

PORTFOLIO UPDATE

HNW Australian Equity Income Portfolio

Monthly Report October 2023



- October was a weak month, with global markets continuing to fall for the third month in a row, driven by expectations of more rate rises to combat the stickier-than-expected inflation. There was nowhere to hide in global markets, with the S&P 500 down -2.2%, the NASDAQ down -2.8% and the Australian market down -4%.
- The **HNW Australian Equity Income Portfolio** fell by -4.5%, trailing behind its blended benchmark's return of -1.6%. October was a volatile month, with macroeconomic fears triumphing over a very positive Annual General Meeting season that saw several companies in the Portfolio report strong [current trading conditions](#), at odds with the doom and gloom prevailing on global share markets.
- During October, the limits of the RBA's usage of tightening monetary policy to reduce inflation were laid bare. Despite a 4% increase in the cash rate over the past 18 months, retail sales data and retailers' quarterly updates have shown consumers to remain far more resilient to rate hikes. This indicates to us that full employment, household savings, record immigration and expansionary fiscal policy are offsetting the RBA's efforts to cool the economy.

	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%	-4.5%			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%			3.5%
Active return	-1.5%	0.6%	1.9%	-2.4%	1.2%	0.0%	-0.3%	2.7%	-0.3%	-0.5%	-2.9%			-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.

Top Positions end October 2023 Yield (ex franking)

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

Portfolio Details

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

Performance Update

Global equity markets have fallen nearly 10% over the last three months. At the close of October 2023, many companies on the ASX200 are trading near or even below the lows of March 2020 despite having better business operations and higher profits in 2023 than they did three years ago.

Higher bond yields with geopolitical tensions created a very volatile month for October, with the oil price finishing at US\$87.45 a barrel after reaching highs of over US\$92 a barrel.

Estimated portfolio metrics for FY 23

	ASX 200	HNW EI
PE (x) fwd.	14.6	13.0
Dividend yield (net)	4.3%	5.2%
Est Franking	64%	81%
Grossed Up Yield	5.3%	6.8%
Number of stocks	200	23
Avg mcap \$B	14	55
Beta (3mth rolling)	1.0	0.91

Source: Bloomberg & UBS

PORTFOLIO UPDATE

HNW Australian Equity Income Portfolio

October 2023

Portfolio Performance

In October, the **HNW Equity Income Portfolio** declined by -4.6%, behind the benchmark's return of -3.8%. The October AGM season has demonstrated that the Portfolio was in good shape and performing well over the first quarter of FY24.

Quarterly Updates and AGM Season

In October each year, listed Australian companies with a June financial year end host their annual general meetings (AGMs) and gave their first quarter trading update.

In the first quarter, we saw mixed results across the retail space, with the grocers showing a good start to the year, posting sales growth of over 5%. Both Woolworths and Coles mentioned that food inflation was moderating, with prices of fruit, vegetables, and packaged meat now falling.

We saw a stark contrast between electrical goods retailers, with JB HI-FI Australia sales falling by -1% compared to Harvey Norman's Australian sales falling by -14%.

Both toll road operators, Transurban and Atlas Arteria, posted strong traffic numbers. Transurban recorded a 3% increase in average daily traffic to 2.5 million daily trips, and Atlas Arteria saw a 2% increase in traffic and a healthy 6% increase in revenue from inflation-linked toll prices. Despite these strong results, both Transurban and Atlas Arteria currently trade at a 25% discount to their pre-Covid share price. While some companies will struggle in an environment where money is no longer free or falter due to higher geopolitical tensions, for many companies, these factors will have limited to no impact on corporate profits and distributions to their shareholders.

Portfolio Trading

Over the month we added to positions in Woodside (-6%) and Charter Hall Retail (-3%) on weakness

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.

Sector Exposure October 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 does not include consideration of taxation including capital gains tax.
- Performance numbers are presented on an unaudited basis