MG Alpha Return Portfolio

(Separately Managed Account)

ShawandPartners Morrissey Group

SMA Update 31 March 2024

SMA FACTS

Investment Objective: To outperform the benchmark over a 5 to 7 year time horizon by seeking out investments trading at a discount to their intrinsic value. The objective is not a forecast, nor are returns guaranteed.

Investment Strategy:

- Use qualitative and quantitative analysis to seek out value.
- Focus on value investing, indiscriminate of income or growth.
- Diversification when value opportunity is most apparent.

Benchmark	ASX200
Indicative no of securities	20

INVESTMENT MANAGERS

Ben Morrissey

30 years investment experience. Lead investment manager and founding advisor for the Morrissey Group.

Alex Henderson

10 years investment experience. Formerly of Goldman Sachs J.B. Were, and current Morrissey Group Model Manager.

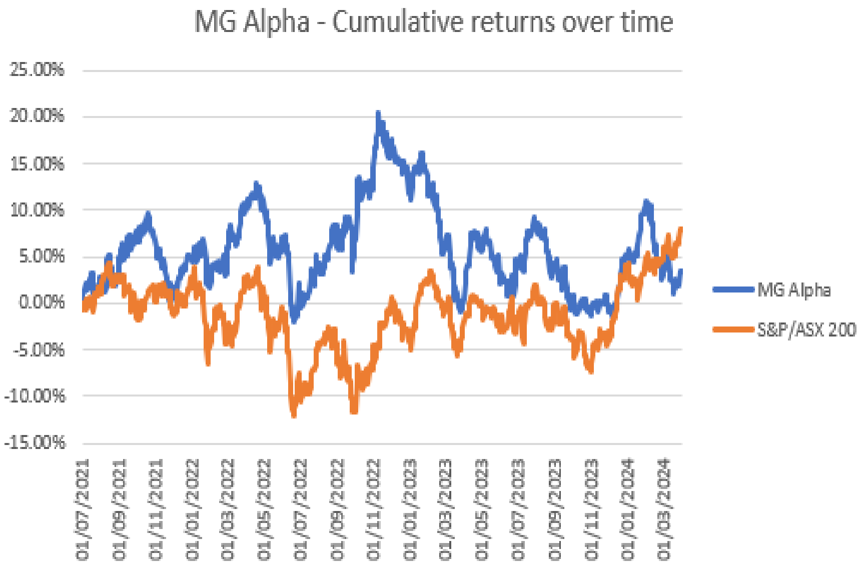
TOP 5 PORTFOLIO POSITIONS

Cash	Australian Dollars
WDS	Woodside Energy Ltd
IOD	IODM Limited
CYG	Coventry Group Ltd
WHC	Whitehaven Coal
KYP	Kinatico Ltd

Industry Sector Weighting	%
Energy	16.9%
Software	16.1%
Cash	13.6%
Capital Goods	12.9%
Real Estate	11.9%
Credit Income funds	9.4%
Transport	4.3%
Materials	4.2%

Alpha below benchmark

The MG Alpha Return portfolio fell 1.59%, underperforming the **ASX200,** which rose 2.98% in the March quarter. The better performers were ANZ Bank (ANZ), Regal Partners (RPL) and Energy Technologies (EGY). Softer commodity prices weighed on BHP Group (BHP) and South32 (S32), with Kinatico (KYP), despite performing well as a business, facing a wall of selling by a group of shareholders accounting for over 80m shares. The **Dow Jones** rose 5.6%, **NASDAQ** 9.1% and in the UK, the **FTSE** rose 2.8%.



PORTFOLIO HIGHLIGHTS

Leading performance drivers over the past 3 months

Code	Name	Movement (%)
Performance Contributors		
ANZ	ANZ Banking Corporation	12.9
RPL	Regal Partners	12.1
EGY	Energy Technologies	10.2
Performance Detractors		
KYP	Kinatico Ltd	-12.5
BHP	BHP Group	-10.7
S32	South32 Group	-9.9

PORTFOLIO CHANGES

During the past 3 months the following changes were made to the portfolio

INCREASE			DECREASE		
Stock Code	Up (%)	Held (%)	Stock Code	Down (%)	Held (%)
CG1	1.6	3.7	**ANZ**	5.2	0
Cash	10.1	13.6	**BHP**	3.6	0

STRATEGY UPDATE

Stubbornly sticky inflation has seen the narrative on interest rates switch from cuts to higher for longer. Government stimulus, wage rises and a resilient labour market all combining to 'flatten the curve' for interest rate futures.

The portfolio's underperformance compared to the benchmark was primarily due to the portfolio's underweight position to the Banking sector (0%), where despite negative EPS growth expectations for the coming 12 months, the market continues to allocate capital to the sector due to their size.

COMPANY UPDATES

Centuria Office Fund (COF)

- 96.2% of portfolio occupied.
- Only 5% up for renewal in FY25
- Weighted average Lease Expiry (WALE) 4.4 years.
- $63m of asset disposals during the half, all proceeds to reduce debt.
- Gearing: 40.4% with $88m headroom. 76% hedged.
- Funds from operations (FFO) forecast: 13.8 cents
- NTA: $1.98, share price $1.335.
- Distribution forecast: 12 cents
- Dividend yield: 9%

The vast majority of COF's assets are in areas achieving strong net absorption. The weakest markets, namely Melbourne CBD and to a lesser extent Sydney CBD, are where the majority of buildings are owned by 'institutional type owners (big property trusts, industry funds, etc). These types of investors will ride through the cycles to eliminate the prospect of significant valuation writedowns - suiting both them, and their lenders.

IODM Ltd (IOD)

During the quarter IOD announced a **"Material revenue event"** with their largest customer, Convera (Western Union) in the UK Education market. The announcement can be found here.

The new agreement, backdated to 1 Jan 2024, is for two years, with a minimum payment of GBP£50,000 per month (AUD$96,565), scaling up to a GBP£150,000 per month (AUD$289,695).

This is the fifth iteration of the contract between the companies, demonstrating the value added by IOD to Convera's business.

The new contract gives Convera exclusive rights to the IOD technology, but only for UK and European universities. It provides IOD with greater certainty of monthly cash flows in the UK, and a template for replication across different sectors and regions over coming months and years. It also encompasses all international payments made through Convera, not just those that come via IOD's communications.

OUTLOOK

Given the lack of value on offer in the larger stocks on the ASX thanks largely to many years of appallingly lopsided capital allocation, there is no doubt interest has returned to the smaller end of the market

IOD, KYP and CYG continue to grow at above market rates, however the lack of liquidity and large sellers have stymied their share prices.

However, the renaissance seems to be occurring, and whether it's due to the prospect of lower interest rates, that time in the cycle or just the lack of growth available elsewhere, I've not seen this level of optimism and appetite for small stocks for 10 years.

And now for this interest to convert to genuine on market buying...