

# PORTFOLIO UPDATE

## HNW Australian Equity Portfolio

### Monthly Report May 2024

- In May, the two main themes were excitement around artificial intelligence (AI) and tech stocks, along with inflation remaining sticky across many developed economies. The investor excitement around AI looks very similar to the enthusiasm around the "dot com" boom seen in 1999/2000, with many unlikely companies making tenuous claims that their business will benefit from AI.
- The **HNW Australian Equity Portfolio** gained by 0.2% behind the benchmark return of 0.9%, primarily driven by macroeconomic concerns rather than stock-specific news. Atlas is looking forward to the August reporting season, which will allow management teams to demonstrate how they continue to benefit from a higher inflationary and interest rate environment.
- May was an active month for the Portfolio, with five companies reporting profit results for the six months ending March 2024. We were pleased with the May earnings season, with all companies in the Portfolio reporting solid results. Atlas views rising dividends as an earnings quality signal indicating that a company's business is in a solid position with no significant near-term issues such as major debt refinances or deteriorating profits.

	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	12m rolling	Incept annual
HNW Australian Equity Portfolio	0.3%	3.0%	-0.8%	-2.4%	-4.8%	5.2%	6.3%	2.9%	1.7%	3.3%	-3.5%	0.2%	11.5%	7.3%
ASX 200 TR	1.8%	2.9%	-0.7%	-2.8%	-3.8%	5.0%	7.3%	1.2%	0.8%	3.3%	-2.9%	0.9%	12.9%	8.0%
Active return	-1.5%	0.1%	0.0%	0.5%	-1.0%	0.2%	-1.0%	1.8%	0.9%	0.0%	-0.6%	-0.7%	-1.4%	-0.7%

#### Portfolio Objective

The objective is to build a portfolio of high-quality companies that will provide returns for a client in increased value and or dividends over time.

#### Portfolio Details

Index	S&P ASX 200 Total Return
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

May was a very volatile month, with the first week dominated by the banks' reporting season, which was overall positive, with low bad debts, higher dividends and large share buybacks.

Throughout the month, the index was very volatile, with the largest stock on the ASX, attempting to make what would have been a terrible \$75 billion acquisition of Anglo American. We were happy to sit on the sidelines and avoid having an interest in mega multinational mining mergers, but this stance hurt us when the Anglo merger was called off.

#### Top Ten Active Positions end May 2024

##### Positive

Ampol  
Transurban  
Amcors  
ANZ Bank  
QBE Insurance

##### Negative

BHP  
NAB  
Rio Tinto  
Fortescue  
Telstra

#### Estimated portfolio metrics for FY24

	ASX 200	HNW AE
PE (x) fwd.	16.9	13.7
Dividend yield (net)	3.8%	5.0%
Est Franking	67%	82%
<b>Grossed Up Yield</b>	<b>4.8%</b>	<b>6.0%</b>
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 Portfolio

May 2024

### Portfolio Performance

In May, the **HNW Australian Equity Portfolio** gained by 0.2%, behind the benchmark's return of 0.9%.

Over the month, positions in Amcor (+9%), Incitec Pivot (+6%), Medibank Private (+4%) and Whitehaven Coal (+4%) added value.

It was pleasing to see Amcor have a good month. Its very good third-quarter results beat market expectations, reflecting a slowing in destocking across the US and increasing volumes across the Amcor product offerings. Pleasingly, Amcor upgraded its earnings guidance for FY24 following a stronger outlook for its volumes in the last quarter.

On the negative side of the ledger, Bapcor (-26%), Sonic Healthcare (-9%) and Lendlease (-8%) detracted from value.

Bapcor provided a trading update throughout the month, but the company's results came in below market expectations following lower-than-expected consumer spending and the incoming CEO's resignation. However, Bapcor provides a largely non-discretionary service, which will see customers eventually need to service their cars.

### Strong Income

May was a good month for income in the Portfolio, with four companies paying dividends: Amcor, Macquarie Bank, ANZ, and Westpac. Incitec Pivot will also pay dividends in the coming months. Pleasingly, all the companies paid higher dividends than last year, minus Macquarie, which did not sell any one-off green assets this year. As always, Atlas looks closely at whether a company is increasing dividends as an earnings quality signal and an indication of board confidence in the health of a company's finances and outlook. A far more powerful signal than mere words offered by management during a results call.

### 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 May 2024

GICS Sector	ASX200	AEP	ACTIVE
Consumer Discretionary	7.7%	10.7%	3.1%
Consumer Staples	4.8%	0.0%	-4.8%
Energy	6.9%	9.3%	2.5%
Banks	24.7%	26.7%	2.0%
Diversified Fins	4.7%	12.7%	7.9%
Health Care	9.6%	12.7%	3.0%
Industrials	5.5%	8.4%	2.9%
Materials	22.4%	14.6%	-7.9%
Telecommunication Services	2.5%	0.0%	-2.5%
Listed Property	5.5%	2.0%	-3.5%
Utilities	1.3%	3.9%	2.6%

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