Monthly Report
SMID Australian Equity Portfolio
December 2023

Market Commentary

The Australian equity market finished the calendar year on a strong note in December, with the S&P/ASX Mid Small Cap Index rallying 7.1% over the month. The end of year rally helped lift the total return for CY23 to 7.8%.

The ongoing decline across inflation data and apparent peak in the rate cycle saw REITs (+10.9%) atop the leaderboard for gains across the mid/small cap space. Health care (+10.6%) was also strong, as was the communication services sector (+10.5%).

Utilities (+0.5%) and staples (+2.9%) lagged the broader market as ongoing concerns about demand, together with falling inflation weighed on these goods and service sectors.

Forward earnings expectations were downgraded by 2.1% in December, led lower by negative revisions across resources on the back of lower lithium and oil. However, ex-resources earnings remain robust and the start 2024 has seen upward revisions of ~2% heading into reporting season.

We see several reasons for Australian equity investors to remain positive including a sufficient deceleration in inflation for the RBA to hold the cash rate steady at 4.35% before potential cuts in the back half of the year. Additionally, although GDP is slowing near-term there are multiple factors to drive growth higher in the second half of the calendar year in our view including high immigration, ongoing strength in employment and near-record terms of trade.

Portfolio Commentary

The portfolio advanced 7.5% in December, outperforming the S&P/ASX Mid Small Cap Total Return Index by 0.4%. Outperformance was primarily driven by bottom-up stock selection with strong gains in the materials and industrials sectors overshadowing negative contributions from being underweight top performing sectors for the month in REITs and communication services.

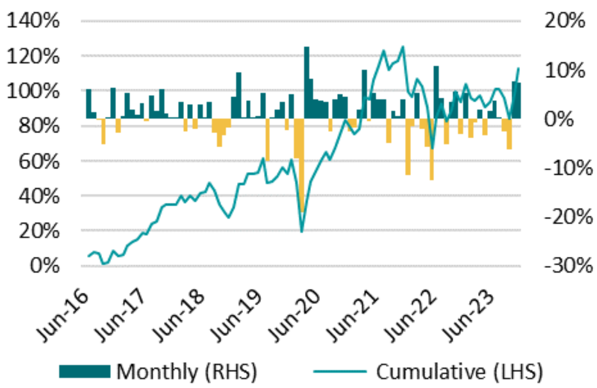
Our positive contribution from stock selection within the materials sector was broad based with strong gains for copper producer Sandfire Resources (SFR), lithium and iron ore play Mineral Resources (MIN), gold miner Regis Resources and steel company BlueScope Steel (BSL).

Portfolio Characteristics

Characteristic	Portfolio
Beta	0.91
Dividend Yield (gross) (%)	4.3
PE Ratio (1yr forward) (x)	17.1
P/CF (x)	8.3
P/BV (x)	1.5
ROE (%)	15.8
Tracking Error (%)	5.5

Source: Bloomberg, Infinity Asset Management

Cumulative Portfolio Return (%)



Source: Bloomberg, Infinity Asset Management

Performance

Period	Portfolio	Benchmark	Excess Return
1 months	7.50%	7.05%	0.45%
3 months	8.57%	6.54%	2.03%
1yr (p.a.)	10.11%	7.81%	2.30%
3yrs (p.a.)	5.08%	4.06%	1.03%
5yrs (p.a.)	10.71%	9.21%	1.50%
Since Incept.	112.93%	85.05%	27.88%

Source: Bloomberg. Benchmark: S&P/ASX 200 TR Index. Incept: 30th June 2016 Past performance is not an indicator of future performance. Performance is gross of fees

Stock Attribution

Company	Positive	Company	Negative
Sandfire	1.04%	Wisetech	-0.34%
Seven Group	0.90%	REA Group	-0.29%
MinRes	0.64%	CAR Group	-0.27%

Sector Attribution

Sector	Positive	Sector	Negative
Materials	1.95%	REITs	-0.61%
Industrials	0.89%	Financials	-0.55%
Staples	0.03%	IT	-0.41%

Top Active Holdings

Company	Active (%)	Company	Active (%)
Seven Group	6.2	Elders	3.6
Sandfire	5.8	Qube	3.6
Regis Res.	5.4	Dalrymple Bay	3.6
Steadfast	5.1	NEXTDC	3.6
MinRes	4.4	BlueScope	3.5

Relative Sector Positioning

Sector	Active (%)	Sector	Active (%)
Industrials	8.8	IT	-0.4
Cash	4.6	Utilities	-1.1
Materials	4.5	Comm Serv	-3.6
Health Care	1.3	Discretionary	-3.7
Staples	1.2	Energy	-4.7
Financials	-0.3	REITs	-6.5

Key Contributors

Sandfire Resources (SFR) rallied 19.2% in December on the back of higher copper prices and the company confirming the rapid and low-cost expansion of SFR's Motheo Copper Mine in Botswana remains on time and budget with the first ore processed through the mill mid-month. This remains a key component to our positive thesis with the announcement reinforcing out long-term conviction.

Seven Group Holdings (SVW) advanced 14.8% during the month, continuing the solid momentum post the positive AGM in November where management upgraded FY24 guidance. Pleasingly, SVW reported customer activity across mining production and infrastructure and construction has delivered a strong first quarter for the underlying business units of WesTrac, Coates and Boral. Despite the recent rally, we believe that valuation metrics remain undemanding at ~15x forward earnings given we're forecasting mid-teen earnings growth over FY24.

Mineral Resources (MIN) rebounded 14.4% in December despite no material company specific news and a further decline in lithium prices. Several factors continuing to weigh heavily on lithium spot prices including slower than expected EV sales growth, destocking of lithium supplies by battery manufacturers and a sharp increase in lithium supply which is expected to outstrip demand throughout the 2024 calendar year. However, with spot prices now well into the cost curve we are starting to see some supply responses which could see this oversupply disappear rapidly and support some stabilisation for lithium in the medium to longer-term. Additionally, while MIN’s earnings are increasingly dominated by lithium, the company offers diversified exposure to steady revenue streams from its long-term contracting business together with iron ore operations where spot prices have remained elevated at over $100/t.

Key Detractors

Wisetech (WTC) not held, gained 12.8% in December on the back of the broader global rally in tech names as investors began to price in lower central bank cash rates.

REA Group (REA) not held, advanced 16.7% during the month on the back of the broader global rally in tech names as investors began to price in lower central bank cash rates and the potential positive impact on housing market activity.

CAR Group (CAR) was up 12.1%% in December on the back of the broader global rally in tech names as investors began to price in lower central bank cash rates and the potential positive impact on new and used car sales globally.

Portfolio Changes

There were no major changes to the portfolio during the month following the exit of Select Harvest (SHV) in November together with other changes communicated last month to reallocate some of the excess cash.

Outlook

We remain cautiously optimistic over the medium to longer-term for mid/small cap Australian equities and expect high-single digit returns for the domestic market for 2024.

Despite the recent rally, we see several reasons for Australian equity investors to remain positive including a sufficient deceleration in inflation for the RBA to hold the cash rate steady at 4.35% before potential cuts in the back half of the year. Additionally, although GDP is slowing near-term there are multiple factors to drive growth higher in the second half of the calendar year in our view including high immigration, ongoing strength in employment and near-record terms of trade.

In this type of environment, we continue to see opportunities to add value by favouring high quality businesses with strong balance sheets, low relative debt and who can compound high single and low double-digit earnings growth regardless of the economic cycle.

We continue to be overweight mining services, where the capex and exploration cycle remains favourable, particularly in materials critical for the energy transition like lithium, copper, and nickel.

We also maintain a quality growth bias within the portfolio, positioning for the potential pick up in global growth and rate cuts in 2024 which should help drive earnings growth across domestic and global cyclicals. Given the uncertainty in the current environment, we're balancing this growth bias with slight overweight positions in more defensive segments like gold, services, and infrastructure.

Product Code:	BT Panorama: DAM3698AU HUB24: INF009 Netwealth: MACC000381 CFS Edge: EIRNINFSAE	**Minimum Investment Horizon:**	3 to 5 years
Asset Class:	Australian Equities	**Minimum Investment Amount:**	A$25,000
Style:	Active	**Investment Management Fee:**	0.6978% p.a.
Benchmark Index:	S&P/ASX Mid Small Cap Total Return Index	**Portfolio AUM:**	$131m