Seneca Australian Equity SMA

Monthly Update
As at 31 October 2023

Description

The model holds a portfolio of actively managed funds. The portfolio will provide diversified exposure to domestic equities. The portfolio is weighted entirely toward growth type asset classes with zero exposure to defensive asset classes. Asset allocation is strategic and reviewed on a monthly basis with tactical tilts made as the outlook for various sub-asset classes, styles and sectors change over time. Manager selection is driven by quantitative factors and both internal and external research.

Top 5 Holdings

Fund Name	Sector	Weight
SENECA AUSTRALIAN SHARES	Australian Large Cap	26.86%
REALINDEX AUSTRALIAN SHARE	Australian Large Cap	12.90%
DNR AUS EQ HIGH CONVICTION	Australian Large Cap	12.71%
PERENNIAL VALUE SHARES	Australian Large Cap	10.46%
MACQUARIE AUSTRALIAN SMALL	Australian Small Cap	10.32%

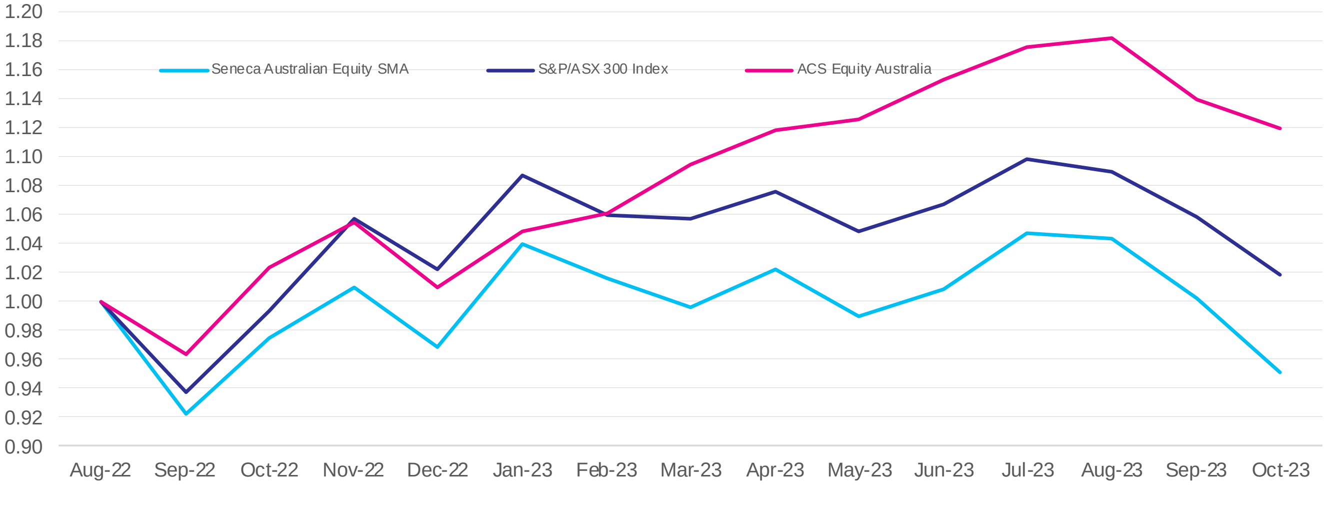
Portfolio Details

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)	4.40%
Benchmark	S&P/ASX 300 Index (TR)
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 Australian Equity SMA	**-5.15%**	**-9.15%**	**-7.00%**	**-**	**-**	**-**	**-5.77%**
Benchmark	-3.80%	-7.29%	-5.41%	2.51%	-0.08%	8.68%	0.87%
Excess return	**-1.35%**	**-1.86%**	**-1.59%**	**-**	**-**	**-**	**-6.64%**

Cumulative Returns (since inception)



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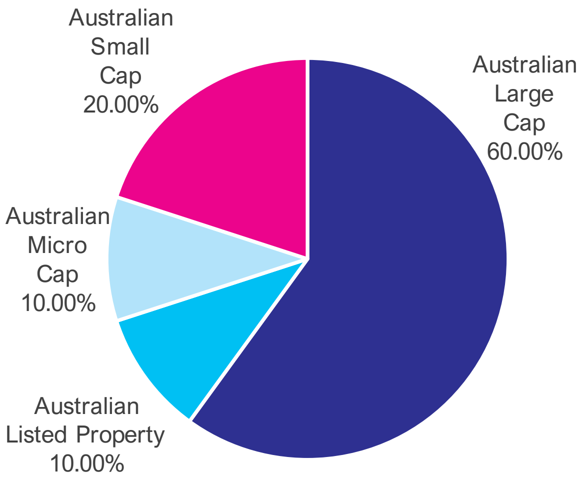
Sector Allocation



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 model underperformed the benchmark ASX 300 index in October, returning -5.15% vs. -3.80% for the benchmark. Allocations to property securities & small/micro-cap equities were again the main contributors to underperformance. Our newly added systematic value manager also had another relatively good month returning -2.63%.

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 Ioneer (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 Tletto Minerals (TIE, +67%) who received a takeover bid from Chinese company Zhaojin Mining (1818.HK).

Outlook

While it's certainly too early to be categoric, 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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