MARKET MATTERS
INVEST

MONTHLY REPORT | MAY 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	8.69%*

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 dipped -0.22% in April, underperforming its RBA Cash +4% benchmark which increased 0.7%. The portfolio has returned 8.63% for the rolling 12 months, against the benchmark return of 8.26% and 8.80% per annum for 3 years, 1.4% per annum above its benchmark.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	5 YEAR PA
PORTFOLIO %	-0.22	0.65	4.61	8.63	7.14	8.20	8.64
BENCHMARK %	0.70	2.07	4.14	8.26	7.33	6.80	5.35
RELATIVE %	-0.92	-1.42	0.47	0.37	-0.19	1.40	3.29

Benchmark: RBA Cash Rate +4%

More broadly, international markets did better than our own, the MSCI Developed Markets Index rose (+4.1%), while the S&P 500 also increased by (+5.0%) in local currency terms. The Australian 10-year government bond yield fell 1 bp over the month to 4.41%, as US yields also decreased, stepping down 19 bps to 4.49%. Easing geopolitical fears saw Brent Oil down by US$6.24 through May, to US$81.62/bbl, whilst Iron Ore prices decreased marginally by US$1.00 to US$117.00/Mt. Over the month. Gold prices rose by US$41.25 to US$2,348.25.

On a sector basis in Australia, IT (+5.4%), Utilities (+3.4%), Financials (+2.6%) and REITs (+1.9%) outperformed the market, while Healthcare (+0.1%), Materials (+0.1%), Industrials (-0.4%), Consumer Discretionary (-0.6%), Energy (-0.7%), Consumer Staples (-1%) & Communication Services (-2.6%) underwhelmed to varying degrees.

PORTFOLIO POSITIONING

The portfolio held 19 positions at the end of May with a forecast yield of 5.47% plus franking. The portfolio is weighted 55% in Equities, 33% in Hybrids/Fixed Income, 9% in property & 3% in cash.

During the month, we sold down one hybrid security given the tightening in spreads, while we added positions in Smart Group (SIQ) and Super Retail (SUL) into weakness, though both were lower come month end.

The **NAB Capital Notes 3 (NABPF)** had been in the portfolio since inception however, the margin narrowed to just 1.24% over the 90-day bank bill (based on market prices) which we deemed as too low. We slightly reduced our exposure to Hybrids in the portfolio during the month from a relative pricing perspective, with the NAB note screening 'expensive' above $106.00, using funds to increase exposure to equities.

To that end, we purchased **Smart Group (SIQ)**, a $1.1bn leading provider of novated leasing within salary packaging that operates end-to-end fleet management services. They have a diverse and defensive mix of clients across Government and private enterprise, with a large proportion of their future growth underpinned by the take-up of Electric Vehicles (EV's).

While recent EV sales data has been on the softer side, the backdrop more broadly has been very strong with new car sales in April the best on record, driven by an easing in supply chains. This theme, along with an expanded range of EVs coming onto the market (electric SUVs for example) will be supportive of SIQ's earnings growth, and therefore dividend growth over time.

We have followed SIQ for an extended period as it made consistent new highs, however, a 20% pullback in price (excluding dividends) presented a solid risk/reward buying opportunity, in our view.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	19
ESTIMATED YIELD (%)	5.40
TOP 5 POSITIONS (% OF AUM)	33.24
TOP 10 POSITIONS (% OF AUM)	60.62

STOCK	CONTRIBUTION (%)
NEW HOPE CORP (NHC)	0.40
AGL ENERGY (AGL)	0.32
NATIONAL BANK (NAB)	0.32
COMMONWEALTH BANK (CBA)	0.30
BHP GROUP (BHP)	0.22

STOCK	DETRACTION (%)
SMART GROUP (SIQ)	-0.38
METCASH (MTS)	-0.36
MAGELLAN FINANCIAL GROUP (MFG)	-0.35
SUPER RETAIL GROUP (SUL)	0.27
TELSTRA GROUP (TLS)	-0.24

%	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	-0.22		**6.46**
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													**51.78**

PORTFOLIO POSITIONING CONTINUED

SIQ trades on 15.7x expected earnings, which are set to grow in FY24 at 15% while yielding 5.06% fully franked, although they have paid several special dividends in recent halves bumping the historical yield up significantly. Past FY24, growth will likely be moderate to high single digits, underpinning a similar increase in dividends.

A solid business that is capital-light and an alternate way of playing the global decarbonisation theme. One key risk to highlight is legislation, the provision of products and services within salary packaging administration and novated leasing is underpinned by benefits permitted under our taxation law, while changes around fringe benefits on EVs could also hurt sales in the segment, although we think Governments are focussed more on adoption than tax $$ at this point.

We also added **Super Retail Group (SUL)** to the portfolio, however, straight off the bat, we're down on the position – have we pulled the trigger too soon?

At Market Matters, we put a lot of emphasis on not only what to buy but when to buy it. If we had our time over again, we would have waited till after the retailers had presented at the Macquarie conference, but alas, we're now owners of the retailer responsible for brands such as SuperCheap Auto, BCF, Rebel and MacPac. That said, we think buying SUL into weakness makes total sense, and we remain comfortable with our position.

SUL has had a phenomenal run out of COVID, hitting an all-time high in February above $17 – since then, the market's view of interest rate cuts changed, and SUL announced pending litigation for an alleged affair between the CEO and a past employee. This comes on the heels of underpayment of employees, and when combined, these things have an impact on the 'quality' metrics attached to a business and, therefore, the multiple the market is prepared to pay for the stock.

While these are clearly negative, we now think the share price has them captured.

At a recent update, they said the gross margin in FY24 so far was in line with the same period a year earlier, which implies some weakness in the 2H (given it was higher in the 1H), and we suspect this is what the market has become concerned about towards the end of the month. We'll continue to monitor this; however, with sales holding up, the consumer is likely to get some rate reprieve at some point, a supportive budget, and a 5.8% Est. fully franked yield (with the prospect of additional capital management), we think there are multiple reasons to like SUL at current levels.

We also 'tweaked' our property exposure within the portfolio, selling out of **Dexus (DXS)** and buying into **National Storage REIT (NSR)**. We view **National Storage (NSR)** as relatively more attractive than Dexus (DXS) because of its recent relative performance, which saw NSR pull back ~10%.

While we have been defenders of the 'office trade' for some time given the deep discounts to NAV, and still view DXS as undervalued, we are more confident in the near-term outlook for Australia's largest self-storage business,

We increased our weighting towards property by moving to 5% in NSR (from 4% in DXS). We believe the risk/reward in NSR is compelling, despite its 5.15% yield being lower than DXS at 7.4%.

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