

# PORTFOLIO UPDATE

## HNW Australian Equity Income Portfolio

### Monthly Report February 2024

- February proved to be a very eventful month, mainly dominated by Australian corporate earnings, which were much better than market expectations. It also revealed that many Australian companies are managing higher inflation pressures and interest rates well, with the Australian consumer remaining resilient.
- The **HNW Australian Equity Income Portfolio** gained by +2.7%, ahead of its benchmark's return of +0.9%. It was pleasing to see the Portfolio post a strong result during the reporting season, demonstrating that our companies are in good health and mainly offer non-discretionary goods and services in the domestic market where consumers and the economy remain resilient.
- It was pleasing to see Portfolio companies, on average, increase dividends by +1.2% in the February reporting season, with every company in the Portfolio paying a dividend. While this looks to be a small increase, the ASX in aggregate saw dividends cut by -8%.

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	12m rolling	Incept annual
HNW Australian Equity Income Portfolio	-2.4%	1.9%	-1.6%	0.7%	4.2%	-0.5%	-2.3%	-4.4%	4.7%	5.6%	2.5%	2.7%	11.1%	8.9%
ASX 200TR/RBA +3%	0.1%	1.1%	-1.1%	1.0%	1.6%	-0.1%	-1.1%	-1.6%	2.8%	3.9%	0.9%	0.7%	8.3%	5.9%
Active return	-2.5%	0.9%	-0.5%	-0.4%	2.7%	-0.5%	-1.2%	-2.8%	1.9%	1.7%	1.6%	2.0%	2.8%	2.9%

#### 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 <sup>th</sup> October 2022
Security Target	within 5% of S&P ASX 200 weights
Sector Target	within 10% of S&P GICS sector weights

#### Performance Update

As always, February is dominated by Australian corporate earnings and allows investors to closely examine the financial accounts of large companies that dominate the Australian economy. The February 2024 reporting season saw more divergence in the financial performance of Australian corporations than we have seen in recent years. Over the month, some companies reported falling profits and cut their dividends, whereas others reported record profits and confident outlooks. The divergence was seen in the share prices of the ASX 200, which ranged from Altium +30% to Whitehaven -17%!

#### Top Positions end February 2024 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 24

	ASX 200	HNW EI
PE (x) fwd.	16.9	13.0
Dividend yield (net)	3.9%	5.2%
Est Franking	64%	81%
Grossed Up Yield	<b>4.9%</b>	<b>6.8%</b>
Number of stocks	200	23
Avg mcap \$B	14	55
Beta (3mth rolling)	1.0	0.91

Source: Bloomberg & UBS

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## HNW Australian Equity Income Portfolio

February 2024

### Portfolio Performance

In February, the **HNW Equity Income Portfolio** gained by +2.7%, ahead of the benchmark's return of +0.7%. Atlas was very pleased with the Portfolio through the reporting season, with all companies profitable, paying dividends and increasing income to shareholders above the inflation rate.

Over the month, positions in Wesfarmers (+16%), Mineral Resources (+11%), JB Hi-Fi (+10%) and Suncorp (+10%) added value after reporting strong results in the February reporting season.

On the negative side of the ledger, Woodside (-6%) and Deterra (-8%) hurt performance despite the latter company reporting record profits and dividends.

### 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 worsen. 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't be returned.

During the reporting season, on a weighted average, Portfolio dividends increased by 1.2%, ahead of the wider ASX 200, which saw dividends shrink by -8.2%, mainly due to dividend cuts by BHP (-20%) and Rio (-12%).

### Sector Exposure February 2024

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