

PORTFOLIO UPDATE

HNW Australian Equity Income Concentrated Portfolio

Monthly Report September 2023

- September was a weak month, with global bond yields rising to Global Financial Crisis levels driven by macroeconomic concerns around higher interest rates and higher oil prices, which saw global stock markets uniformly fall between -3% and -5%. There were also few places to hide on the ASX, with every sector except for energy declining by around -3%.
- The **HNW Australian Equity Income Concentrated Portfolio** declined by -1.5%. September was volatile, with share price movements dictated by macroeconomic concerns around interest rates and a slowing Chinese economy rather than stock-specific news.
- During September, there was uniform selling across equities by large index funds due to redemptions; this sees the index fund managers sell broadly across the ASX 200 without considering how a higher interest rate environment impacts individual companies. Indeed, many companies within the Portfolio actually benefit from a higher interest rate environment. Income was solid over the month with five companies paying dividends.

	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	12m rolling	Incept annual
HNW Equity Income Concentrated Portfolio	-3.1%	3.7%	-0.8%	-2.1%	1.8%	-1.9%	-0.2%	4.9%	-0.9%	-1.5%				-0.3%

Portfolio Objective

Investment decisions are determined by the ability of the companies to maintain or grow income to shareholders or that are likely to provide franking credits (including contemplation of possible off-market buybacks).

Appropriate Investors

Pensioners or otherwise low marginal tax rate investors who might have more limited resources or otherwise used with other investments as a diversifier.

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

Market Update

Global equity markets were sold off broadly in September on concerns that interest rates will remain higher for longer than previously thought. This saw Australian equities fall throughout September, driven by Tech (-8%) and REITS (-9%) as bond yield climbed, with the Australian 10-year bond yield rising to 4.49%, the highest level since July 2011.

Commodities remained strong throughout the month, with Iron Ore prices remaining stable and oil prices rising by 10% to finish the month at US\$95 per barrel. The RBA kept rates on hold for the third month, with the official cash rate remaining at 4.1%.

Top Ten Active Positions end September 2023

Position	Yield
Woodside	9.5%
ANZ Bank	6.2%
Transurban	4.0%
Westpac	5.8%
Ampol	5.7%

Estimated portfolio metrics for FY23

	ASX 200	HNW Con
PE (x) fwd.	15.0	14.5
Dividend yield (net)	4.1%	5.8%
Est Franking	64%	68%
Grossed Up Yield	5.2%	7.2%
Number of stocks	200	15
Avg mcap \$B	12	52
Beta (3mth rolling)	1.0	0.94

Source: Bloomberg & UBS

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Portfolio Performance

The **HNW Equity Income Concentrated Portfolio** declined by -1.5% in September, a good outcome in a month where most stocks fell around -3%. Over the month Deterra (+8%), Incitec Pivot (+7%) and QBE Insurance (+5%) added value.

Higher Interest Rates for Longer

During September, we saw uniform selling of equities by large index funds due to the risks around rising interest rates without understanding how rising rates will impact different companies.

Examples of companies that benefit from higher interest rate environments are insurers like QBE who invest billions of dollars in bonds due to the timing of receiving premiums and paying claims.

Portfolio Trading

No significant trading was done over the month.

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. 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