MARKET MATTERS

INVEST

MONTHLY REPORT | NOVEMBER 2023 | 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	8.62%*

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 by 2.67% in November, outperforming its RBA Cash +4% benchmark which increased 0.67%. The portfolio has returned 7.56% for the rolling 12 months, against the benchmark return of 7.76% and 10.28% per annum for 3 years, 4.78% per annum above its benchmark.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
PORTFOLIO %	2.67	-0.64	3.82	7.56	8.33	10.28
BENCHMARK %	0.67	2.00	4.03	7.76	6.30	5.50
RELATIVE %	2.00	-2.64	-0.21	-0.20	2.03	4.78

Benchmark: RBA Cash Rate +4%

More broadly, the MSCI World Index in Australian dollar terms rose during November (4.44%), while US indices had one of their best months in the past century, the S&P 500 up an impressive (9.1%) in local currency terms – materially outperforming the ASX. Australian 10-year bond yields fell 52bps to finish November at 4.4%, now only 5bps above the cash rate, having peaked at 5%.

In the US, the Federal Reserve kept interest rates on hold while their rhetoric turned more balanced (as opposed to hawkish), the subtle but important change had a large influence on yields with the US 10-year down by 61bps to 4.32%, ~100bps below the fed funds rate.

Commodity prices were mixed, Brent Oil fell 5.2% to US$82.80/bbl, despite extensions to production cuts. Iron Ore prices were strong, rising by 7.8% to US$132.00/Mt, while $US weakness has continued to drive gold higher, rising by 2.6% to US$2036.

Healthcare (+11.69%) stormed higher after a soft period, Real Estate (+10.79%) followed closely while Information Technology (+7.27%), Industrials (+6.58%), Materials (+4.89%), Consumer Discretionary (+4.68%), Financials (+4.12%) and Communication Services (2.8%) all ended the month higher i.e., 8 out of 11 sectors were up.

Energy (-7.41%) was a notable underperformer while Utilities (-6.03%) and Consumer Staples (-0.88%) also lost ground.

PORTFOLIO POSITIONING

The portfolio held 19 positions at the end of November with a forecast yield of 5.76% plus franking. The portfolio is weighted 50% in Equities, 40% in Hybrids/Fixed Income, 6.5% in property and 3.5% cash.

We made one major change to the portfolio during the month, selling out of **Wesfarmers (WES)** and buying into **Orora (ORA)**.

We all link **Wesfarmers** to their ownership of Bunnings, which now makes up ~60% of their earnings (after they spun out Coles in 2018). While Bunnings continues to deliver for WES, their broader business is at an interesting juncture. WES is about to become a significant Lithium producer via its 50% ownership of the Mt Holland mine around 500 km east of Perth, which is expected to come online in the second half of 2024, with earnings flowing into FY25. While lithium prices have been hit hard, and it is difficult to predict what this division of the broader conglomerate will deliver, we know it will be meaningful in the coming years, something in the range of ~$1bn of EBIT.

However, WES is not cheap, trading on an Est PE for 2024 of 24.21x, and while this multiple will come down once Lithium earnings flow, this is some way off yet, while Lithium prices have fallen ~80% in the last year alone.

Expected to yield 3.63% this year and 4% next (100% franked), WES balances yield with growth, but a combination of valuation, the likelihood of a tougher 2024 from a consumer perspective, and the meaningful fall in the Lithium price saw us turn more neutral on Wesfarmers as it traded within a whisker of its all-time high. We used strength to sell and recycle capital into **Orora (ORA)**.

The packaging company had been on our Hitlist for a few months, and in that time they announced the significant acquisition of Saverglass, a global manufacturer of high-end bottles for the premium and ultra-premium spirits and wine market.

It was a $2.2bn acquisition, so it's big in both absolute terms and relative to the existing ORA business.

This led to a $1.3bn equity raise at $2.70, a 21% discount to the dividend-adjusted last closing price pre-announcement, with the deal completing in the 4QCY23.

Saverglass is a good company, and while big acquisitions are risky, and take time to integrate and fully recognise the benefits, the subsequent decline in the share price below the placement level presented solid risk/reward buying.

Important to any acquisition in earnings accretion, or in other words, will the purchase increase the acquirer's earnings per share (eps) given there are now more shares on issue. In the case of Saverglass, it is expected that it will, but not until FY25, the first full year of ownership. While patience will likely be needed here, we took the opportunity to buy ORA ~$2.55, expecting the acquisition to help drive earnings and dividends over time.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	19
ESTIMATED YIELD (%)	5.76
TOP 5 POSITIONS (% OF AUM)	33.05
TOP 10 POSITIONS (% OF AUM)	61.19

STOCK	CONTRIBUTION (%)
CENTURIA CAPITAL (CNI)	0.70
COMMONWEALTH BANK (CBA)	0.54
MAGELLAN FINANCIAL GROUP (MFG)	0.47
NATIONAL BANK (NAB)	0.42
BHP GROUP (BHP)	0.31

STOCK	DETRACTION (%)
NEW HOPE CORP (NHC)	-0.46
AGL ENERGY (AGL)	-0.35
METCASH (MTS)	-0.09
ORORA (ORA)	-0.02

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY24	2.79	-0.44	0.09	-3.32	2.67								**1.79**
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													**45.32**

PORTFOLIO POSITIONING CONTINUED

The regulated energy utility company **APA Group (APA)** has struggled throughout 2023 but we believe the stocks is representing excellent value ~$8, especially if our dovish view towards bond yields plays out through 2024. We continue to like this defensive bond-like play into 2024, aided by its forecasted 6.8% yield over the coming year. While we are down ~8% on the position since purchase, we believe APA will enjoy a better next 12-months than the last. We retain our ~5% portfolio weighting.

During November, **AGL Energy (AGL)** dipped back below $10 having hit a high of $12.45 at the start of August. Most of the attention in the space has been focused on **Origin Energy (ORG)** as the tussle between potential acquirer Brookfield and major shareholder AusSuper filled the papers. AusSuper is digging its heels in, essentially looking long-term around valuation and using that lens, they believe Brookfield's bid undervalues the ORG assets. While this all played out, AGL has flown somewhat under the radar and we're back contemplating our existing position in the Market Matters Active Income Portfolio, posing the question, should we be adding to our small 3% weighting?

AGL's CFO recently presented at an AFR Summit, with some interesting comments around the demand outlook for electricity and how they intend to meet it. Essentially, they believe EV's will underpin a 30% increase in home electricity consumption as drivers plug in their cars to recharge overnight, and while Electrification of the grid via hydro, wind, solar and batteries is crucial in the transition away from coal-generated electricity, the rising demand outlook means that a lot more renewable infrastructure needs to be built before coal-fired power stations can come off line.

AGL will be critical in the energy transition and shift to decarbonisation, and now it trades on an Est PE of 9.5x and a projected yield of 5.5% with franking increasing, we think AGL is very much in an accumulation zone around $9.50. We retain a 3% weighting, with the intention of adding to the position.

From all the team at Market Matters, wishing all our investors a safe and happy festive period, and here's to a great 2024. We thank you for your ongoing trust and support.