

# PORTFOLIO UPDATE

## HNW Australian Equity Income Portfolio

### Monthly Report November 2023

- November saw a recovery from October's lows as equity markets rallied after the US Federal Reserve hinted that they were at the peak of this interest rate cycle. Domestically, the RBA raised the cash rate by 0.25%, driven by higher inflation data from October, but also hinted that this could be the last rate hike for some time—a positive move for interest-rate-sensitive stocks such as toll roads and infrastructure in the Portfolio.
- The **HNW Australian Equity Income Portfolio** gained by 4.8%, outperforming the benchmark return of 2.8%. 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.
- November was a solid month for income in the Portfolio, with five companies paying franked dividends (Macquarie Bank, Westpac, ANZ Bank, Amcor and Incitec Pivot) based on solid profit results reported in October and November. Incitec Pivot, Westpac and Macquarie Bank also announced significant on-market share buy-backs that will support share prices over the coming months.

	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	12m rolling	Incept annual
HNW Australian Equity Income Portfolio	-3.0%	3.9%	0.8%	-2.4%	2.2%	-1.2%	0.7%	4.3%	-0.4%	-1.6%	-4.4%	4.8%	3.5%	3.2%
ASX 200TR/RBA +3%	-1.5%	3.3%	-1.1%	0.1%	1.1%	-1.1%	1.0%	1.6%	-0.1%	-1.1%	-1.6%	2.8%	3.2%	3.7%
Active return	-1.5%	0.6%	1.9%	-2.4%	1.2%	0.0%	-0.3%	2.7%	-0.3%	-0.5%	-2.8%	2.0%	0.2%	-0.6%

#### 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> November 2022
Security Target	within 5% of S&P ASX 200 weights
Sector Target	within 10% of S&P GICS sector weights

#### Performance Update

There was little stock-specific news in November, with the market focus on interest rates influencing share prices. The key news was the weakening of the benchmark 10-year government bond yield to 3.5%, which fell from 4.2% in mid-October. Falls in the bond yield are positive for interest-rate-sensitive stocks and indicate the rate at which the RBA will stop tightening interest rates.

#### Top Positions end November 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.	15.5	13.3
Dividend yield (net)	4.1%	5.2%
Est Franking	64%	81%
Grossed Up Yield	<b>5.1%</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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November 2023

### Portfolio Performance

In November, the **HNW Equity Income Portfolio** gained by +4.8%. The November AGM season has demonstrated that the Portfolio was in good shape and performed well over the first quarter of FY24.

Over the month, positions in Dexus Industrial (+12%) (Transurban (+10%), Atlas Arteria (+9%) and recently sold position Janus Henderson (+9%) added value. On the negative side of the ledger, Woodside (-10%) hurt performance along with QBE (-2%), which declined despite revealing third-quarter premium growth of 11%, low levels of cat claims and what is shaping up to be the best year for investment returns for the company in a decade.

### Bank Reporting Season

Overall, we are happy with the financial results in November from the banks owned in the Portfolio. In 2023, the banks generated \$32.7 billion in net profits after tax, which saw the big four banks' dividends per share increasing by an average of 15% per share. Positions in the Portfolio, ANZ (+2%), Commonwealth Bank (+8%) and Westpac (+7%) increased their dividends to above pre-pandemic levels, which is a crucial signal indicating improving prospects.

Macquarie Bank's earnings and dividends decreased on the back of the asset management side of the business, cycling off-record in the first half of 2023. Outside of the market-facing business, the banking and financial services business has been outperforming, with the home loan portfolio growing by 6% to \$114 billion and deposits growing to \$131 billion. This is an excellent outcome for the bank, taking market share away from the big four banks while maintaining a robust net interest margin.

### 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-

### Portfolio Trading

The Portfolio sold out of Janus Henderson (+9%) during the month due to the company's delisting from the ASX in early December to consolidate their New York Stock Exchange register.

### Sector Exposure November 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%

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