

PORTFOLIO UPDATE

HNW Australian Equity Concentrated Portfolio

Monthly Report August 2023

- August saw most Australian companies release their financial reports for the first six months of 2023. The month showed that Australian listed companies are in better health than feared, with more companies beating expectations and guidance than missing. The dominant theme moving share prices over the month was issues in the Chinese property sector and a falling Australian dollar (-6%), along with actual company financial results.
- The **HNW Australian Equity Concentrated Portfolio** fell by -1.2%, trailing the ASX 200, a surprising outcome after the Portfolio had a strong reporting season with healthy dividend increases, has minimal exposure to China and has benefited from a falling Australian dollar.
- It was pleasing to see portfolio companies, on average, increase dividends by +15% in the August reporting season, with every company in the Portfolio paying a dividend. We see dividends as a better measure than earnings per share for a sense of a company's actual health. While in the short term, the market is a voting machine, rewarding popular companies, in the long term, it is a weighing machine and recognises companies that consistently pay dividends to shareholders.

	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	12m rolling	Incept annual
HNW Equity Concentrated Portfolio	-3.8%	5.0%	0.6%	-1.6%	1.3%	-1.5%	0.4%	3.5%	-1.2%					2.2%
ASX200TR	-3.2%	6.2%	-2.4%	-0.2%	1.8%	-2.5%	1.8%	2.9%	-0.7%					3.3%
Active return	-0.5%	-1.2%	3.0%	-1.4%	-0.6%	1.0%	-1.4%	0.6%	-0.5%					-1.1%

Portfolio Objective

Investments within the AE portfolio are selected based on highest conviction. This August result in some GICs being over or underrepresented relative to the index.

Appropriate Investors

Accumulation for entities wanting higher conviction or that have more limited resources.

Portfolio Details

Benchmark	Not Aware
Number of Stocks	10-15
Asset Allocation	100% Equity
Inception Date	30 th November 2022
Security Target	within 5% of S&P ASX 200 weights

Performance Update

During August, we saw the Australian Dollar fall -3.6% vs. the USD to finish at US\$0.64. The sell-off came after Chinese economic data showed a dramatic weakening of the property sector, and the two largest developers, Evergrande and Country Garden, defaulted on debt repayments.

As of the end of August, no stimulus policy has been announced by the Chinese Communist Party. Atlas views that any stimulus will likely favour the Chinese consumer and domestic consumption rather than bridges to nowhere and large infrastructure projects consuming Australian iron ore, such as in 2008 and 2020.

Top Ten Active Positions end August 2023

Company	Yield
Woodside	9.5%
Macquarie Bank	4.0%
Transurban	4.0%
Commonwealth Bank	4.2%
ANZ Bank	6.2%

Estimated portfolio metrics for FY23

	ASX 200	HNW Con
PE (x) fwd.	15.2	13.9
Dividend yield (net)	4.1%	5.2%
Est Franking	64%	70%
Grossed Up Yield	5.1%	6.9%
Number of stocks	200	13
Avg mcap \$B	12	52
Beta (3mth rolling)	1.0	0.94

Source: Bloomberg & UBS

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August 2023

Portfolio Performance

In August, the **HNW Australian Equity Concentrated Portfolio** fell by -1.2%, trailing the index.

In August, positions in Ampol Limited (+7%) and Macquarie Bank (+2%) added value. We were pleased to see CSL (+2%) report strong results above market expectations. The company's share price fell in June on foreign exchange headwinds from a stronger USD impacting earnings and guidance for FY23.

On the negative side of the ledger, performance was hurt by Transurban (-7.5%), QBE (-4%) and ANZ (-2%). The fall in these companies share prices was a surprise, with QBE and Transurban both posting good financial results in August and increasing returns to shareholders.

Dividends signal the health of a company.

When a company reports a result, one of the first things we look at is the dividend paid, as this is the best indication of the actual health of a company. A company's board is unlikely to raise dividends if business conditions are worsening. Also, earnings per share can be restated later due to "accounting opinions" or financial shenanigans from the CFO. However, once dividends are paid into investors' bank accounts, they can never be taken back.

In August, the Portfolio increased dividends by +15%, helped by our QBE and Woodside, increasing dividends by 56% and 20%, respectively. This places the Portfolio's dividend growth significantly ahead of inflation and compares favourably with the broader ASX 200, where average dividends increased by 4%. Dividend growth on the ASX 200 was dragged down by the major iron ore miners who cut dividends between -17% and -32%.

Performance Calculation Methodology

The following conventions have been adopted for calculating performance:

- Transaction expenses of 10bp are applied to Portfolio buy and sells. Transaction expenses are capitalised into the cost base. Rebalancing transactions incur transaction expenses.
- Cash-flow from dividends is credited on the ex-date rather than the pay date. Franking is not considered which is consistent with the calculation methodology of the benchmark. Cash-flow from dividends is assumed to be reinvested in issuer stock at the closing price on the ex-date.
- The Portfolio can participate in entitlement-based capital raisings, however, cannot participate in institutional raisings.

Portfolio Trading

Over the month, we added to positions in CSL and Transurban on share price weakness to reduce the portfolio cash weight that had built up due to dividend flows.

- The Portfolio must fund the required amount by the sale of the equivalent amount of equity. In the event of a subsequent scale-back the Portfolio will also record the pro-rata amount of script issued.
- Performance does not include consideration of taxation including capital gains tax.
- Performance numbers are presented on an unaudited basis

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