

Seneca Absolute Return SMA



Monthly Update

As at 31 October 2023

Description

The portfolio is focused primarily on active managers running absolute return strategies such as systematic global macro (managed futures), equity long/short, relative value and non-traditional credit. Asset and sector allocation is strategic with tactical tilts made as the outlook for various strategies change over time. Manager selection and portfolio construction is driven by our Investment Committee, with diligent is driven by internal desk based qualitative and quantitative research and external research ratings.

Top 5 Holdings

Fund Name	Strategy	Weight
GMO SYSTEMATIC GLOBAL MACRO	Global Systematic Macro	15.41%
WINTON GLOBAL ALPHA	Global Systematic Macro	14.98%
CT PYRFORD GLOBAL ABSOLUTE	Multi-Asset / Multi-Strat	14.48%
CC SAGE CAPITAL ABSOLUTE	Global Eq Market Neutral	14.06%
Man AHL Alpha (AUD)	Global Systematic Macro	13.81%

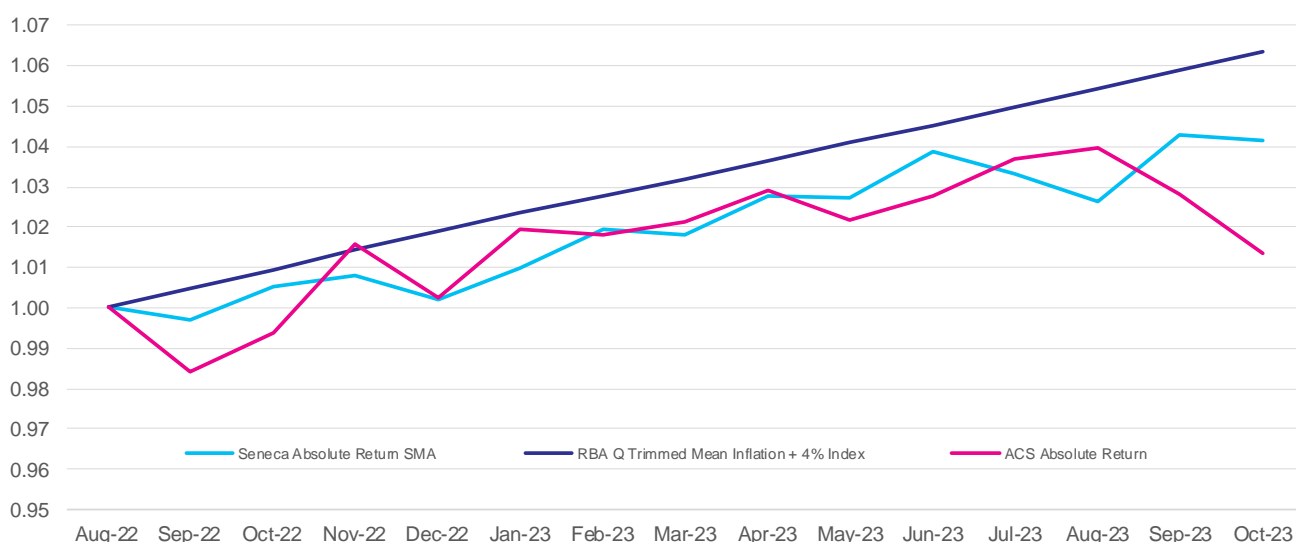
Portfolio Details

Portfolio Manager	Seneca IC
Inception Date	16/08/2022
Management Fee	0.20% pa
Performance Fee	nil
Time Horizon	At least 5 years
Platform Avail	Praemium
Portfolio Yield (net)	n/a
Benchmark	RBA CPI plus 4% ¹
Liquidity	Daily
# of holdings	4 to 8
Cash Allocation	0-10%
Min Investment	AUD \$50,000

Performance (before fees)

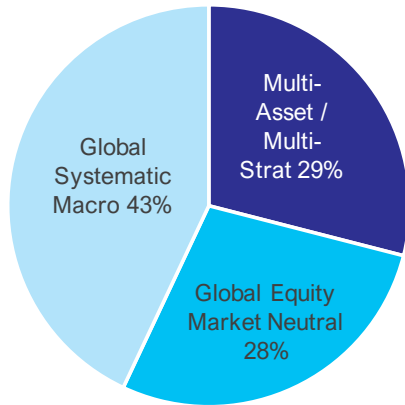
	1m	3m	6m	1y	2y (p.a)	3y (p.a)	Inception (p.a)
Seneca Absolute Return SMA	-0.11%	0.80%	1.36%	-	-	-	3.70%
Benchmark	0.43%	1.29%	2.60%	5.32%	5.49%	5.17%	5.42%
Excess return	-0.54%	-0.49%	-1.24%	-	-	-	-1.72%

Cumulative Returns (since inception)



¹RBA Quarterly Trimmed Mean Inflation + 4% Index

Target Sector Allocation



Benefits of a SMA	SMA	Managed Fund	Direct Shares
Professionally Managed	✓	✓	✗
Dividends & franking paid directly	✓	✗	✓
Full transparency on holdings	✓	✗	✓
Individualised Tax	✓	✗	✓
Gearing available	✓	✓	✓

Portfolio Commentary

The absolute return model portfolio outperformed its sector peer group, returning -0.11% vs -1.43% for the ACS Absolute Return sector. It continues to trail its formidable inflation+4% benchmark. Sage (equity market neutral) were the standout performer returning +1.87%. Our 2 managed futures managers also finished in the green with 5 managers in total outperforming the peer group. Ruffer and Pyrford, our 2 multi-strategy managers were the 2 laggards.

Market Commentary

Global share markets sold off during October, as bond yields continued to rally, the MSCI All World Index down 2.7%. In the US, the S&P 500 fell 2.2%, the MSCI Europe index was down 2.9% and Asian equities were among the worst performers, falling 3.7%. Only the UK's FTSE 100 Index fared worse, declining 3.8% as interest rates have seemingly dragged their economy to a standstill.

Of the global large companies in the S&P 500, Netflix (NFLX) added 9% on stronger than expected subscriber numbers, while AI-driven earnings growth pushed Microsoft (MSFT, +7%) and Adobe Inc (ADBE +4.3%) higher. Among the worst performers were Invisalign manufacturer Align Technologies (ALGN, -40%), vaccine manufacturer Moderna (MRNA, -35%) and lithium miner Albemarle Corporation (ALB, -25%) who pulled out of the battle for ASX-listed Liontown Resources (LTR, -45%).

Liontown (LTR) was the worst performing stock on the market during October, but Neometals (NMT, -42%) and Loneer (INR, -38%) weren't too far behind.

Graphite miner Syrah Resources (SYR, +30%) was among the top performers after China imposed graphite export restrictions, reducing the global supply of that critical mineral. SYR was pipped by Tleto Minerals (TIE, +67%) who received a takeover bid from Chinese company Zhaojin Mining (1818.HK).

Outlook

While it's certainly too early to be categorical, it feels to us like sentiment is turning more positive.

Central bankers in the US and Europe have begun to signal that they might have finished increasing interest rates, and the bond market is now only pricing a 20% chance that the US Federal Reserve increases rates in December with expectations of the first US interest rate cut in June 2024.

While the RBA should raise interest rates on Melbourne Cup Day (to cool accelerating domestic inflation) the market remains uncertain and pricing a 48% chance of a 25bps interest rate increase. This implied probability is down from over 80% prior to newly appointed RBA Governor Michelle Bullocks refusal to classify the stronger-than-expected September inflation data as a "material" upside surprise in recent parliamentary testimony.

Couple this changing macro environment with the fact that historically, markets have bounced hard after 3 consecutive negative-return months (like we've just experienced) and the strong seasonality trends observed in December quarters – we think there's room for renewed optimism.

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