.92	4.30	8.83	7.14	9.13	9.13
BENCHMARK %	0.70	2.07	4.12	8.30	7.33	6.38	5.45
RELATIVE %	2.40	2.85	0.18	0.53	-0.19	2.75	3.68

Benchmark: RBA Cash Rate +4%

More broadly, international markets underperformed the ASX, the MSCI Developed Markets Index rising by (+1.3%), while the S&P 500 also increased by (+1.2%) in local currency terms. Australian 10-year government bond yield fell 19 bps over the month to 4.12%, as US yields also decreased, stepping down 32 bps to 4.05%. Commodity prices were mixed in July. Brent Oil fell by US$5.69 to US$80.72/bbl, whilst Iron Ore prices fell by US$4.50 to US$102.00/Mt. By contrast, Gold prices rose by US$95.40 over the month to US$2,426 per ounce after softer-than-expected US inflation data was released.

On a sector basis in Australia, Consumer Discretionary (+9.1%), Property (+6.8%), Financials (+6.3%), Industrials (+5.6%), Communication Services (+5.3%) and Healthcare all outperformed, while Consumer Staples (+4.0%), IT (+0.2%), Materials (-0.1%), Energy (-0.4%) and Utilities (-2.9%) underwhelmed to varying degrees.

PORTFOLIO POSITIONING

The portfolio held 19 positions at the end of July, comprising 59% in Equities, 9% in Property, 27% in Fixed Income & 5% cash. Returns were driven by capital growth (3.0%), with only one distribution paid in the month.

We made two changes to the portfolio in July; Selling the **BetaShares Australian Composite Bond ETF (OZBD)** and buying the **Perpetual Credit Income Trust (PCI)**. PCI invests in a broad cross-section of credit, including corporate and government bonds and private credit. It has a broader mandate than just one area (such as private credit), which has seen an explosion of new funds in recent times.

PCI invest primarily in high-quality corporate debt, not smaller risker issuers. They are not concentrated in property or development funding, as many are in the private credit space.

They have a higher degree of transparency than others; their portfolio is transparently priced, so we know the value of what we are buying. Funds dominated by private credit securities typically hold them at par, which may not be a true reflection of their value.

PCI uses the ratings of external agencies, which provides oversight. While they also internally rate each security they hold, many others publish internal ratings to justify the quality of their book – we prefer externally rated securities. The maturity profile is shortish at 4.5 years, and the portfolio is a mature one. We view this as a conservative, diversified portfolio spanning a cross-section of fixed-income that has a greater chance of outperformance relative to an index-tracking fund in the current economic climate.

On the far riskier end of the spectrum, our recent purchase of **Fortescue Metals (FMG)** has had a flurry of news, mostly negative, pushing shares down more than 10% below our purchase price.

Firstly, they walked back from the ambitious goal

PORTFOLIO STOCKS	
NO. OF HOLDINGS	19
ESTIMATED YIELD (%)	5.71
TOP 5 POSITIONS (% OF AUM)	33.75
TOP 10 POSITIONS (% OF AUM)	58.67

STOCK	CONTRIBUTION (%)
MAGELLAN FINANCIAL GROUP (MFG)	0.81
COMMONWEALTH BANK (CBA)	0.62
SUPER RETAIL GROUP (SUL)	0.60
NATIONAL BANK (NAB)	0.58
NATIONAL STORAGE (NSR)	0.40

STOCK	DETRACTION (%)
FORTESCUE METALS (FMG)	-0.49
AGL ENERGY (AGL)	-0.20
BHP GROUP (BHP)	-0.05
APA GROUP (APA)	-0.05
NEW HOPE CORP (NHC)	-0.01

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY25	3.10												
FY24	2.79	-0.44	0.09	-3.32	2.67	4.63	0.80	-1.45	2.36	-1.45	-0.22	1.94	**8.4**
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													**53.72**

PORTFOLIO POSITIONING CONTINUED

of 15 million tonnes of green hydrogen by 2030 and announced a reduction in headcount by bringing its mining and energy divisions under one roof. While they are still committed to the green dream, the timing has changed.

Shortly after, they issued Q4 production results and FY25 production guidance. Production was a little soft relative to consensus, and while they shipped a record amount of Iron Ore in the quarter (53.7mt), price realisation was soft and costs were high. Guidance for FY25 is flat on FY24 with costs up ~5%, guiding to total shipments of 190-200mt

The key will be iron ore prices in FY25 – the market expects to see prices pull back to US$85-90/t – if they don't, begrudging upgrades will occur.

We added FMG to our Income Portfolio due to the depth of the pullback and our expectation of a strong dividend of ~4% for the half. While this is a contrarian play, we believed the risk/reward stacked up. After our purchase, an institutional investor sold a $1.9 bn line of FMG at $18.55, a ~9% discount at the time. There is likely to be more to come, with the manager still owning ~3.4% of Twiggy Forest's iron ore miner. Markets don't like overhangs of stock for obvious reasons, and the recent block trades will have sapped a lot of natural buying. We await full-year results on the 28th August.

Our position in **Super Retail (SUL)** is showing promise, after a rocky start as fears of another rate hike subside. The owner of brands such as Rebel Sport, Super Cheap Auto, Macpac and BCF, is still trading well below its February high and screens on the cheap side relative to its more expensive peers. The stock has been weighed down by some internal issues, though earnings have been resilient from their broad cohort of brands. They did imply some margin pressure at their last update, and we don't expect SUL to beat the streets expectations when they report shortly, but it's priced accordingly, and is on a fully franked yield of 5.1%.

APA Group's (APA) energy infrastructure business has been underperforming since it peaked in 2022. At the same time, Australian bond yields took another leg higher, with the 3s advancing from 3% to 4%. We continue to see solid value in APA as a defensive stock when we combine our bullish view on bonds (lower yields) and the company's sustainable and growing yield in the 7% region, i.e. when markets become confident that the RBA has finally got inflation under control we should see a bullish re-rating in its share price. Until then, its regulated earnings tied to critical infrastructure assets, with a strong and sustainable yield keeps it in the portfolio.

Thank you for your ongoing support, we value your trust, and look forward to delivering solid risk-adjusted returns during FY25 and beyond.

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