

PORTFOLIO UPDATE

HNW Australian Equity Income Portfolio

Monthly Report December 2023



- December saw investors holding out for a "Santa Claus" rally rewarded with continued strength from November across the world indices in December. The key factor driving solid returns in share markets was the view that rate cuts are likely in 2024. The year ended with a recession in either the US or Australia that many predicted twelve months ago, with economies more resilient than expected and better placed to weather higher interest rates.
- The **HNW Australian Equity Income Portfolio** gained by 5.5%, outperforming the index return of 3.9%. The share prices of many companies in the Portfolio are recovering from the falls seen during the market panic in September and October. These share price falls were based on the assumption that company profit margins would fall from higher interest costs. In the Portfolio, we hold six companies with no net debt on the balance sheet and five that will see a boost in profitability from higher interest rates.
- Pleasingly December was a good month for income with five companies in the portfolio declaring dividends. This income will be paid in the first two weeks of February.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	12m rolling	Incept annual
HNW Australian Equity Income Portfolio	4.5%	0.0%	-2.3%	1.9%	-1.6%	0.6%	4.2%	-0.5%	-2.1%	-4.4%	4.8%	5.5%	10.6%	5.7%
ASX200TR/RBA +3%	3.3%	-1.1%	0.1%	1.1%	-1.1%	1.0%	1.6%	-0.1%	-1.1%	-1.6%	2.8%	3.9%	8.9%	5.4%
Active return	1.3%	1.1%	-2.4%	0.9%	-0.5%	-0.4%	2.6%	-0.4%	-1.0%	-2.8%	2.0%	1.6%	1.7%	0.4%

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.

Portfolio Details

Index	S&P ASX 200 Total Return/RBA +3%
Number of Stocks	15 - 30
Asset Allocation	100% Equity
Inception Date	30 th December 2022
Security Target	within 5% of S&P ASX 200 weights
Sector Target	within 10% of S&P GICS sector weights

Performance Update

December is always a quiet month for stock-specific news, with most companies in blackout as they prepare their financial accounts for release in February. The key news in December was falling bond yields as markets repriced for a lower inflation and a lower interest rate environment, with the benchmark Australian 10-year bond falling to 3.96%, a decline of 1% over the past two months.

Top Positions end December 2023 Yield (ex franking)

Company	Yield
Woodside	6.3%
Macquarie Bank	4.2%
Transurban	4.0%
Commonwealth Bank	4.7%
ANZ Bank	6.2%

Estimated portfolio metrics for FY 23

	ASX 200	HNW EI
PE (x) fwd.	15.8	13.0
Dividend yield (net)	3.9%	5.2%
Est Franking	64%	81%
Grossed Up Yield	5.1%	6.8%
Number of stocks	200	23
Avg mcap \$B	14	55
Beta (3mth rolling)	1.0	0.91

Source: Bloomberg & UBS

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Portfolio Performance

In December, the **HNW Equity Income Portfolio** gained by 5.5%, with Positions in Charter Hall Retail (+13%), Mineral Resources (+13%) and Arena REIT (+9%) adding value.

2023 in Review

2023 has been volatile, with most of the ASX returns coming in the last month of the year. The ASX finished up 12.4% for the year, a great outcome given that the market was down by -3.5% at the end of October.

Over the past twelve months, investors faced a litany of geopolitical events that put share markets under pressure, from the US debt ceiling to conflicts in the Middle East. While these may impact some international companies, many Australian companies sell non-discretionary goods, often into the domestic Australian market and will see minimal to no impact from these adverse events.

Portfolio Trading

No trading was done over the month.

Sector Exposure December 2023

GICS Sector	ASX200	Income	ACTIVE
Consumer Disc	7.8%	10.5%	2.7%
Consumer Staples	4.8%	0.0%	-4.8%
Energy	7.0%	12.0%	5.0%
Banks	25.2%	26.0%	0.8%
Diversified Fins	4.8%	10.0%	5.2%
Health Care	9.8%	0.0%	-9.8%
Industrials	5.6%	0.0%	-5.6%
Materials	22.8%	16.5%	-6.3%
Telco	2.5%	0.0%	-2.5%
Listed Property	5.6%	14.0%	8.4%
Utilities	1.3%	10.0%	8.7%

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