

# PORTFOLIO UPDATE

## HNW Australian Equity Income 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 Portfolio** fell by -1.6%, trailing behind its blended benchmark's return of -1.1%. 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 seven companies paying dividends.

	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%	-1.0%	0.7%	4.3%	-0.4%	-1.6%				3.3%
ASX 200TR/RBA +3%	-1.5%	3.3%	-1.1%	0.1%	1.1%	-1.1%	1.0%	1.6%	-0.1%	-1.1%				3.5%
Active return	-1.5%	0.6%	1.9%	-2.4%	1.2%	0.1%	-0.3%	2.7%	-0.3%	-0.5%				-0.2%

### 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

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

Positive	Negative
Ampol	BHP
Dexus Industrial	NAB
Transurban	Woolworths
Amcors	Rio Tinto
Deterra Royalty	Telstra

### Estimated portfolio metrics for FY 23

	ASX 200	HNW EI
PE (x) fwd.	15.2	14.0
Dividend yield (net)	4.1%	5.8%
Est Franking	64%	68%
Grossed Up Yield	5.2%	7.2%
Number of stocks	200	23
Avg mcap \$B	12	52
Beta (3mth rolling)	1.0	0.94

Source: Bloomberg & UBS

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## HNW Australian Equity Income Portfolio

September 2023

### Portfolio Performance

In September, the **HNW Equity Income Portfolio** declined by -1.6%, trailing its benchmark. The September reporting season demonstrated that the Portfolio was in good shape, with every company profitable and paying a dividend, a great position to be in when heading for uncertain economic times.

The top-performing companies within the Portfolio were Deterra (+8%), Incitec Pivot (+7%) and QBE Insurance (+5%), all adding value.

On the negative side of the ledger, the Portfolio's Listed Property exposure hurt performance with Charter Hall Retail (-10%), Arena REIT (-8%) and Dexus Industrial (-7%) mirroring the broad-based falls in this sector. While we recognise that some listed property stocks have issues around debt and the value of their large office towers and shopping centres, the three trusts owned have low gearing and desirable assets ranging from supermarkets, medical centres to industrial warehouses.

### 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 who invest billions of dollars in bonds due to the timing of receiving premiums and paying claims. Other companies indifferent to higher interest rates are net cash-positive companies such as JB-HI FI and Janus Hendersons, who both have a net cash position and earn an interest income on their cash.

Currently, within the Portfolio, five companies do not have any debt and sit with a favourable net cash position: three insurers who all benefit from rising bond yields for their billion-dollar investment floats and three banks that benefit from expanding net interest margins on their home loan portfolios.

### 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

### Portfolio Trading

No significant trading was done over the month.

### Sector Exposure September 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%

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