# Australian Equities Income Portfolio

Monthly Update | October 2023

The ASX 200 fell 3.8% in October, as rising bond yields weighed heavily on equity valuations. Indeed, the tension between rising interest rates and equities has caused equity markets to trade near one- year lows in October. The increase in bond yields has been driven by stronger than expected economic growth supported by solid demand for employment and surging migration levels. At this stage the higher interest rate environment has yet to materially dampen either inflation or retail spending in Australia. A relatively buoyant economic backdrop should be supportive to a more resilient and stable outlook for corporate earnings.

For October higher bond yields had a deleterious impact on the Technology, Healthcare and Real Estate sectors. While, heightened geo-political tensions in the Middle East supported the Energy and Gold sectors.

At a portfolio level the Resource and Telecommunication sectors exhibited the greatest resilience. Specially, Northern Star, Spark NZ, and RIO were notable strong performers. Whereas CSL, Cleanaway Waste Management, and Woolworths weighed on performance.

In October we traveled to the UK to attend investor meetings in: industrial logistics, commodities & energy transition, and healthcare. Key summary points were:

- There is a multi-decade tailwind for energy transition investment. Significant government programs to support 2050 net zero targets with total green infrastructure spending expected to be in the vicinity of ~$60 trillion, or ~$2-$3trn per annum.
- The key challenges to execute the green transition are in: permitting/regulatory delays, cost inflation due to lack of skilled labour, raw material constraints, supply chain bottlenecks & higher cost of capital.
- Decarbonization at scale requires technological breakthrough for carbon emitting industries: commercial transportation, heavy energy intensive industries, shipping, & aviation. The decarbonization of commercial buildings is a further challenge.
- China well ahead in the green transition in terms of electrification investment in grid and EV rollout. China has greater urgency in achieving energy security.
- Structural tailwinds for commodities. Resource sector beneficiaries of a longer period of fossil fuel demand and the metal intensification of required in green infrastructure transition.
- Higher cost of capital weighing on Private Equity. Returns of >15% achieved over the last ten years now look ambitiously high in a world where the cost of capital has now normalized.
- Long-term tailwind for logistic/data warehousing driven by growing urban populations, limited land supply, growth in digitalization, and supply-chain optimization.
- For Private Hospitals, fundamentals remain attractive in the UK. Public health system (NHS) unable to effectively address record elective surgery waiting lists (7.8m waitlist vs 4.5m pre-pandemic). Double digit growth in Private Health Insurance and Self-Pay. UK Ramsay volumes have recovered above pre-pandemic levels and cost pressures moderated.

We have clearly passed the period of ultra- low interest rates and global economies are adjusting to a new era of higher borrowing costs. The impact of this is most noticeable in corporates with higher debt levels. We expect that while we may be close to the peak of the interest rate cycle, borrowing costs could well remain stubbornly high in the foreseeable future.

## Portfolio details

| | |
|---|---|
| Inception date: | May 2014 |
| Investment minimum: | $25,000 |
| Investment time horizon: | 5+ years |
| Management fee: | 0.6% |
| Maximum holding limit: | 10% |
| Number of stocks: | 20 - 40 |
| Gross Dividend Yield | 6.15%* |
| Net Dividend Yield | 4.78% |

** Forecast gross yield inc franking for the next 12 months*

## Portfolio objective

The portfolio seeks to deliver long term growth in both capital and income by investing in Australian listed equities. The portfolio aims to do so with lower volatility and greater downside protection relative to the S&P/ASX 200 Accumulation index benchmark.

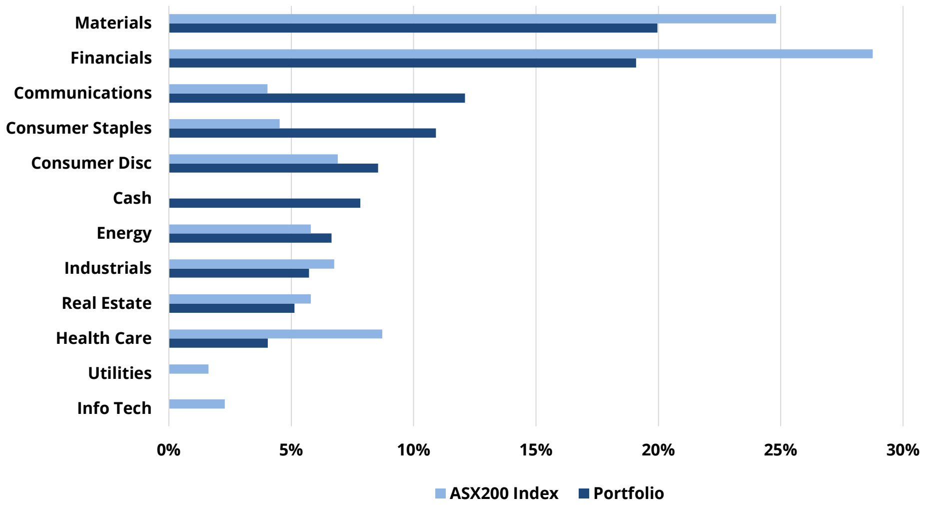
## Portfolio returns

| | 1 month | 3 months | 6 months | FYTD | 1 year | 3 years | 5 years | 7 years | Inception p.a | Since inception |
|---|---|---|---|---|---|---|---|---|---|---|
| Portfolio performance | -2.5% | -5.4% | -5.4% | -3.9% | 1.2% | 7.7% | 5.5% | 6.3% | 6.6% | 82.6% |
| ASX 200 Accum Index | -3.8% | -7.2% | -5.3% | -4.5% | 3.0% | 8.9% | 7.2% | 7.8% | 6.6% | 83.7% |
| Relative performance | 1.3% | 1.7% | -0.1% | 0.6% | -1.8% | -1.2% | -1.7% | -1.5% | -0.1% | -1.1% |

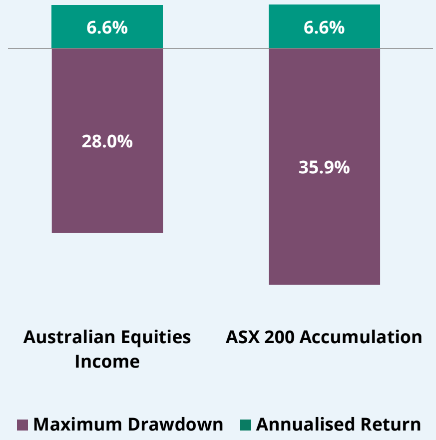
** Returns are net of management fees. Performance includes reinvestment of all dividends and excludes franking credits.*

Platform availability
praemium | Macquarie | Powerwrap | Mason Stevens | BT Panorama | North

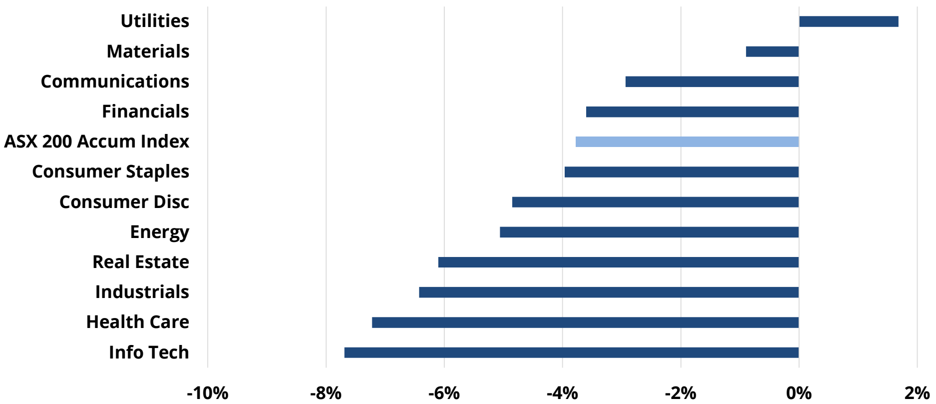
## Relative sector weights - October 2023




## Annualised Return & Maximum Drawdown since inception




## Sector returns - October 2023




## Top 5 holdings

| Stock | Weight |
|---|---|
| BHP | 8.7% |
| NAB | 7.6% |
| SPK | 6.1% |
| TLS | 6.0% |
| MTS | 4.8% |

## Cumulative return from inception