

Seneca Defensive Income SMA



Monthly Update

As at 31 October 2023

Description

Domestic and international fixed income securities via a diversified portfolio of actively managed fixed income funds focused on more defensive (investment grade) income generating assets and strategies. Allocations are strategic with tactical tilts made as the outlook for various segments of the fixed income market change over time. Manager selection is driven by internal desk based qualitative and quantitative research and external research ratings.

Top 5 Holdings

Fund Name	Sector	Weight
REALM SHORT TERM INCOME	Alternative Income	15.12%
MUTUAL HIGH YIELD	Alternative Income High	15.07%
YARRA ENHANCED INCOME FUND	Alternative Income High	15.05%
PERPETUAL DIVERSIFIED INCOME	Specialised Income	15.05%
INVESCO WS SENIOR SECURED	Specialised High Income	15.04%

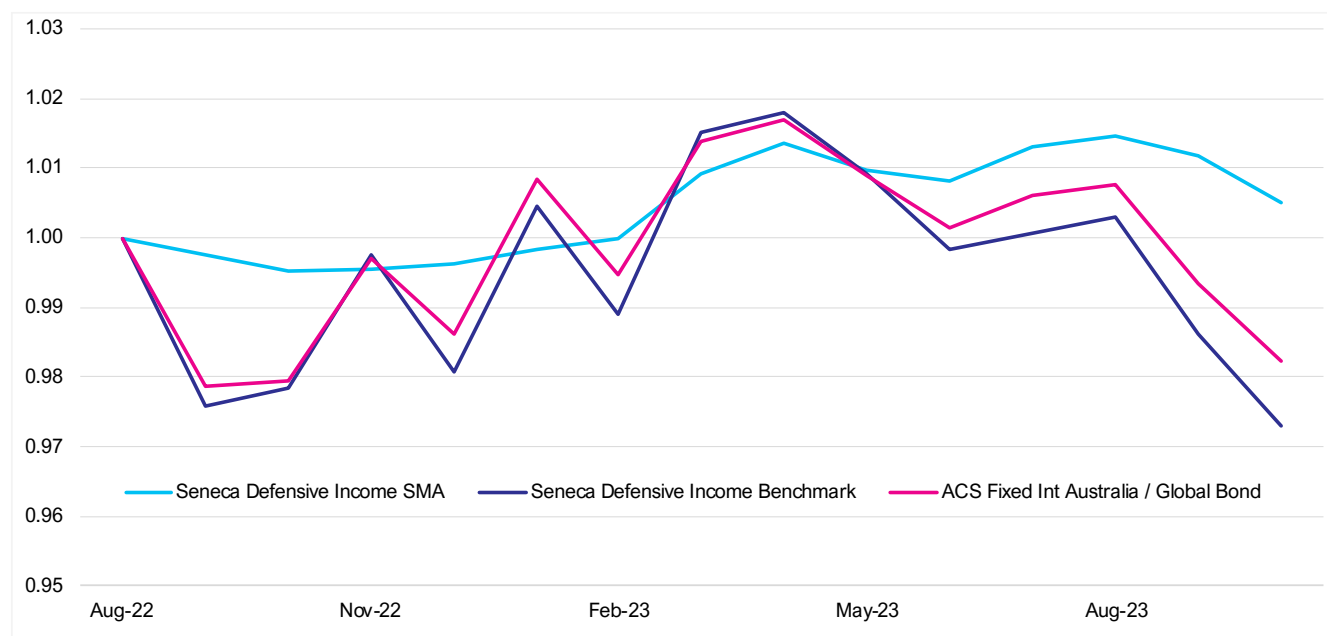
Portfolio Details

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)	5.23%
Benchmark	Custom Composite ¹
Liquidity	Daily
# of holdings	4 to 8
Cash Allocation	0-10%
Min Investment	AUD \$50,000

Performance (before fees)

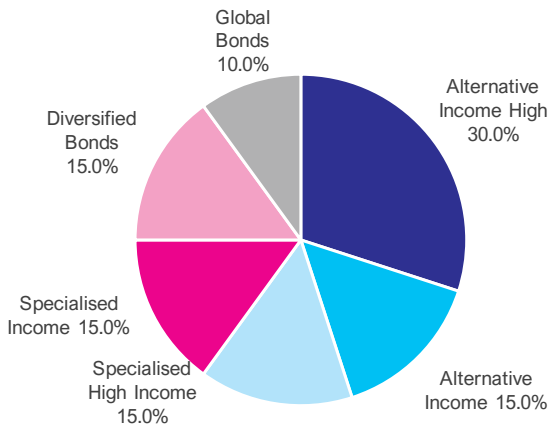
	1m	3m	6m	1y	2y (p.a)	3y (p.a)	Inception (p.a)
Seneca Defensive Income SMA	-0.66%	-0.77%	-0.82%	-	-	-	0.48%
Benchmark	-1.35%	-2.77%	-4.44%	-0.58%	-5.24%	-5.26%	-3.59%
Excess return	0.69%	2.00%	3.62%	-	-	-	4.07%

Cumulative Returns (since inception)



¹Bloomberg AusBond Composite Index 50% / Bloomberg Global Aggregate Index (hedged) 50%
Please refer to important disclaimers on the final page

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 portfolio again outperformed both its fund sector peer group and its benchmark in October as yields continued to creep higher. While we may have been a little early jumping onto the US long-bond trade, the long-term rationale is solid and the portfolio's diversification allowed other managers to pick up the slack; both Mutual HY and Realm returned +1.30% and +0.62% respectively.

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.

Invest today from \$50,000
For more information call (03) 8639 1600

senecafs.com.au



Model Portfolio performance is based on the theoretical performance of the Model Portfolio and does not take into account any fees applicable to the Model Portfolio. Actual portfolios may not perform in the same manner as the Model Portfolios, depending on customisations and timing issues. Accordingly, the actual after-tax returns you receive are likely to be different from the Model Portfolio returns and those of other investors. Rounding used in the presentation of data may result in minor variations. Past performance is no indicator of future performance. Long term performance returns show the potential volatility of returns over time. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Fluctuation may be particularly marked in the case of a higher volatility Model Portfolio and the value of an investment may fall suddenly and substantially.

This report provides general information only and does not take into account the investment objectives, financial circumstances or needs of any person. To the maximum extent permitted by law, Seneca Financial Solutions Pty Ltd, its directors and employees accept no liability for any loss or damage incurred as a result of any action taken or not taken on the basis of the information contained in the report or any omissions or errors within it. Applications can only be made on the form in the current Product Disclosure Statement PDS. The PDS can be obtained by contacting Seneca. Potential investors should consider the PDS before deciding whether to invest, or continue to invest in the product. It is advisable that you obtain professional independent financial, legal and taxation advice before making any financial investment decision. Seneca does not guarantee the repayment of capital, the payment of income, or the performance of its investments.