



**MARKET MATTERS**  
INVEST

**MONTHLY REPORT | APRIL 2022 | ACTIVE HIGH CONVICTION**

**PORTFOLIO DETAILS**

Portfolio Name	Active High Conviction
Structure	Separately Managed Account
Benchmark	S&P/ASX 200 Accumulation
Management Fee	Maximum of 1.2% incl GST
Platform	Open Wealth   Praemium
Included Assets	Equities, ETFs
Portfolio Manager	James Gerrish
Annual Performance	9.65%

**OBJECTIVE**

The objective of the Market Matters Active High Conviction Portfolio is to provide an active exposure to Australian large-cap shares, with reduced volatility. Returns will be achieved through a combination of capital appreciation and income with an overall objective of outperformance of the S&P/ASX 200 Accumulation Index over the medium term, (3 years).

**MARKETS & PERFORMANCE**

The Market Matters Active High Conviction portfolio returned -2.30% in April, underperforming its benchmark of the S&P/ASX 200 Accumulation Index which fell -0.85%. The portfolio has returned +9.65% for the rolling 12-months.

PERIOD	MARCH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA
<b>PORTFOLIO %</b>	-2.30	5.21	0.13	9.65	21.35	7.78
<b>BENCHMARK %</b>	-0.85	8.25	3.59	10.16	20.05	9.42
<b>RELATIVE %</b>	-1.45	-3.04	-3.46	-0.51	1.30	-1.64

April was another challenging month, more so for growth or internationally focussed portfolios with most global markets falling sharply as inflation soared prompting a readjustment of the market's pricing on interest rates.

This dynamic has driven a sharp re-rating in some sectors more than others, however as the month progressed, the impacts became more widespread.

The S&P/ASX 200 ended the month -0.85% lower, the US-based S&P 500 fell -8.8%, Chinese equities fell -6.3% while the technology focussed Nasdaq had its worst month since 2008, declining by 13.3%. Bond markets were also extremely volatile with the yield on the US 3-year bond moving from 2.5% to 3%.

Variance in returns across sectors was stark. The more defensive utilities & industrial stocks did well, up 8.9% & 4.1% respectively, while recent strength in the material sector was overcome by growth concerns pushing that sector down by 5.6%. Technology was the biggest drag down by 9.55%.

The sell-off in many technology stocks has simply been extraordinary. The much-famed ARKK innovation ETF headed by Cathie Wood has now fallen 70% from its highs while stocks like Paypal and Netflix are also down by a similar quantum.

As interest rates rise, the lure of unprofitable, high growth companies wanes and while this is a well understood dynamic, the extent of the moves has been surprising.

This was a difficult month from an investing standpoint, indeed one of the most complex in recent memory which shows through the portfolio's underperformance, however we believe we have a solid portfolio balance between growth and defensive style stocks and look forward to better relative returns ahead.



## PORTFOLIO STOCKS

The portfolio holds concentrated positions in 19 stocks and applies specific stock & sector tilts with a focus on risk-adjusted returns over the medium term.

It was a disappointing month from a return perspective with the portfolio down -2.30% - the biggest drag coming from our technology stocks which succumb to higher bond yields. While we had been active sellers of resources into strength, our underweight tilt was not enough to offset the impost of rising rates on higher valuation growth names.

We were reasonably inactive during the month making only one change to the portfolio, adding TPG Telecom (TPG) into weakness.

**Resmed (RMD):** Supply chain issues & chip shortages have hurt RMD over the month however, these influences will pass, and the developer of sleep disorder treatments will fill the almost 'unlimited' demand for their products as described by their CEO Mick Farrell on a recent earnings call. With a 10-15% earnings growth rate likely over the next 3 years, the 30% pullback in the stock from 2021 highs has MM firmly in the accumulation camp. This remains a high-quality, defensive healthcare company we like.

**Qantas (QAN):** Has now moved from defence into offence ordering a suite of new planes while also saying that 2H22 EBITDA would be \$500m, a long way ahead of the market expectations for \$200m. Debt levels have also fallen by around \$1bn and while they'll still lose around \$1.3bn in FY22, they should return to profitability earlier than expected in FY23. QAN now has a better cost base to take advantage of the looming upswing with the next few years likely to be very strong for them. We have stayed long & remain bullish on QAN.

**TPG Telecom (TPG):** The No 3 telco has struggled over the past few years however the worst now seems behind them and some green shoots within the business are becoming obvious. They also just announced the sale of their entire mobile tower and rooftop infrastructure network for ~\$950m to a Canadian pension fund, using the proceeds

to pay down about 20% of their current debt. Both Telstra & Singtel have made similar moves in recent times cashing in on the current appetite for infrastructure assets. Reducing the overall amount of debt TPG carries will reduce the cost of that debt and provide them greater flexibility moving forward. We like TPG as a more defensive position and view prices below \$6.00 as good buying.

**Woolworths (WOW):** A recent addition to the portfolio, 'Woolies' has done particularly well since we bought it around \$35 as defensive names increasingly catch investors' attention plus it doesn't hurt that they are likely to be beneficiaries of rising inflation. It may be a fairly slow and boring journey but we can see WOW posting fresh all-time highs over the next 12-months with its best weeks likely to be when the broader index gets the wobbles.

### PORTFOLIO STOCKS

NO. OF HOLDINGS	19
ESTIMATED YIELD (%)	2.38
TOP 5 POSITIONS (% OF AUM)	33
TOP 10 POSITIONS (% OF AUM)	60

STOCK	CONTRIBUTION (%)
QANTAS (QAN)	0.51
GOODMAN GROUP (GMG)	0.29
WOOLWORTHS (WOW)	0.18
CSL LIMITED (CSL)	0.14
MACQUARIE (MQG)	0.09

STOCK	DETRACTION (%)
RESMED (RMD)	-0.58
A2 MILK (A2M)	-0.54
BHP BILLITON (BHP)	-0.47
XERO (XRO)	-0.47
ARISTOCRAT LEISURE (ALL)	-0.44

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
<b>FY22</b>	0.25	2.53	0.78	1.75	-3.49	2.72	-4.00	2.06	5.51	-2.30			<b>5.81</b>
<b>FY21</b>	0.27	4.94	-4.10	-1.07	14.87	1.34	-0.50	3.08	0.66	4.10	1.17	2.70	<b>27.46</b>
<b>FY20</b>	1.21	-2.16	3.75	-1.55	0.80	0.34	2.06	-10.25	-24.12	12.66	5.30	2.02	<b>-9.94</b>
<b>FY19</b>	1.11	1.64	-0.77	-2.16	-1.22	-1.94	3.39	4.98	-1.00	2.39	1.72	4.41	<b>12.55</b>

CUMULATIVE

35.88

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