MARKET MATTERS
INVEST

MONTHLY REPORT | JULY 2022 | 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	8.40%*

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 4.22% in July, outperforming its absolute return benchmark of 0.38%. The portfolio has returned 4.86% for the rolling 12 months, 14.54% per annum over 2 years, 7.69% per annum over 3 years & 8.40% per annum since inception.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	4.22	-4.35	3.66	4.86	14.54	7.69
BENCHMARK %	0.38	1.08	2.08	4.17	4.16	4.31
RELATIVE %	3.84	-5.43	1.58	0.69	10.38	3.38

Benchmark: RBA Cash Rate +4%

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 suite of Market Matters Portfolios and look forward to further outperformance as the year progresses.

PORTFOLIO STOCKS

The portfolio holds concentrated positions in 19 securities with a current tilt towards Australian equities. The portfolio had a solid month in relative terms and is significantly above its benchmark in all key time frames.

Monthly performance was broad-based with only two positions having a negative influence on returns. **The expected yield on the portfolio now sits above 6% plus the addition of franking.**

We tweaked the portfolio during the month following the redemption of the Crown Hybrid. We used the proceeds to buy into the property company, Centuria Capital (CNI) at what we believed to be an attractive level. Since that purchase, the stock has fallen following a weaker-than-expected update from the Centuria Office REIT (COF). As the name suggests, COF is a pure office real-estate investment trust of which CNI owns ~17% hence the decline in CNI following the result.

CNI derives ~60% of its profits from property funds management, ~35% from co-investments and the balance from development. They are very good operators and have developed a great model over a long period of time, however, the backdrop for property is clearly tough. These guys are at the pointy end of it, and the move lower directly after purchase naturally prompted us to question whether or not we have gone too early even with the shares already down 31% over the past 12 months.

CNI reports full-year results on the 10th August and we will again evaluate this position following their results, not being afraid to take a quick loss if the outlook is not as we expect.

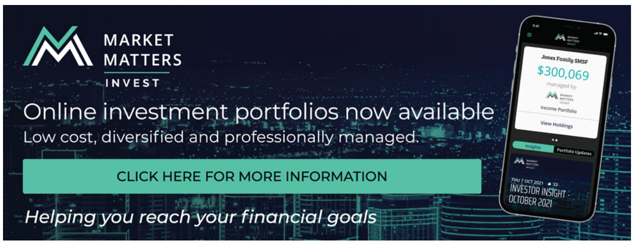
Another recent purchase is beaten-up fund manager, **Pendal Group (PDL)**. Shortly after purchase, shares rallied which we like a lot more than the experience we outlined above with Centuria.

PDL is once again in the sights of Perpetual (PPT). As a refresher, Pendal is the renamed BT Financial that was spun out of Westpac and back in April of this year, Perpetual launched a $2.4bn takeover attempt on their similar size rival only to be rebuffed by the PDL board on valuation grounds. At the time the deal was a mix of cash and shares valued at $6.23 which was a ~40% premium to where shares were trading before the bid. Since that bid, both stock prices have traded lower but PDL has fallen more.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	19
ESTIMATED YIELD (%)	6.12
TOP 5 POSITIONS (% OF AUM)	32.95
TOP 10 POSITIONS (% OF AUM)	59.53

STOCK	CONTRIBUTION (%)
COMMONWEALTH BANK (CBA)	0.81
BANK OF QLD (BOQ)	0.72
PENDAL (PDL)	0.59
WESFARMERS (WES)	0.57
SMART GROUP (SIQ)	0.48

STOCK	DETRACTION (%)
BHP GROUP (BHP)	-0.47
MAGELLAN FINANCIAL (MFG)	-0.12
WOODSIDE ENERGY (WDS)	-0.05



%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY23	4.22												**4.22**
FY22	0.10	3.04	0.58	-1.58	-1.31	3.01	-2.45	4.05	4.25	-0.09	-1.80		**7.80**
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													**36.44**

As a base case, if we assume a tilt on the same terms as before, we would expect a deal worth around $5.50 per share, a reasonable premium to the ~$4.20 we paid in mid-July.

NAB was one of the latest banks to launch a new hybrid offer known as the **NAB Capital Notes 6** trading under code NABPI. The note was issued at a margin of 3.15% over the 90-day bank bill equating to a yield of approx. ~6.95% grossed for franking.

We have seen credit spreads widen in recent times and interest rates have risen. While Hybrids are floating and therefore provide a hedge against rate rises (and inflation), the margin as a percentage of the total return declines as rates go up, making them slightly less attractive in relative terms.

On balance, we viewed this security as good value given the backdrop of very limited supply of new tier 1 bank hybrids coming to market in the next 12 months. We added the NABPI to the portfolio during the month.

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