

# PORTFOLIO UPDATE

## HNW Australian Equity 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 Portfolio** fell by -2.36%, outperforming the index return of -2.84%. 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. Five companies in the Portfolio have a net cash position on their balance sheet, and six companies have earnings that are positively correlated with rising interest rates.

	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%				-0.2%
ASX 200 TR	-3.2%	6.2%	-2.4%	-0.3%	1.8%	-2.5%	1.8%	2.9%	-0.7%	-2.8%				0.4%
Active return	-0.2%	-1.8%	2.3%	-1.6%	0.6%	0.9%	-1.5%	0.1%	0.0%	0.5%				-0.6%

#### 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 <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

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.	15.0	14.0
Dividend yield (net)	4.2%	4.5%
Est Franking	64%	80%
<b>Grossed Up Yield</b>	<b>5.2%</b>	<b>6.0%</b>
Number of stocks	200	24
Avg mcap \$B	14	55
Beta (3mth rolling)	1.0	0.91

Source: Bloomberg & UBS

# PORTFOLIO UPDATE

## HNW Australian Equity Portfolio

September 2023

### Portfolio Performance

In September, the **HNW Australian Equity Portfolio** declined by -2.36%, ahead of the benchmark's return of -2.84%. The August 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, CSL Limited (-8%), The Lottery Corporation (-6%) and Janus Henderson (-6%) detracted from the Portfolio's performance. Atlas Arteria (-6%) fell after the French Government proposed implementing a new tax on French transport infrastructure (airports and motorways). While we recognise that the profitability of toll roads has increased as revenues are directly linked to inflation, the current French concession for Atlas Arteria motorways provides immunity from the state implementing additional taxes without compensation for potential losses.

### 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.

HNW Guided Portfolios are managed by HNW Planning's Investment Committee which receives guidance from several expert asset consultants. Changes to the Guided Portfolios are put forward by HNW Planning [AFSL 225216] as its advice to you. Whilst HNW Planning is supported by external consultants in its advice to clients, HNW Planning, is responsible for the appropriateness of advice to clients, and its implementation and execution. Neither HNW nor its expert asset consultants guarantee returns, investment performance or the money you invest.

### Portfolio Trading

No significant trading was done over the month.

### Sector Exposure September 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%