

Wholesale Stockbroking Australian Equities Growth SMA

ORD MINNETT

October 2022

Australian Equities Growth Portfolio

Portfolio Performance as 30/09/2022	1mth	3mth	6mth	1yr	2yrs (pa)	3yrs (pa)	Inception
Australian Equities Growth Portfolio	-5.1%	2.9%	-5.9%	-	-	-	-1.0%
S&P/ASX200 Accumulation Index	-6.2%	0.4%	-11.6%	-	-	-	-7.1%
Difference	1.1%	2.6%	5.7%	-	-	-	+6.1%

Market Update

Australian equities continued to perform well against their global counterparts in a tough month for markets. September saw all markets trade lower with the ASX200 (-7.3%), UK (-5.4%), Shanghai (-5.6%) and France (-5.9%) faring better than Japan (-7.7%) and the US (Dow Jones -8.8%, S&P500 -9.3%, Nasdaq -10.5%). Domestically the sell-off was broad based and mostly attributed to the rise in global bond yields with yield sensitive sectors the hardest hit (Utilities -14.9%, REIT -13.8%).

The headline US CPI was almost flat in August (+0.1%), where healthy declines in energy and gasoline prices were offset by pressures across non-commodity-based goods and services. The Federal Reserve delivered another 0.75% rise in interest rates with commentary indicating they are still determined to bring inflation back under control even if it pushes the US into recession. The whole yield curve lifted across the month with 10-year US Treasury yields increasing from 3.26% to 3.83%.

Domestically the RBA raised interest rates by 0.50% in early September and then 0.25% in early October. The downsizing of the rate rise sent a strong signal that the RBA has made progress. The differences in the two central bank's rhetoric paved the way for a \$0.05 depreciation of the AUD/USD to \$0.636.

Elsewhere, globally Putin attempted to halt Ukraine's advances with the Referendum and Annexation of four selected regions and potentially related attacks have been made on multiple eastern European infrastructure assets (Nord Stream). Ahead we have China's National Congress, more important monthly CPI data and the first estimate of US third quarter GDP out in late October.

Portfolio Update

The Australian Equities Growth Fund traded 5.1% lower in September outperforming the ASX200 Accumulation Index which traded 6.2% lower. The Fund has outperformed the benchmark over all time periods to date: 3 months (+2.9% v +0.4%), 6 months (-5.9% v -11.6%) and since inception (-1.0% v -7.1%).

Mineral Resources (+4.4%) posted more strong gains as speculation of a possible demerger of its Lithium business continued. We are supporters of such a demerger noting that the Lithium assets now dominate our valuation of the share price. BHP (+1.2%) posted a solid month despite trading ex a large \$2.55 fully franked dividend on 1 September and most of its underlying commodity prices consolidating.

ResMed (+5.3%) gained on news of yet another recall from major global competitor, Philips. The recall is related to magnets interfering with pacemakers in selected masks only. ResMed also have magnets in some of their masks, so some residual risk remains. CSL (-2.3%) moderated despite reports suggesting they are poised to take significant share of the haemophilia B market.

The banks (CBA -7.0%, NAB -5.8%) traded sideways as analysts continued to hope for the somewhat elusive net interest margin expansion. More evident is the rate hike induced slowing credit growth and persistent mortgage competition. Continued weakness in global banking peers continues to pressure valuations across the sector and rising rates will soon show up in credit quality.

Macquarie Group (-13.8%) traded lower on the back of widening credit spreads across US investment banks amongst speculation of possible issues at Credit Suisse. Rising global bond yields has also seen bond yield proxies sold off and Macquarie has a degree of exposure here to the valuations under its infrastructure asset management business.

Santos (-10.1%) lost ground alongside declines in energy prices and community relations issues at its Barossa development which will likely result in additional costs and project delays. Santos also received an offer for 5% of PNG LNG from Kumul, PNG's national oil and gas company.

Portfolio changes

There were no challenges this month

Portfolio Rebalances

There were no rebalances this month

Dividend Reinvestment

Dividends are reinvested opportunistically

Outperformers	Return (mth)
ResMed	+5.3%
Mineral Resources	+4.4%
BHP	+1.2%

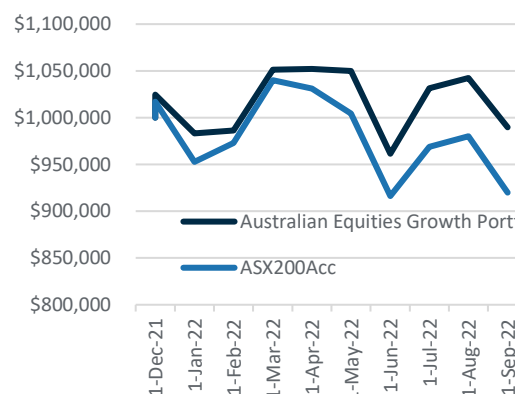
Underperformers	Return (mth)
Macquarie Group	-13.8%
APA	-13.5%
Hub24	-12.2%

Portfolio composition by sector

- Energy 6%
- Materials 18%
- Industrials 8%
- Cons. Disc. 5%
- Cons. Staples 7%
- Health Care 11%
- Financials 28%
- Info.Tech 0%
- Telco. Serv. 4%
- Utilities 4%



Performance vs Benchmark



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Investment objectives

To outperform the S&P/ASX200 Accumulation Index over the medium to long term.

Investor profile

The Australian Equities Growth Portfolio is suitable for an investor seeking medium to long term capital growth with some income from a high conviction and sector diversified portfolio of Australian shares. Investors should be prepared to accept some variability in short term returns.

Investment Philosophy

The Model is an actively managed high conviction, long only Australian equities strategy. The portfolio is managed active to the index and will implement strategic tilts to add alpha through stock selection or sector allocation. The strategy will often avoid selected sectors completely and at times it may choose to reduce active risk against the index in its security and sector allocations.

Portfolio construction parameters

- Invested across 12 to 20 securities in the S&P/ASX200,
- The portfolio may hold up to 10% in Cash,
- Security concentration limit of 15%,
- Individual security investment horizon of 2 to 3 years,
- Supportive sector analyst recommendation at time of inclusion.

Performance quality

Inception Date	December 2021
Max monthly return	+7.3%
Min monthly return	-8.4%
Average return (mth)	+0.01%
Correlation	97.0%
Volatility	17.0%
No. of periods	10
Up periods	60%
Down periods	40%
Outperformance	60%
Underperformance	40%

Top Holdings

NAB	10.3%
BHP	7.7%
Woolworths	7.3%
CBA	6.8%
Mineral Resources	6.4%

Sector allocations

Overweight	Consumer Staples, Utilities
Neutral	Energy, Industrials, Healthcare, Financials
Underweight	Materials, Consumer Discretionary, Communication Services
Nil Allocation	Information Technology

Investment Process



Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021												+2.5%	+2.5%
2022	-4.0%	+0.3%	+6.6%	+0.1%	-0.6%	-6.6%	+6.1%	+1.1%	-5.1%				-2.4%

Asset Allocation

	Minimum	Neutral	Maximum	Actual
Australian Equities	90%	95%	100%	90%
Cash	10%	5%	0%	10%

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Wholesale Stockbroking Investment Committee



Thomas Pickett-Heaps, Model Manager

Thomas is responsible for thesis and thematic origination and development, qualitative screening, portfolio management, execution and commentary. He has 22 years experience advising investment committees, financial advisers, private investors, fund managers and corporates in equity research, asset consulting, portfolio management and investment execution.

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Francesco de Stradis, Managing Adviser

Francesco is responsible for quantitative screening, portfolio management and performance reporting. He has over 25 years experience in the financial services industry covering research analysis, securities trading, product development and management, and the provision of tailored investment advice to investors.

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Simon Kent Jones, Head of Private Client Research

Simon is responsible for portfolio attribution and analytics. Firmwide, he is heavily involved in asset allocation and investment strategy and manages internal models. Simon has extensive investment committee, analyst and portfolio management experience in his 27 years in the industry.

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Athena Kospetas, Research Analyst

Athena is responsible for equity and credit research and is the primary liaison to sector analysts. Firmwide, she is heavily involved in market-based commentary, investment idea origination and manages internal fixed interest/hybrid models. Athena brings specialist credit experience to the Committee and has 7 years of industry experience.

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