

ACTIVE HIGH CONVICTION SMA

MODEL PORTFOLIO: MM0001

MONTHLY REVIEW – MARCH 2019

Top 5 Holdings

CODE	SECURITY	SECTOR
CBA	Commonwealth Bank of Australia	Financials
NAB	National Australia Bank Ltd	Financials
TLS	Telstra Corp Ltd	Comm. Svc
WBC	Westpac Banking Corp	Financials
ORI	Orica Ltd	Materials

Portfolio Returns

	1mth	3mth	6mth	1yr	FYTD
Model	-1.00%	+7.46%	+1.84%	n/a	+3.86%
Benchmark	+0.73%	+10.89%	+1.75%	n/a	+3.31%
Relative	-1.73%	-3.43%	+0.09%	n/a	+0.55%

Cash & Income

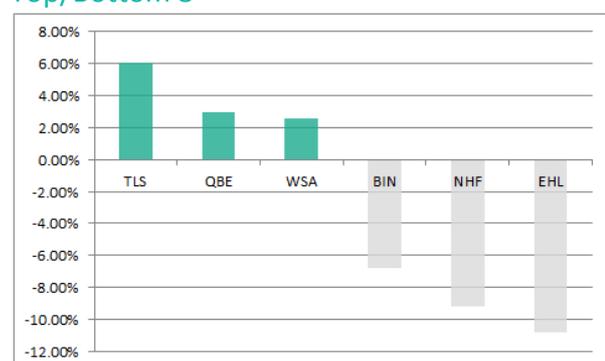
Cash	31.38%
Estimated Income	3.85%

Portfolio Attribution – 1 Month

Income Attribution	+0.43%
Capital Attribution	-1.61%

Monthly Holding Performance

Top/Bottom 3



PORTFOLIO DETAILS

SMA Model code:	MM0001
Current number of holdings:	15
Portfolio Return Objective:	S&P / ASX 200 Accumulation
Portfolio Manager:	Market Matters
Market View:	Neutral
FYTD Return:	+3.86%

INVESTMENT OBJECTIVES

The objective of the Market Matters Active High Conviction SMA is to provide an active exposure to Australian large cap shares, with reduced volatility through stock selection, targeted hedging & managing cash. 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), but with lower volatility.

MARKET UPDATE & POSITIONING

Australian shares were marginally higher in March consolidating the very strong first two months of the calendar year to produce the best quarterly return since the GFC - the ASX 200 adding +9.46% during the period. The 'melt up' in equities was largely underpinned by a significant about turn by global central banks which moved on a dime from a tightening to an easing bias. Lower interest rates globally and a bearish market following the significant decline into Christmas prompted strong buying across global stock markets, catching many on the hop. The rally was not underpinned by earnings growth, but rather a big expansion in earnings multiples (P/E's) thanks to a lower risk free rate. Iron Ore stocks were strong which filtered into stellar performances across the resource sector, while real-estate stocks were also a standout. While the market has rallied, earnings expectations (outside Iron Ore exposed names) have remained subdued.

PORTFOLIO COMMENTARY

The Market Matters High Conviction Active Portfolio declined by -1% for the month, following its ~5% increase in February. The return was marginally below the portfolio benchmark, negatively influenced by our uncomfortably high cash balance during the period. Markets are latching onto monetary policy (interest rates) whilst ignoring the downside risks to earnings and the weakness in global economic growth being implied by the bond market. Interest rate futures in Australia are now pricing 0.50% of interest rate cuts. We've found it hard to get enthusiastic about opportunities in this market with the rally built on a foundation of lower interest rates rather than genuine earnings growth. From a portfolio perspective we've continued to target stocks that offer good risk dynamics relative to potential upside. This doesn't generally correlate with the 'hot' stocks of the moment, but instead we're looking for value in an expensive market. The gap between what the markets willing to pay for growth versus value has in our view become extreme.

HEALIUS (HLS): An Australian based healthcare company with a strong asset base which is not generating the earnings it should. Their largest shareholder, Chinese based Jangho made a takeover offer at \$3.25 per share in early January which was rejected – described as opportunistic, undervaluing the business. We believe this bid has more credibility than the market was pricing in and they may come back to the table. If we're wrong and a revised bid does not eventuate, HLS has already embarked on a turnaround phase, cutting costs and improving earnings. We bought HLS during the quarter.

PACT GROUP (PGH): Packaging Company Pact Group experienced a tough 2018 with the share price declining by more than 50%. Weak earnings and high debt levels underpinned the selling pressure. The stock seems to be priced for an equity raise and if that doesn't happen, or more optimistically, a privatisation unfolds from their largest shareholder – the share price could rally strongly. The risk / reward dynamics of this trade look compelling. We bought PGH during the quarter.

TELSTRA (TLS): A good quarter for the telco after reporting earnings that were slightly ahead of our forecasts. They cut the dividend which is a sign of the 'new Telstra', a business investing more towards growth and reshaping its operations to take advantage of the digital opportunity. Legacy systems are being updated which is a negative for short term earnings however this will help longer term growth. The share price moved from \$2.85 to \$3.31 in the quarter, a rally of 16% whilst also paying an 8cps fully franked dividend. We hold Telstra in the portfolio.

QBE INSURANCE (QBE): Delivered a strong earnings report during the period providing evidence that the downgrade cycle may well be behind them. The insurer continues to de-risk their book with new management doing a credible job at lowering costs and driving revenue higher while focussing on the core businesses they have an 'edge' in. QBE still trades on a reasonable discount to global peers and deservedly so however this discount will close if QBE can execute its plan. We sold QBE during the period for a strong profit given the decline in global interest rates, however this is a stock to buy again into any macro led weakness.

PORTFOLIO PERFORMANCE CHART

Percentage returns

Periods to 31 March 2019	1 mth	3 mths	Since 01/07/2018
Portfolio return before expenses (TWR)	-1%	7.46%	3.86%
S&P/ASX 200 Accumulation Index	0.73%	10.89%	3.31%
Targeted Absolute Return 8% p.a.	0.66%	1.92%	5.95%

Cumulative returns over time



What is an SMA? A Separately Managed Account (SMA) combines the best parts of a managed fund with a direct investment. It provides you with control and direct ownership, while we take the day-to-day hassle out of your portfolio, by managing it on your behalf.

The Market Matters SMAs offer an unprecedented level of communication and transparency - so you won't just see our insights, you'll understand our actions.

About your Manager: James Gerrish is the Portfolio Manager for the Market Matters SMA's. James is a Senior Portfolio Manager within Shaw and Partners, one of Australia's leading wealth management firms with approximately \$18 billion of assets under advice. James is also the Primary Contributor to Market Matters, providing content, insights and strategy to more than 2,000 subscribers.

Investment Committee: The Market Matters Investment Committee consists of Peter White and Peter Whyntie, both of whom have considerable financial markets experience. Peter White's career spans 23 years, including 17 years providing professional advice. Peter Whyntie is a recognised leader in the governance, risk management compliance community, as a Fellow of both the Governance Institute of Australia and Fellow and Life Member the GRC Institute

If you have any questions please don't hesitate to contact your Portfolio Manager directly on (02) 9238 1561

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