MARKET MATTERS
INVEST

MONTHLY REPORT | MARCH 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	9.25%*

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 increased by 2.36% in March, outperforming its RBA Cash +4% benchmark which increased 0.70%. The portfolio has returned 10.60% for the rolling 12 months, against the benchmark return of 8.15% and 10.51% per annum for 3 years, 4.55% per annum above its benchmark.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	5 YEAR PA
PORTFOLIO %	2.36	1.68	5.63	10.60	7.02	10.51	9.99
BENCHMARK %	0.70	2.05	4.12	8.15	6.99	5.96	5.27
RELATIVE %	1.66	-0.37	1.51	2.45	0.03	4.55	4.72

Benchmark: RBA Cash Rate +4%

More broadly, the MSCI Developed Markets Index rose (+3.4%), while the S&P 500 also strengthened (+3.2%) in local currency terms. The Australian 10-year government bond yield moved down 17 bps over the month to 3.97%. US yields also decreased, stepping down 4 bps to 4.20%.

Commodity prices were mixed in March. Brent Oil rose by US$3.86 to US$87.48/bbl, whilst China macro concerns saw Iron Ore prices fall by US$15.50 to US$102.00/Mt. Over the month, Gold prices hit another record high, increasing by US$166.30 to US$2,214.35 per ounce.

On a sector basis in Australia, Real-Estate (+9.7%) was a standout as bond yields declined, Energy (+5.3%), Utilities (+4.8%), and Materials (+3.7%) all outperformed, while the underperformers included Communication Services (-0.6%), Consumer Discretionary (+0.9%), Healthcare (+1.7%), Staples (+2.5%), Industrials (+2.9%) and Financials (+3.1%) – although only one sector lost ground showing the broadening nature of the market rally.

PORTFOLIO POSITIONING

The portfolio held 18 positions at the end of March with a forecast yield of 5.38% plus franking. The portfolio is weighted 47% in Equities, 38% in Hybrids/Fixed Income, 7% in property and 8% in cash.

We made no changes to the portfolio in March as the portfolio continues to deliver on its objectives of sustainable income with significantly less volatility than the market.

As the March quarter progressed, we saw a much more evenly distributed rally compared to the December quarter of 2023, where tech and tech-aligned sectors outperformed the rest of the market. Markets are now seeing gains distributed more equitably amongst various sectors and industries, and this was true for the portfolio, with only two positions detracting from performance in the month, while the top five contributors were spread across four different sectors.

Overall, news flow was positive, implying stable growth (no recession), still falling inflation, looming rate cuts and a broadening of the market rally. We remain positive on equities overall, while the outlook for fixed income is also constructive, implying that portfolio returns should remain above average for the remainder of the year and well into 2025.

Real-Estate was the best performing sector in March, up an impressive +9.7% as falling bond yields and better results and guidance underpinned improving confidence; things are slowing, the market has likely overcooked the forecast decline in asset values.

While **Goodman Group (GMG)** was a key driver of the sectors fate, and a stock we hold in our Growth strategy rather than our Income strategy, we do have an overweight position towards property in this portfolio through **Dexus (DXS)** and **Centuria Capital (CNI)**.

Dexus is Australia's largest office landlord, and while there is significant conjecture around the future of office, we believe this uncertainty is more than captured in the price despite the total return for March clocking 7.5%. They delivered a solid, 'less bad' result in February, maintained guidance for the full year (despite the stronger 1H) and flagged an FY24 dividend of 48 cps, which puts DXS on a yield of ~6%.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	18
ESTIMATED YIELD (%)	5.51
TOP 5 POSITIONS (% OF AUM)	33.19
TOP 10 POSITIONS (% OF AUM)	60.10

STOCK	CONTRIBUTION (%)
APA GROUP (APA)	0.33
BHP GROUP (BHP)	0.31
METCASH (MTS)	0.29
CENTURIA (CNI)	0.27
DEXUS (DXS)	0.27

STOCK	DETRACTION (%)
AGL ENERGY (AGL)	-0.07
NEW HOPE CORP (NHC)	-0.05

%	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				**8.13**
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													**53.45**

PORTFOLIO POSITIONING CONTINUED

We can see DXS testing $9 through 2024, aided by its strong dividend in an environment of declining interest rates and a better outcome than feared in high quality Office.

Centuria Capital (CNI) is a slightly different exposure to property, given it is a fund manager with assets spanning commercial real-estate through office, industrial, healthcare and agricultural exposures, running a mixture of listed and unlisted funds, and earning fees for their management expertise. They compliment funds management income with development and transactional revenue and have a very strong platform of distribution and management of their funds throughout Australia and New Zealand.

We have discussed CNI a number of times over the last year as the position weighed on portfolio performance, however an 8% total return in March was pleasing. On a PE of 12.4x for FY24 and a yield of 7% (part franked), CNI remains appealing. The movement lower in bond yields in aggregate over the last 6 months has been a big beneficiary to the high operating leverage fund manager REITs, including CNI, and we believe this trend will continue for the remainder of 2024 and early 2025 at least. While the environment remains tough for raising new funds, Agriculture is a growth area for them, and they have a growing focus on owning high-quality agricultural real estate with solid tenants; they're now the largest owner of glass houses in Australia, along with other protected cropping assets.

Fortunately, we held our nerve with CNI over the past year and we believe the coming 12-months will generate better returns.

Infrastructure is another area that has struggled, and our position in **APA Group (APA)** is yet to bare fruit. APA is the largest owner of natural gas transmission in Australia, contracting with energy retailers to provide transmission from gas production fields to major cities. Macquarie posted a good note on the regulated utility in March upgrading the stock from neutral to outperform and increasing its price target by 60c to $9.40, implying ~12% upside in the share price along with a ~7% yield. The stock has been under pressure over the past 12 months, down 20%, on several headwinds, including higher costs, regulatory scrutiny on one of their assets, higher bond yields and some uncertainty around future investment.

However, pretty much all these pressures are easing and with the share price near 52-week lows, we continue to see value in APA as a defensive infrastructure holding, paying a sustainable and growing yield. Macquarie's forecast shows a 6.8% yield expected this year, growing at 6-7% per annum for the next 3 years, with increasing franking kicking in 2025 and beyond. We remain bullish on APA, believing the risk/reward looks great below $8.50.

Commonwealth Bank (CBA) is often referred to as the most expensive bank in the world, but ever since it floated at $5.40 in 1991, the company has yet to do anything to warrant losing this tag. It is certainly not cheap, but when we combine a fully franked yield of almost 4% with the stability of Australia's largest bank, we remain comfortable with our holding.

What we think is universally underappreciated, is CBA's leadership in technology. As JP Morgan CEO Jamie Dimon recently said, AI could be as transformational as the Steam Engine, and having the ability to tap into the operational efficiencies generated through AI will drive significant productively benefits, that will ultimately improve financial performance. CBA has the best tech stack, has invested heavily for years, enjoyed the benefit of scale and is in the box seat relative to peers to extract the benefits of AI, in our view. We can see CBA consolidating between $111 and $121 before again pushing higher.

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