

PORTFOLIO UPDATE

HNW Australian Equity 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 Portfolio** gained by 5.24%, outperforming the index return of 5.0%. 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 Portfolio	-3.4%	4.5%	-0.1%	-1.8%	2.5%	-1.6%	0.3%	3.0%	-0.8%	-2.4%	-4.8%	5.2%	0.0%	0.0%
ASX 200 TR	-3.2%	6.2%	-2.4%	-0.3%	1.8%	-2.5%	1.8%	2.9%	-0.7%	-2.8%	-3.8%	5.0%	1.4%	1.4%
Active return	-0.2%	-1.8%	2.3%	-1.6%	0.6%	0.9%	-1.5%	0.1%	0.0%	0.5%	-1.0%	0.2%	-1.3%	-1.3%

Portfolio Objective

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

Portfolio Details

Index	S&P ASX 200 Total Return
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

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 Ten Active Positions end November 2023

Positive

Transurban

Ampol

Amcor

Atlas Arteria

Macquarie Bank

Negative

BHP

NAB

Woolworths

Rio Tinto

Telstra

Estimated portfolio metrics for FY24

	ASX 200	HNW AE
PE (x) fwd.	15.5	13.2
Dividend yield (net)	4.1%	4.9%
Est Franking	64%	81%
Grossed Up Yield	5.1%	6.5%
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 Australian Equity Portfolio** gained by +5.2%, ahead of the benchmark's return of +5%. 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 CSL (+13%), 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.

Portfolio Trading

Atlas 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. Janus has

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-

been the top-performing fund manager on the ASX in 2023, gaining +18% and paying a solid quarterly dividend.

Sector Exposure November 2023

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%

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