Seneca Australian Shares SMA

Monthly Update
As at 31 October 2023

Description

An actively managed portfolio of 20-40 Australian shares from inside the S&P/ASX 200 Index.

The manager has a focus on high quality companies trading at fair valuations, using a bottom-up, fundamental approach.

Top 5 Holdings

Company	Sector	Weight
MQG	Financials	6.63%
CSL	Healthcare	6.29%
BHP	Materials	5.46%
SHL	Healthcare	5.01%
NAB	Financials	4.57%

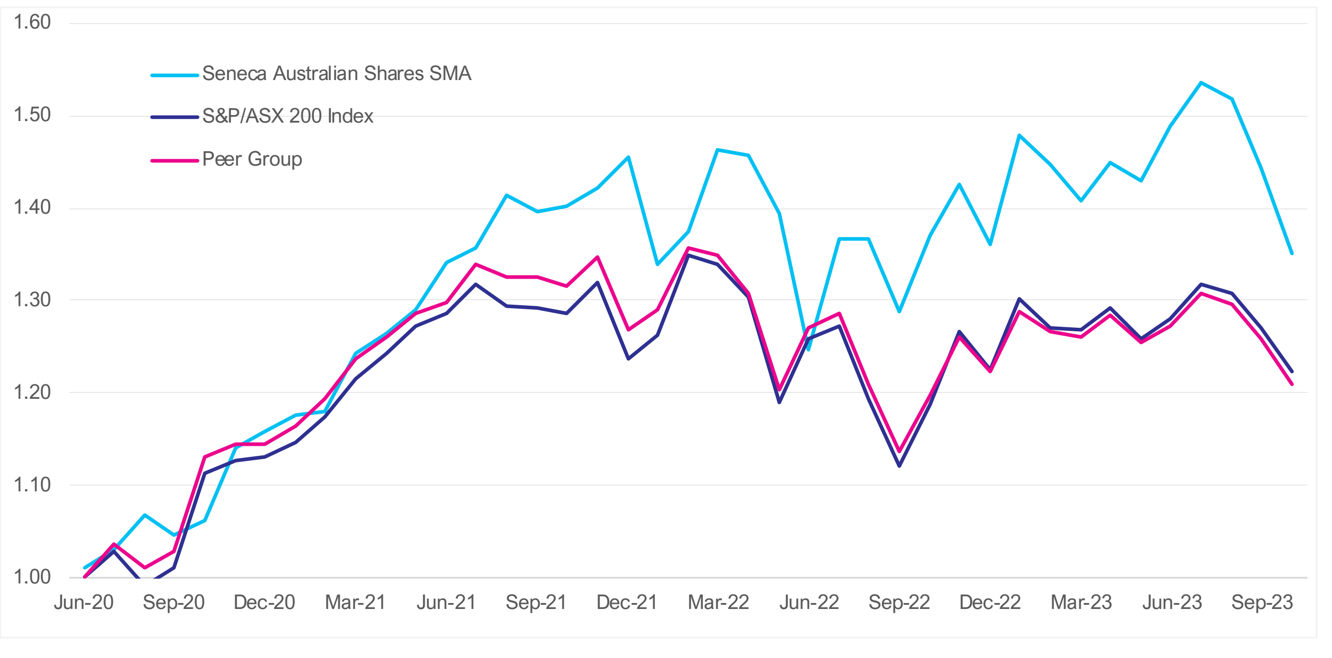
Portfolio Details

Portfolio Manager	Luke Laretive
Inception Date	16/06/2020
Management Fee	0.45% p.a
Performance Fee	nil
Time Horizon	At least 5 years
Authorised Invest.	S&P/ASX 200
Platform Avail	Praemium
Portfolio Yield (net)	3.96%
Liquidity	Daily
Number of Stocks	20-40
Cash Allocation	0-10%
Min Investment	AUD $25,000

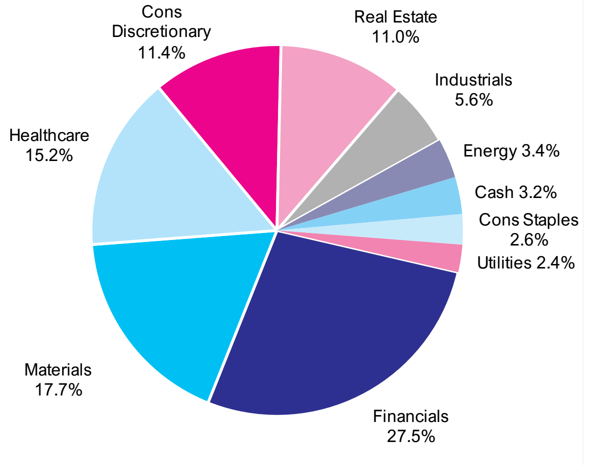
Performance (before fees)

	1m	3m	6m	1y	2y (p.a)	3y (p.a)	Inception (p.a)
Seneca Australian Shares SMA	**-6.51%**	**-12.06%**	**-6.86%**	**-1.53%**	**-1.84%**	**8.37%**	**9.30%**
S&P/ASX 200 Accumulation Index	-3.78%	-7.19%	-5.30%	2.95%	0.44%	8.88%	8.13%
Excess return	**-2.73%**	**-4.87%**	**-1.56%**	**-4.48%**	**-2.28%**	**-0.51%**	**1.17%**

Cumulative Returns (since inception)



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 Seneca Australian Shares SMA returned -6.51% during October, underperforming the S&P/ASX 200 by -2.73% which fell by -3.78%. Inflation expectations and bond yields again drove returns across the market with the Resources sector (-1.31%) outperforming non-Resources (-4.73%). The yield on Australian 5-year government bonds yields increased 40bps or 9.5% during the month to close at 4.54% pa. Only 16% of companies in the index were able to achieve a positive return for the month, with Gold (S&P/ASX Gold +8.7%) and Iron Ore miners (CIA +13%, FMG +6.6%, RIO +3.5%) dominating. As you'd expect, rate-sensitive sectors like IT (-7.5%), Healthcare (-7.2%) and Industrials (-6.4%) suffered most heavily.

We used share price weakness during the month to deploy some of our previously accumulated cash reserves, opportunistically adding to positions in lithium and healthcare where we see value on offer.

While there is a temptation to dramatically shift the strategy to inherently cyclical, lower-quality names that are the current top performers (oil & gas, uranium, thermal coal and iron ore), we know that sticking to our knitting, focusing on businesses with quality earnings growth at reasonable prices, over the longer term is the key driver of sustainable outperformance. Outside of these over-inflated miners, we see that many pockets of the Australian share market now offer compelling value and we expect our portfolio is well positioned to benefit from any increase in risk appetite as the macro environment improves.

In the first few days of November, we feel that sentiment shift has begun. European, UK and US central bankers kept rates on hold and bond yields have started to decline. As a result, our portfolio has bounced higher with our lithium stocks adding c.5%, Charter Hall increase by 7.7% and ResMed up 3.5% in just 2 trading days.

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.