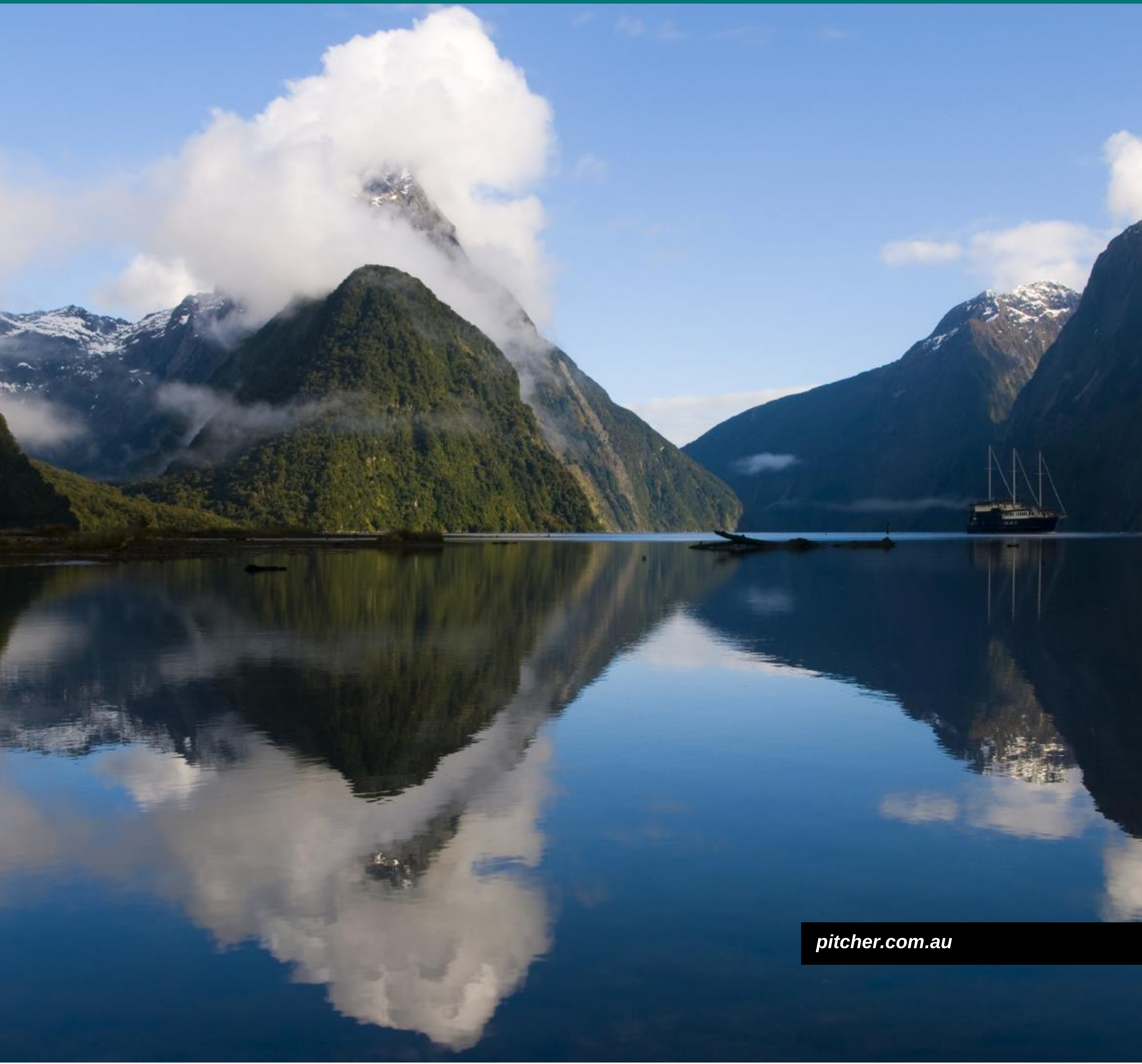
Wealth Update

Autumn 2023



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Welcome to our latest Wealth Management Update.

This edition covers the following topics:

- When defence makes sense: Is it time to buy bonds?
- Reporting season update – Australian equities
- Reporting season update – International equities

When defence makes sense: Is it time to buy bonds?

Managing an investment portfolio is not unlike wielding a cricket bat – there are scenarios when aggressive methods are necessary to generate good returns, and others that require a more circumspect approach.

As the economic conditions change in Australia and around the world, there is a strong argument for going on the defensive in order to keep the investment scoreboard ticking over.

The advantages of government bonds are well known – they are securities that have a low risk of permanent impairment, and they provide a degree of insurance against a downturn in the economy, which is often preceded by a fall in share markets.

The Reserve Bank of Australia's (RBA) actions are pushing interest rates up for all fixed interest securities and within this asset class, government bonds represent the highest quality bonds as they have the lowest likelihood of default.

The difference now is that bond yields have increased sharply in the last 12 months and anticipated investment returns are at levels not seen for more than a decade.

To understand why, we first need to understand the current state of play.

Australian equities continued to perform strongly into 2023, up 1.8% as of 15 March and employment remains strong. Unemployment is expected to rise slightly over the next 12 months to around 4.1% but coming from the January 2023 level of 3.7% seasonally adjusted, unemployment remains historically low.

The RBA expects the high rate of inflation to gradually decline later in the year due to both global factors and slower growth in domestic demand, which may mean the end of the interest rate hiking cycle.

Australia's cash rate now sits at 3.60% with consensus forecasts seeing a peak now tempered its cash rate forecast and anticipates that it will peak at approximately 4% in late 2023, followed by interest rate cuts to stimulate the economy again.

Global share markets also enjoyed strong returns to start 2023 with the MSCI World Index excluding Australia up 2.7% as of 14 March in currency hedged terms. Investors were buoyed by the narrative that the Federal Reserve may soon be cutting interest rates, and US employment levels remained strong, which supports consumer spending and encourages business investment. The reopening of China's economy after the abandonment of its zero-COVID policies has also been welcomed.

So, amid these positive signs, why would we be thinking defensive?

Economic data in Australia is beginning to show signs of a slowdown in activity due to a combination of factors. Consumer confidence is only a fraction above where it was at the start of the COVID-19 lockdowns in April 2020, while retail sales fell for the first time in more than a year.

More broadly around the world, there are indications that suggest weaker economic growth, which would be a negative for share markets. While still raising rates, the US Federal Reserve (US Fed) has slowed the pace of rate hikes and indicated that it did not see financial conditions as excessively loose.

This means it is now harder for businesses and consumers to access capital, which reduces the case for further large interest rate increases. Inflationary forces remain high, although they appear to be decelerating, and that could lead to central banks pausing interest rate hikes in the months ahead.

The US Fed and European Central Bank have continued hiking interest rates in recent months, actions that are raising borrowing costs and which will eventually reduce consumer spending and business investment.

In light of this environment, diversified investors may consider adding government bonds to their portfolio.

Consider the 'neutral rate'

Over the last 20 years, the yield on a 10-year Australian government bond has averaged 0.58% above the RBA cash rate – if this premium is applied to the current cash rate of 3.60%, we expect bond yields to be around 4.18%.

However, it is worth considering that the RBA is currently in a tightening cycle to dampen demand and changes to this cycle may affect bond yields, which is why investors should also consider the 'neutral rate'.

The neutral rate is the cash rate which neither stimulates nor restricts demand. While it is somewhat hypothetical, the RBA's Assistant Governor, Luci Ellis estimates the neutral rate to be around 2.5% in nominal terms. If we again apply the 0.58% premium, then 3.08% is a reasonable yield for Australian government bonds.

Over the last three months, the yield on 10-year government bonds has been fluctuating between 3.5% and 4%, which represents a reasonable entry point in our opinion.

Whether government bonds are appropriate will depend on a range of factors unique to an investor, including risk tolerance, other assets owned and their portfolio objectives.

However, fixed income investments are as attractive as they have been for the last decade and if investors have concerns about the economic environment, a defensive strategy may be the best form of attack.

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Reporting season update

Australian Equity Portfolio

Note: Default is in AUD unless otherwise stated.

Amcor (AMC: AU)[1]

Share price	15/3/23: $16.24
Result	H1 FY23
Revenue	US$7.354 billion, up 6.2% on the pcp.
Underlying EPS	US$0.366, up 8% on the pcp on a constant currency basis.
Key points	• Net sales growth of 6% for the half included a 5% headwind from unfavourable currency movements offset by 10% growth in price increases. Stripping out currency effects, net sales rose 2% for the period with higher prices and mix effects (more higher margin product sales) driving 3% growth offset by a decline in volumes of 1%. • CEO Ron Delia also noted that the December half was looking as the peak for input cost pressures with the prices of raw materials such as resins either flattening or falling. Due to this reduced pressure, future price increases by Amcor were likely to be below the 10% seen for the December half. • The company successfully sold its Russian businesses for US$365 million to a local Russian group called HS Investments, generating a windfall gain (value in excess of what these net assets were worth in its accounts) of US$210 million. • Proceeds from the Russian asset sales will be used to expand its share buyback program by a further $100 million with a total of US$500 million expected for fiscal year 2023. • The company maintained its 2023 guidance for adjusted EPS of $US 0.77-0.81 and Free cash flow of $US 1-1.1 billion. • The outlook is less clear according to the business with its results release noting concerns about potentially weak demand from customers as seen in the December quarter in particular and also cited as a risk to their outlook.
Our comments	• Amcor's resilience appears intact with a reasonably robust result in the wake of substantial input cost inflations for its packaging products. • The steady nature of its customer base (mostly consumer staples) should support sales growth even in the weaker economic environment we have been anticipating. • Commitment to shareholder capital returns (in the form of dividends and buybacks) also remains intact adding another support to the share price with another 3% of its outstanding shares looking to be repurchased this fiscal year.

APA Group Ltd (APA: AU)

Share price	15/3/23: $10.26
Result	1H 2023
Revenue	$1,175 million, up 5.2% on the pcp.

[1] Company Transcripts, Reuters and Bloomberg

Underlying EBITDA	$878.9 million, up 2.5% (growth of 4% excluding impact of divested Orbost plant).
Key points	• APA recorded a solid result in the first half of FY23. • Revenue rose strongly for the utility driven by inflation-linked tariff increases and growth in operating revenue for East Coast assets, offset partly by the Orbost divestment. • Profitability was impacted by rising costs including flood damage repair ($3 million) and investment in increasing its electricity capability including transmission and generation (~$16 million). • Free cash flow was down 6% to $484 million due to a slight timing mismatch with a January cash receipt. • Management remained confident in business performance reaffirming FY23 distribution growth of $0.55 per share, representing growth of 3.8%. • APA completed its acquisition of the Tasmanian Basslink electricity interconnector that ties Tasmania into the mainland grid, another step in growing its electricity transmission footprint. This included $103 million as the cash component of the acquisition. • In total, investment rose sharply for the half with capital spending of $684 million ($581 million excluding Basslink) in contrast to $403 million in the previous half. The bulk of this ($368 million) was on non-regulated assets offering an attractive return profile for the business including working towards its emission reduction goals.
Our comments	• Our thesis for APA as a steady cashflow generator with pricing power remains intact. Excluding changes in valuation, the business appears well placed to deliver distribution growth of ~4% with slightly higher earnings growth per consensus, a total return of ~8-9%, modest but attractive versus the decline in cyclical names we are already seeing. • As a mover rather than generator or retailer of gas-powered electricity it has been substantially less affected to date by government intervention in the gas and energy markets. As an operator in a regulated sector this remains an area that we continue to monitor closely. • There are no obvious signs of capital misallocation such as material cost overruns which would suggest the company's use of its monopolistic position (APA effectively operates the East Coast gas pipeline network) has gone awry. • Commitment to gas transmission as well as building out its renewables' portfolio should stand the business in good stead for the long-term, unlike legacy generators still reliant to varying extents on coal-fired power plants.

BHP Group Ltd (BHP: AU)

Share price	15/3/23: $45.57
Result	1H 2023
Revenue	US$25.73 billion, down 15.8% on the pcp.
Underlying EPS	US$1.303, down 32% on the pcp.
Key points	• BHP saw record first half production in its Western Australian iron ore production and maintained guidance ranges for its other operations including copper production at Escondida in Chile. • In addition, growth capital spending continued as the group looks to reduce logistical bottlenecks and add to new developments at Jansen (potash production). • Underlying EBITDA fell 28% for the period to US$13.2 billion. • The largest driver was what BHP denotes as external factors including a decline in commodity prices (US$3.9 billion), particularly iron ore with input cost inflation (US$1 billion) also a source of weakness due to a mix of higher diesel costs and other inflationary pressures. • Outside of these factors, what BHP describes as “controllable” drivers were a much more modest drag of only US$0.2 billion with unfavourable inventory movements offsetting an increase in production volumes. • The Group also highlighted its organic opportunities for additional copper production as well as nickel and potash to diversify from its leading iron ore franchise and profit from metals necessary for the transition towards more renewable energy production.
Our comments	• The business is tracking well with controllable cost inflation remaining largely contained. • Expansion projects also appear on track, which should support the staying power of cashflows notwithstanding the volatility in commodity prices. • Lastly the return of capital to shareholders remains intact with US$0.9 per share in capital returns (mix of dividends and buybacks) with the residual going towards growth initiatives to build exposure to other industrial metals.

Carsales.com Ltd (CAR: AU)

Share price	15/3/23: $21.935
Result	1H 2023
Revenue	$331.7 million, up 37% on the pcp.
Underlying EPS	$0.349, up 14% on the pcp.
Key points	• A strong revenue result inflated by the inclusion of its Trader Interactive business for the first full interim period vs H1 2022. Adjusting for this impact revenue was still up 15% on a pro-forma basis (13% in constant currency terms). • Revenue growth was broad based with all segments recording double-digit growth in constant-currency terms. A similar result can be seen in pro-forma adjusted EBITDA (a profit measure excluding impact of interest cost, taxes and, depreciation and amortisation), which also rose 15% in constant currency terms as the business achieved margin expansion even with the inflationary backdrop. • Some margin weakness was observable in its Investments business segment due to a mix of higher freight costs and reinvestment in Placie, its transport

	comparison app. These were offset by cost management efforts in Australia as well as newer premium products in the US. • Underlying EPS growth lagged broader business results (adjusted net income was up 37%) due to the share issuance in the half to fund the acquisition of the remaining stake in Trader Interactive, its US subsidiary. • Cash flow conversion remains strong with reported EBITDA converting to cash at close to 100% over the period consistent with prior half-years. • Lastly, Webmotors, its Brazilian investment (carsales.com has a 30% stake), continues to grow strongly with revenue growth of 23% and EBITDA growth of 8% respectively.
Our comments	• The company continues to execute well in its leading domestic franchise achieving margin expansion in a difficult environment given elevated inflationary pressures. • We remain positive on the company's longer-term prospects given its commanding market position domestically and strong overseas execution to date in Korea, the US and Brazil. The announcement in early March of expanding its Brazil position to a control stake of 70% looks favourable given the strong growth profile of this emerging market.

Coles Group Ltd (COL: AU)

Share price	15/3/23: $17.54
Result	1H 2023
Revenue	$20.8 billion, up 3.9% on the pcp.
Underlying EPS	$0.463, up 11.6% on the pcp.
Key points	• Revenue rose strongly for the period particularly allowing for elevated pandemic-related spending in the prior half and supply chain challenges relating to floods and rail outages. • Group profitability expanded thanks to its Smarter Selling initiatives (adding $100 million of savings) and a reduction in direct pandemic-related costs (only $20 million this half versus $150 million in the prior period). Taken together, these helped offset underlying input cost inflation and supply chain challenges including product availability. • In September 2022 Coles sold its Express fuel and convenience to Viva Energy Group with the sale expected to complete in the June quarter. • Creating value for customers remains a key concern with increased interest in the Coles Own Brand portfolio as consumers look for cheaper alternatives in the face of a rising cost of living (higher inflation and higher rates taking their toll on household budgets). • Continued reinvestment in automation initiatives is underway with expected completion of new sites in NSW and Victoria for FY24 after successfully commissioning its automated distribution centre (DC) in Queensland. • Lastly the business expects modestly positive volume growth in its supermarkets franchise and increased moderation of inflationary pressures. A return to earnings growth in its liquor franchise is also anticipated as it exits a period of stronger-than-average demand due to pandemic-related lockdowns.
Our comments	• Coles continues to navigate inflationary pressures reasonably well, accounting for additional shocks in natural disasters that have impacted supply chains and product availability particularly in fresh food segments. • Its home brand suite has been a key part of these efforts and the sale of non-core operations in Express should give it improved financial flexibility to reinvest

	further after a period of underinvestment when it was held within the Wesfarmers portfolio. • Overall, the business looks primed to offer a reasonable yield (3.8% pre-franking according to FY23 consensus) and more modest earnings growth, remaining a reasonable defensive allocation within the portfolio in our view.

CSL Ltd (CSL: AU)

Share price	15/3/22: $283.78
Result	1H 2023
Revenue	US$7.575 billion, up 25% on the pcp (in constant currency terms).
Underlying EPS	US$4.06, up 4% on the pcp (in constant currency terms).
Key points	• A strong result in revenue terms but faltered on profitability with recovery in plasma collection from pandemic lows only expected to impact gross profits (positively) with a 9-12 month lag. To that end, plasma collection volumes surged 36% to a record high, which should see profitability recover in the medium term. Plasma collections play a critical part in the formulation of the CSL Behring division’s key therapies. • Higher plasma collection costs and inflationary pressures (e.g., wage inflation, input cost increases) impacted margins for the core CSL Behring franchise. • Outlook for FY23 was re-affirmed with 28-30% revenue growth in constant currency terms and an expected NPATA (underlying profit measure) of $2.7 billion-$2.8 billion, representing 13-18% growth (also in constant currency terms). • Vifor saw 15% revenue growth and management noted that the integration is well-advanced with cost synergy targets on track. • The business also welcomed a new CEO, Dr Paul McKenzie, who began in the role from 6 March 2023. He succeeds Paul Perreault who had been CEO for 10 years. Dr McKenzie has over 30 years of experience in the global biotech sector and has served as Chief Operating Officer at CSL since joining in 2019.
Our comments	• The quality of CSL’s core Behring franchise should see margin improvement over the medium term with the business noting that cost per litre (of plasma collected) has improved ~10% since September 2022, and this coupled with the recovery in volumes should support earnings growth. • Disclosures on Vifor have remained limited to date but the revenue growth is encouraging, and we will monitor the situation to see what new products are added to this latest business segment. • Lastly the re-affirmation of guidance is encouraging as the Group looks to move past the challenges of the pandemic and grow its franchise further. The new CEO will be a key part of this in integrating Vifor and guiding the business and we will be monitoring his actions in the months ahead to see how they are tracking against CSL’s longer-term strategic ambitions.

NIB Holdings (NHF: AU)

Share price	15/3/23: $6.99
Result	1H 2023
Revenue	$1.5 billion, up 9.3% on the pcp.
Underlying EPS	$0.20, up 12.4% on the pcp.
Key points	• Revenue growth was driving by strong policyholder growth in its core Australian private health insurance as well as international inbound health insurance (iihi) and New Zealand offerings. • We saw a tick up in claims expenses due to policyholder growth and are seeing a gradual recovery in claiming activity following a period of above-average results due to lockdowns limiting the scale of private health claims. • As the business guided in past briefings, the domestic health insurance franchise is seeing profit margins normalise to ~6-7%, while other developed segments that were pandemic affected such as travel are seeing a gradual recovery. Travel for example saw an underlying operating profit of $6.4 million for the half, a dramatic swing from a loss of $7.9 million in the corresponding period for FY22. This was driven by the recovery in tourism and other inbound travellers. • The company provided limited disclosure on its (National Disability Insurance Scheme (NDIS) foray. It noted that it was on track to purchase other agencies in addition to Maple Plan with agreements to add a further ~15,000 participants via acquisition, expected to complete in 2H 2023. Further acquisitions are under consideration that could see a participant base of ~33,000 by the end of FY23 according to management. Acquisitions to date equate to 13.3 million in additional EBITDA on an annualised basis excluding transaction costs. • Relative to consensus forecasts the business beat on revenue (actual result was 2% higher) but missed on underlying EPS by ~10% with the $0.20 result contrasting to expectations of $0.22 according to Bloomberg. • Key contributors to the earnings miss lay in elevated expenses with a combination of conservative provisioning as claim expenses normalise and increased spending on the NDIS foray both driving the result. In addition, given uncertainty in both how and how quickly claims normalise the business has been reluctant to re-institute guidance, adding to market uncertainty in the near term.
Our comments	• NIB retains the leading private health insurance franchise in our view with attractive returns on capital and business results relative to peers. • The NDIS foray represents an important effort to tap into a growing market and diversify the business. It is one we are following closely as it develops to ensure capital has not been misallocated into poor investments. • We see the business as remaining on track to grow at attractive rates with near-term upside in the form of higher yield from its fixed income investments and capturing improved business performance in its other divisions (at their pre-COVID-19 peak these contributed 19% of operating income as opposed to 6% in FY22, highlighting the potential for improvement).

Netwealth Group Ltd (NWL: AU)

Share price	15/3/23: $13.37
Result	1H 2023
Revenue	$102.8 million, up 18.9% on the pcp.
Underlying EPS	$0.124, up 11.7% on the pcp.

Key points	• Netwealth saw ongoing growth in funds under administration (FuA) of 10.2% to $62.4 billion (as of 13 February 2023 this had growth further still to $65.1 billion). This also saw it grow its market share from 5.2% in September 2021 to 6.3% in September 2022. • The growth in FuA was achieved by a mix of net inflows (~$5 billion) and market movements ($1.7 billion). • The business remains in an investment phase with operating costs expanding as it adds new hires to develop more features and enhance the platform offering. • This offset revenue growth from a mix of higher platform fees and higher margin on cash (due to higher rates) to see overall profit margins contract slightly from 31.8% to 29.8%. • Management has guided towards growth in net inflows with a FY23 target for $11 billion and aiming for non-headcount expenses to remain steady whilst headcount growth would be consistent with 1H 2023. • New features and products include adviser efficiency solutions as well as a non-custodial administration offering as part of efforts to branch into the unlisted investment space.
Our comments	• The quality of the Netwealth platform offering remains intact with enviable growth compared to industry peers as well as continuing to lead in industry recognition for its product and services suite. • That quality does not come free however, with continued reinvestment necessary to support further expansion at attractive returns on capital. • Netwealth has retained its strategic focus on the space unlike peers that have diversified into other product and service offerings that may see strategic distractions intensify over the medium term. • We are conscious of the growth in operating costs as part of these reinvestment efforts and monitor its progress to see if they lead to attractive returns on the capital invested.

REA Group (REA: AU)

Share price	15/3/23: $126.39
Result	1H 2023
Revenue	$617 million, up 5% on the pcp.
Underlying EPS	$1.55, down 9% on the pcp.
Key points	• Revenue growth was supported by 3% growth in the core Australian business with yield growth (price hikes) on advertising products offsetting a weaker property market and comparison to a stronger period in FY22. The other material driver of revenue growth was the India business which saw sales increase by 48% on the prior period. • Group operating costs looked to be a point of weakness with growth of 17%, one of the bigger drivers for margin contraction. • This expansion in the cost base was led by the Australian business expenses rising 7% due to wage inflation, strategic investments and a mix of higher travel and marketing costs. India was also a major driver with costs rising 50% while head office costs (Corporate) rose 12% as another headwind. • Management guided to additional price hikes in FY23 and growth in premium products as supportive of revenue growth and helping offset weaker financial services revenue from the subdued lending market.

	• While Australian operating costs are expected to subside (declining year-on-year), investment in India is anticipated to increase and see overall Group costs expand with a high single digit growth rate. Depending on the state of the domestic market (particularly the number of listings), the Australian business might not see revenue growth exceed expense growth as well.
Our comments	• The REA result was resilient in the face of a material shock to property markets domestically given the fastest RBA hiking cycle in decades from record low interest rates. • The growth in operating expenses for India can be rationalised as part of efforts to maintain its leading franchise there, with attractive longer-term fundamentals given the population and economic growth profile of India going forward. • While the poorer cost discipline domestically is somewhat disappointing, the overall result illustrates the monopolistic position of the business with the expectation of further price hikes reflecting its commanding positioning as an advertising platform.

Rio Tinto Ltd (RIO: AU)

Share price	15/3/23: $119.19
Result	FY22
Revenue	US$25.78 billion, down 15.2% on the pcp.
Underlying EPS	US$2.32, down 58% on the pcp.
Key points	• Revenue fell sharply driven by weaker iron prices, similar to the BHP result. • Underlying EBITDA fell 30% to US$26.3 billion, down from US$37.7 billion. • Weaker prices accounted for the bulk of the decline (US$8.1 billion). Higher energy costs (US$1.1 billion) and other inflationary pressures (US$1.5 billion) also contributed to the decline only partially offset by favourable exchange rates (US$0.8 billion) and stronger volume production ($US0.6 billion). • Rio is looking to deliver on its Turquoise Hill acquisition which increased its control of the Oyu Tolgoi mine in Mongolia and what it aims to be the fourth largest copper-gold mine in the world with a top-quartile cost structure (i.e. one of the lowest costs per unit of production). • Input cost inflation is projected to be an ongoing factor with unit costs for iron ore rising 7% according to FY23 guidance.
Our comments	• The Rio result largely parallels that seen in BHP where a decline in prices drove weakness in revenue and earnings. The inflationary cost pressures are also difficult factors to otherwise avoid. • Diversification from its core franchise into growth commodities such as copper remains a priority with capital redeployed into the Turquoise Hill acquisition and other capital spending opportunities. • Oyu Tolgoi will be a focus in coming years given the capital already sunk into the operations there and the need to eventually deliver on the scale of investment. Only having one minority party in the Mongolian government should make it easier to prioritise operations and drive value. • The commitment to returning capital also appears intact with both miners acting more responsibly towards shareholders than in the previous mining boom by all accounts.

Resmed Inc (RMD: AU)

Share price	15/3/23: $31.30
Result	Q2 FY23
Revenue	US$1.034 billion, up 16% on the pcp.
Underlying EPS	US$1.66, up 13% on the pcp.
Key points	• Resmed delivered a strong quarterly result thanks to device sales growth in the US, Latin America and Canada in particular. • Management noted that supply chain concerns were improving significantly and narrowing the gap between production and patient demand. • While revenue beat expectations a combination of foreign exchange movements and product mix (skewing lower margin) and a lower tax rate all saw underlying earnings in line with consensus expectations. • Resmed also completed its US$1 billion acquisition of German software business Medifox, providing an entry point into the local out-of-hospital market and marking its third acquisition in the software space. • In addition, management noted the re-entry of rival Phillips after a series of product recalls but is not overly concerned at the competitive threat given the difficulty in re-establishing customer trust after issues in recent years.
Our comments	• The Resmed mix of hardware and software solutions is continuing to deliver well while its latest acquisition should aid to the entrenchment of its product suite by better integrating products with software making after-hospital care smoother (and assisting in better health outcomes). • Investments in production are also paying dividends in meeting demand from the broader market allowing it to profit from the failings of Philips in the near term. • The near-term competitive threat of the Philips re-entry is an entry we are monitoring closely as is the adequate return on capital from its acquisition strategy.

South32 Ltd (S32: AU)

Share price	15/3/23: $4.18
Result	1H 2023
Revenue	US$4.52 billion, up 0.4% on the pcp.
Underlying Earnings	US$0.56 billion, down 44% on the pcp.
Key points	• A strong revenue result given commodity price weakness supported by a 12% expansion in production with investments in both copper and low-carbon aluminium underpinning this production increase. • Management reiterated production volume guidance and expects a further 6% volume increase in 2H 2023. In addition, it either maintained or reduced the bulk of its unit cost guidance supporting earnings growth. • Capital returns continue apace with over US$1.1 billion in dividends and buybacks already in FY23 and an additional US$50 million allocated to buybacks by September 2023.
Our comments	• The South32 team continue to execute on shareholder returns with sizeable dividends and buybacks underpinned by quality aluminium, coking coal and other resource assets.

	• Capital spending for future growth appears prudent, particularly in the targeting of commodities with appealing growth prospects (demand expected to grow over time). • Valuation also remains attractive with a forward free cashflow yield of ~10% based on current consensus forecasts for FY24 which should underpin ongoing capital returns and reinvestment for future growth.

Steadfast Group Ltd (SDF: AU)

Share price	15/3/23: $5.575
Result	1H 2023
Revenue	$662.8 million, up 27.2% on the pcp.
Underlying EPS	$0.091, up 7.7% on the pcp.
Key points	• Strong revenue growth thanks to additional acquisitions and organic growth from higher insurance premiums and volumes. • The acquisition of larger agency IBA for $301 million was completed and it, together with acquisitions in FY23 year-to-date are anticipated to add 4% to NPAT growth for FY24. • Underlying EBITA also grew by 22.5% in the half driven by acquisition growth (13.2% of the increase) and organic growth on a mix of higher insurer premiums and volume growth (adding a further 9.3%). • The IBA acquisition and accompanying capital raise increased overall shares outstanding and contributed to the much lower growth in EPS (relative to revenue growth). • Management also upgraded FY23 guidance with underlying EPS expected to increase 10%-15% in contrast to its earlier expectations of 5%-11% growth. This was supported by forecasts for an additional $43 million in spending on agency acquisitions as well as expectations of price hikes by insurers.
Our comments	• The attractiveness of Steadfast as an exit option or acquirer for insurance brokers remains intact. In addition, its valuation premium versus unlisted peers allows for the acquisition of new targets at accretive multiples. • The roll-up strategy (acquiring smaller, unlisted brokers) appears to be executing well with attractive returns on capital being maintained and an above-market level of growth. • Valuation remains a risk with these kinds of business strategies as eventually the acquirer (Steadfast in this case) begins to run out of value-accretive targets and/or sees organic growth struggle. The pass-through of higher insurance premiums from underlying insurers is an attractive quality but we note that the commercial insurance market historically is less recurrent than household insurance products and in a softening market this business may struggle as a result.

Transurban Group (TCL: AU)

Share price	15/3/23: $14.31
Result	1H 2023
Revenue	$2.032 billion, up 56.2% on the pcp.
Free cash flow	$0.796 billion, up 70.1% on the pcp.
Key points	• Record average daily traffic volumes underpinned strong revenue growth for the half, lapping as it did periods impacted by pandemic-related lockdowns,

	particularly in Sydney. Average daily traffic exceeded 2.5 million trips for the first time in November 2022. • New expansions such as the M4-M8 link in Sydney was completed ahead of schedule and on budget. • Despite rising interest rates, prudent capital management and hedging saw the cost of AUD debt hold steady at 3.9% for the half. • Given the strength of first half performance management also upgraded distribution guidance to 57c per share, an increase of 4% on prior guidance. Another driver was above-expected distributions from assets where Transurban holds less than a 100% stake. • Over 68% of the existing toll road concessions are CPI-linked, offering a strong hedge against rising inflation and underpinning the profit and distribution growth seen in this half.
Our comments	• Transurban remains an attractive play on the post-pandemic recovery with the gradual return to normal traffic volumes (already exceeding pre-pandemic levels for some assets) underpinning stronger earnings and distributions to investors. Inflation-linked revenues only add to the relative attractiveness offering a meaningful inflation hedge particularly given the lower (and fixed) cost of debt. • The change from CEO Scott Charlton poses a risk to the business given the importance of his leadership and lobbying in general to expanding its asset base. The handover will be gradual and should offer sufficient time to find an adequate candidate. • Cost overruns with asset expansion projects remain a point of concern that we are monitoring given the risk of political backlash and imperilling future projects. • Melbourne expansion in bidding on the Eastlink concession could offer an attractive allocation of capital provided it is at a reasonable valuation.

Telstra Group Ltd (TLS: AU)

Share price	15/3/23: $4.065
Result	1H 2023
Revenue	$11.6 billion, up 6.4% on the pcp.
Underlying EPS	$0.075, up 27.1% on the pcp.
Key points	• A strong revenue result was led by the mobiles franchise with $100 million contribution from roaming fees and the notable addition of 68 thousand handheld devices supporting headline growth. The acquisition of overseas telecom business Digicel (supported by low-cost government funding) also added to revenue growth. • Underlying EBITDA expanded 11.4% for the half to $3.9 billion driven by strong performance in the mobiles business (+$260 million) and the contribution of its Digicel acquisition (+$181m) which more than offset weakness in its fixed enterprise and wholesale offering (-$106 million). Excluding Digicel underlying EBITDA was up 6.8%. • Higher competition undermined the result in Fixed-Enterprise with customer churn also seeing margins contract highlighting the risks facing this business segment. • Management also re-affirmed FY23 guidance of $23 billion to $25 billion in revenue and $7.8 billion to $8 billion in underlying EBITDA.
Our comments	• The execution to its T25 strategy aimed at boosting outcomes for customers and investors appears mostly on target. Notable improvements include the growth in mobile as well as meeting targets for its infrastructure business.

	• The Digicel acquisition also remains supportive of earnings growth given the low cost of government funding supporting the takeover for strategic reasons.

Woolworths Ltd (WOW: AU)

Share price	15/3/23: $36.54
Result	1H 2023
Revenue	$33.17 billion, up 4% on the pcp.
Underlying EPS	$0.719, up 11.7% on the pcp.
Key points	• Total group sales rose 4% driven by expansion in the Big W franchise and Woolworths' business-to-business offerings and offset partially by a weaker result in New Zealand Food (down 3.5%) and ecommerce sales (down 9.5%). Business-to-business revenue growth was also supported by comparisons to a period affected by lockdowns. • Underlying Group EBIT rose strongly, up 18.4%. This was driven by strong growth in Big W (up 437.5%) and Australian Food (up 18.2%) business segments. • Big W benefitted from comparing against a period where many stores were short as a result of pandemic-related lockdowns while Australian Food saw margin expansion thanks to material pandemic-related costs in the prior year. Excluding these costs, Australian Food EBIT was up a more modest 4.3%. • Similar to results seen in other businesses, the end of lockdowns corresponded to weaker performance for ecommerce segments. WooliesX (including ecommerce initiatives) saw revenue decline 4.4% and earnings fall 30.4% as consumers focused more on in-person shopping experiences.
Our comments	• Woolworths continues to enjoy a commanding presence in the consumer staples sector with earlier investments in efficiency initiatives and inventory paying dividends. In spite of supply chain challenges the business has managed to largely avoid an inventory overhang (buying too much stock) unlike other retailers that have had to discount heavily. • In addition, the recovery in EBIT from pandemic-related challenges saw its return on capital employed expand for the half. • We continue to expect single digit earnings growth coupled with dividend growth, which should eke out an 8-9% return (excluding changes in valuation). • The challenge with businesses of this sort remains in the valuation with Woolworths trading at an ~14% premium to Coles based on consensus FY24 earnings. We see the higher quality earnings and stronger balance sheet (substantially lower debt) as supportive but remain conscious of valuation risk as it can undermine potential returns materially with slower growing businesses.

International Equity Portfolio

Note: All figures in USD unless otherwise stated. Results referring to percentage changes (increases/decreases) relate to the previous corresponding period (pcp) e.g. Q4 FY22 results are compared to those of Q4 FY21.

Apple Inc (AAPL: US)[2]

Share price	14/3/23: US$152.59
Result	Q1 FY23
Revenue	US$117.2 billion, down 5% on the pcp.
Underlying EPS	US$1.88, down 10.5% on the pcp.
Key points	• Revenue growth was impacted heavily by foreign exchange movements (8% drag) which, if held constant, saw revenue growth of 3% rather than a 5% decline. • The weakness in the headline result was broad-based, led by the iPhone franchise and wearables segment, both down 8% on the prior period. Pleasingly the Services offering (including advertising, cloud, App Store and other services) saw revenue reach a record high of $US20.8 billion, growing 6% over the same period. • iPhone sales were impacted by challenges in China where COVID-19 lockdowns had slowed production of iPhone 14 Pro and Pro Max devices, both premium offerings that would have helped drive margin expansion. Chinese demand was also a point of weakness, again lockdown-induced according to management with greater China sales sliding 7% to US$23.9 billion. The weaker global macroeconomic environment also detracted from the result. • The company guided to some persistence in foreign exchange headwinds with its expecting detraction of 5% in the next quarter. At a segment level, Services are expected to grow while Mac and iPad sales are expected to soften as are iPhone sales, the latter at a slower rate than seen in December now that production constraints are easing. • The quarter was the company's first earnings miss in almost seven years and its first revenue miss since August 2017, the latter more notably impacted by foreign exchange movements as noted above. On the positive side was the growth in its services segment as well as management's acknowledgement of the tougher operating environments with improvement in operating efficiency (cost cutting and slowing new hires) now a notable focus.
Our comments	• The quality of Apple's hardware and services franchise remains undiminished in our view with a confluence of challenging factors driving the disappointing results. The business is now much larger than previous spells of economic weakness and we are monitoring closely to see how impacts overall performance will be given the constraints that higher interest rates are posing for household spending. • A strong US dollar is still dragging on earnings although this is weakening and may shift to a tailwind later in 2023 depending on expectations for US interest rates. • Apple has remained a safe haven for investors to start 2023 notwithstanding the disappointing results and expectations of a 2.4% decline in earnings for FY23. This demand has supported the share price but leaves the valuation more challenged notwithstanding the quality of the business. The development of ancillary business lines such as services and advertising are playing an

[2] Company Transcripts, Reuters and Bloomberg

	important role in continued top line growth, justifying its more premium valuation relative to history as it has shifted from being “just a hardware business” in our assessment.

Abbott Laboratories (ABT: US)[1]

Share price	14/3/23: US$98.55
Result	Q4 FY22
Revenue	$US10.09 billion, down 12% on the pcp.
Underlying EPS	$US1.03, a decrease of 22% on the pcp.
Key points	• Fourth quarter revenue declined 12% on a reported basis but this result was heavily impacted by foreign exchange movements. Removing these saw the revenue decline slow to only 6%. The other driver was weaker demand from COVID-19 testing-related sales. If we remove both foreign exchange and these testing sales then revenue actually grew 5.4% for the period. • Management instituted full year guidance for FY23 EPS of $US4.30 to $US4.50 in contrast to achieve adjusted diluted EPS of $US5.34 in FY22, a decline of 17.6% reflecting the expected decline in COVID-19 testing sales from $US8.3 billion in FY22 to US$2 billion in FY23 (testing is a lower margin segment so this revenue decline translates into a lower decline in overall earnings). • In addition, full year sales growth excluding COVID-19 testing sales and holding currency constant is forecast to be in the high-single digits with COVID-19 testing sales falling to US$2 billion. • In December Abbott received US Food, and Drug Administration (FDA) approval for its Eterna spinal cord stimulation system an important product launch for the treatment of chronic pain. In January it added another product to the list with FDA approval for a new aortic valve implantation system for those at high risk of surgery. Both serve as examples of the research pipeline bearing dividends in new products. • Production was voluntarily halted last year due to the infant formula saga that occurred, where infants became sick after consuming the formula and two sadly passed away after being infected by a rare bacteria. A criminal investigation by the Department of Justice is now underway while the company is ramping up production in a bid to claw back market share (prior to the disruption it controlled 40% of the market). This may lead to further sanctions or disruption although we note that Federal investigators were unable to definitively establish the sources of this rare bacteria previously so it may well end without definitive findings or sanctions.
Our comments	• We saw confirmation that COVID-19 testing sales are continuing to moderate with their full impact unlikely to disappear from results until 2024. Expectations for growth in other segments to eventually catch up to the temporary earnings boost from COVID-19 remain intact in our view. Consensus forecasts reflect this with 10% p.a. growth estimated from FY23 to FY26. • In the short run, medical device sales have been impacted by COVID-19 lockdowns in China, but we expect this to subside substantially over the coming quarters as China has effectively reopened which should also support recovery in supply chain backlogs. The guidance for FY23 EPS of US$4.40 (on a midpoint basis) was only marginally lower than the consensus expectation for US$4.41 and represents a strong overall story. The business had a “sugar hit” from COVID-19 testing sales which is increasingly wearing off as the world moves past the pandemic. The development in other business lines is progressing well and should be supportive of strong earnings growth (and dividend growth) over the medium term. • The company declared its 396th consecutive quarterly dividend and has increased its dividend for 51 consecutive years, highlighting its growth over time

	and the quality of its operations to continue paying dividends through several recessions over that period. • Despite challenges in the form of losing COVID-19 diagnostic sales, the business remains well-positioned for strong growth over time and investors will benefit from both this and a regular, increasing dividend presenting an attractive total return versus the broader market in our view.

Adobe (ADBE: US)[1]

Share price	14/3/23: US$333.33
Result	Q4 FY22
Revenue	$US4.53 billion, up 10.1% on the pcp.
Underlying EPS	$US3.60, an increase of 12.5% on the pcp.
Key points	• Revenue growth was in line with consensus forecasts and underlying earnings per share beat estimates by almost 3%. • Management guided to underlying EPS of US$3.65 to US$3.70 on US$4.6 billion to US$4.64 billion in revenue for Q1 FY23. It also reaffirmed guidance for US$15.30 in underlying EPS and US$19.2 billion in revenue (both on a midpoint basis and excluding the impact of its $20 billion acquisition of Figma). • As with other multinationals foreign exchange movements were a big driver of outcomes financially. Revenue grew 10% in the quarter but stripping out currency changes growth was actually 14% implying a 4% headwind from currency movements. • An additional five million shares were repurchased during the quarter helping to bolster earnings per share growth. • Business segments saw broad-based strength with Digital Media, Creative and Document Cloud growing revenue 10%, 8% and 16% respectively. Stripping out currency change impacts see these growth rates ratchet higher to 14%, 13% and 19% respectively. • The Figma acquisition is yet to close with regulatory authorities both in the US and overseas scrutinising the deal. According to Bloomberg, the US Department of Justice plans to sue to block the deal on antitrust grounds. Adobe management have reportedly reiterated their expectations that they will complete the acquisition in 2023.
Our comments	• While the derating in the first half of 2022 was painful, the core Adobe business continues to execute well in our eyes. • Its breadth of tools makes it well-suited to the rise of new or more popular forms of media for creatives and the building ARR book (a further $576m added for Digital Media alone in Q4) suggest it retains stickiness amongst users. • In summary, the core business is continuing to execute well in balancing profitability while spending for growth and should be able to compound earnings growth above the broader market in the medium term. • Scrutiny turns to the Figma deal and the near-term overhang on investor sentiment than might occur if it is challenged by regulators. We would expect the deal has reasonable prospects for success given the differences between the two businesses and the relative immaturity of Figma limiting the market share impact should the transaction proceed.

Alphabet Inc. (GOOGL: US)[1]

Share price	14/3/23: US$93.97
Result	Q4 FY22
Revenue	$US76.05 billion, up 1% on the pcp.
Underlying EPS	$US1.05, a decrease of 31.4% on the pcp.
Key points	• Google continued to show signs of greater sensitivity to the global economy with weaker demand and growth in operating expenses translating into missing consensus expectations for both revenue (-0.2% below) and earnings (-21% below) in the December quarter. • Currency remained a notable drag with 7% growth to December in constant currency terms implying a 6% drag for the period. • Cost discipline was also an issue with operating losses from its Other Bets division widening to $US1.6 billion, up from $US1.4 billion and sales growing from US$0.18 billion to US$0.23 billion over the same period. • The weaker global economy saw business advertising demand falter with Google Search revenues down 1.6% and YouTube ad sales falling more sharply, down 7.8% over the same period. While much of this is due to the fluctuations in the US dollar it is also true that demand has weakened and was unable to offset the impact of currency fluctuations unlike in previous periods. • Google Cloud performance remained a positive with operating losses continuing to narrow to 6.6% of sales compared to 16.1% in the December 2021 quarter. Revenue growth also was also a sizeable 32% to close December 2022 at $US7.3 billion suggesting that customer demand remains intact with signs of operating leverage beginning to emerge. • Investor concerns over the cost base drew material management action with the announcement in January 2023 of plans to reduce its global workforce by 12,000 roles and expecting to occur one-off severance costs of $US1.9 billion to $US2.3 billion for the quarter as a result. The office footprint is also expected to reduce leading to an additional one-off exit cost of $US0.5 billion for the same period. • Alphabet drew some investor concern over the unveiling of Microsoft partner OpenAI's ChatGPT bot and the competitive threat it might represent over the medium term. This is a situation we are monitoring closely but we also believe some of the speculation here has been grossly underdone and fails to understand the scale of Alphabet's distribution advantage in Search given its default positioning in both Android and Apple devices and its flagship Chrome browser.
Our comments	• The Alphabet group has shown signs of sensitivity to global economic conditions which is unsurprising given the elevated growth since the pandemic began due to lockdown initiatives driving increased online activity. • Google Cloud remains a source of longer-term revenue growth and operating losses are continuing to shrink showing signs of operating leverage are beginning to emerge. • The quality of the franchise particularly its core Search business remains intact in our view with its distribution advantage key to combating novel threats such as AI-based solutions. • Cost management efforts are showing some signs that management is finally addressing investor concerns on this front. There is considerably more scope available here to improve business profitability in our view.

Johnson & Johnson (JNJ: US)[1]

Share price	14/3/23: US$153.92
Result	Q4 FY22
Revenue	$US23.7 billion, down 4.4% on the pcp (up 0.9% in constant currency terms).
Underlying EPS	$US2.35, up 10.3% on the pcp (up 15.5% in constant currency terms).
Key points	• A stronger US dollar dragged on international business performance, similar to other American multinationals with worldwide sales growth declining 4.4%. Adjusting for currency fluctuations however revenue rose 0.9% over the period. • International sales were still a source of weakness even after adjusting for currency due to a 6.3% decline in European sales. • December quarter profits came in ahead of consensus expectations thanks to cost management initiatives and stronger-than-expected demand for certain prescription medicines which offset lower-than-expected sales of its medical devices. • As with Abbott device production was hindered by lockdowns in China with this impact expected to ease in FY23. Higher input cost inflation hurt demand for consumer health products and drove up costs across business segments. • Management guided to 2023 sales of $US97.4 billion (on a midpoint basis) implying growth of 5% while profit growth is expected to be 3.5% with underlying EPS of $US10.50 as higher interest expenses related to the Abiomed acquisition see a level of margin contraction in line with previous guidance. • Ongoing lawsuits over the company's legacy talc products also re-emerged as a point of concern. The company had been trying to quarantine these claims to a specific holding company LTL which it has funded to facilitate settlements. However, this was overruled by a court of appeal. The company is appealing this decision, but should it fail, it could see nearly 40,000 lawsuits restart as these had been frozen pending settlement via LTL. While the company has historically enjoyed success in defending against these claims it has also had substantial losses in jury decisions as well. This renewed scrutiny weighed on investor settlement and saw the company's shares underperform the broader market during the March quarter to date.
Our comments	• The business has shown the benefits of its diversified operations in being able to navigate a difficult macroeconomic backdrop and eke out earnings growth. • Our opinion on JNJ as a mature but growing business at a reasonable valuation remains intact. Efforts to unlock value by divesting its Consumer Health division are broadly positive as they should place renewed attention on its leading franchises in medical devices and pharmaceuticals. • The re-emergence of the legacy talc concerns is an issue that we are monitoring closely given its potential to distract and weigh on investor sentiment until it is adequately resolved.

Microsoft Corporation (MSFT: US)[1]

Share price	14/3/23: US$260.79
Result	Q2 FY23
Revenue	$US52.747 billion, up 2% on the pcp.
Underlying EPS	$US2.32, a decrease of 6.45% on the pcp.
Key points	• We saw signs of US dollar strength challenges as with other multinational businesses. In constant currency terms revenue grew 7% overall implying a currency drag of 5% for the period. Likewise, with underlying EPS if one

	accounts for currency impact the result was an increase of 2% as opposed to the 6% decline reported. • Cloud revenue was $US27.1 billion overall, up 22% (29% in constant currency terms). • Sources of business weakness were notable in consumer facing products with Office Consumer seeing revenues decline 2% (up 3% in constant currency terms) and likewise in personal computing which fell 19% (a 16% decline in constant currency terms). • Management highlighted weaker demand in December that was expected to persist into the March quarter with weaker growth expected across most commercial products including its Azure cloud franchise which saw revenue growth slow to 31% (down from 35% the previous quarter). • Management guided to expectations of $US51 billion revenue for the March quarter (implied growth of 3%) and disappointing consensus expectations for $US52.43 billion in sales. The PC market remains a source of weakness with expectations it would contract again to be down 17% year-on-year in the March quarter. • Cost management was also a focus with a $1.2 billion one-off charge taken in the December quarter over the company's decision to cut 10,000 jobs, consolidate its office footprint and revise its hardware offerings.
Our comments	• Microsoft is still performing strongly in underlying terms particularly with its cloud business. The signs of sensitivity to the broader economy have continued to grow since the September quarter with personal computing being one obvious point of weakness. • US dollar strength has also continued as a near-term headwind. • The bid for US gaming giant Activision continues apace and if it proceeds, it should open up more revenue opportunities for the Gaming division given the depth of intellectual property being acquired. • Our overall thesis on the business remains intact with the shift to cloud offering a path to continued earnings growth (even with the slowdown a 31% expansion of Azure and other cloud revenue is enviable for a business of this size and reach). It also offers returns on capital at a premium to the broader market and a reasonable valuation and remains compelling as an investment in our view.

Nestle S.A. (NESN: CH)[1]

Share price	14/3/23: CHF 107.16
Result	FY22
Revenue	CHF 94.4 billion, up 8.4% on the pcp.
Key points	• Net acquisitions added 1.1% to revenue growth but were almost entirely offset by 0.9% in unfavourable foreign exchange movements. • Organic sales growth was 8.3% for FY22. This was split between 0.1% of real internal growth (RIG, a volume measure) and 8.2% of pricing growth. • Organic growth remained broad-based across both developed (+7.1%, with price hikes offsetting RIG declines) and emerging markets (+10%, a combination of pricing and RIG effects). • Petcare was a standout product category with its Purina PetCare offering the largest contributor to organic growth. Sales of Starbucks products were also notable with growth of 12.9% to reach CHF 3.6 billion. Ecommerce sales also expanded by 9.2% reaching 15.8% in total Group sales, a contrast to many other retailers' online offerings, which saw declines following the end of COVID-19 related lockdowns.

	• Underling trading operating profit margin was 17.1%, declining 0.3% on a reported basis and 0.4% if currencies were held constant. • Underlying earnings per share (EPS) rose by 9.4% in constant currency terms to CHF 4.80. The board also proposed a dividend of CHF 2.95 per share marking 28 consecutive years of dividend growth. • Management guided to organic sales growth of 6% to 8% for FY23 and an underlying trading operating profit margin of 17% to 17.5%. It also expected underlying EPS to growth between 6% and 10% in constant currency terms.
Our comments	• Nestle continues to exert strong pricing power, leveraging the power of its brands with fractionally positive volume growth despite the scale of its price hikes. • The business has performed well, given its global scope, in largely containing inflationary pressures in its cost base and also passing on increases to end consumers. • The resilience of organic growth is still being tested with developed markets weak on a volume basis. The concern is whether consumers is the wake of higher inflation, and interest rates globally will continue to tolerate higher prices or pivot into substitute goods. To date the quality of its product set appears to be insulating the business from tough decisions in sacrificing margin by discounting to drive volume growth. • Overall, the business remains well-placed to continue generating high single digit earnings growth without being overly troubled by inflationary challenges and returning capital back to shareholders in the form of dividends and buybacks. One point of concern remains the valuation front which we continue to monitor as we are conscious of not wanting to overpay for a low-growing (but safer) business in the current environment of elevated inflation and interest rates given the potential for a valuation derating if results disappoint.

Universal Music Group (UMG: EU)[1]

Share price	14/3/23: €21.41
Result	Q4 FY22
Revenue	€2.942 billion, up 16.7% on pcp.
Underlying EBITDA	€620 million, an increase of 23.3%.
Key points	• UMG saw top line revenue rise 16.7% for Q4 or 8.8% in constant currency terms with growth across all segments and most notably its Music Publishing division. • Q4 saw margin expansion with Adjusted EBITDA rising 15.5% in constant currency terms and the Adjusted EBTIDA margin expanding 1.1% to 21.1%. • The result was driven by strong performance from artists such as Taylor Swift and Drake. In addition, its back catalogue of artists showed values with The Beatles amongst the top sellers for the quarter reflecting the appeal to both younger and older consumers of music rights that it holds. • For FY22 adjusted EPS rose 14.3% from €0.70 to €0.80 reflecting double digit improvement in revenue for all business segments, offset partially by higher costs including reopening post-COVID-19, increased travel expenses and currency effects with the cost structure of the business more weighted towards US dollars than the revenue generated. • The removal of coronavirus restrictions continued to see strong growth in its Merchandising and Other segment as touring-related revenues recovered with the segment, seeing overall revenues climb 28.4% relative to the December 2021 quarter.

Our comments	• Our thesis of Universal Music as a diversified record label able to extract value from different facets of the music industry ranging from live events to streaming (e.g., Spotify) offerings as it benefits from its extensive catalogue of music rights The bounce back in earnings from live events offers an added near-term bonus as a pandemic recovery story as well. • Universal Music will continue to be capital intensive to an extent as it needs to find and develop new artists to bolster its music catalogue. We would also expect some royalty acquisitions over time where the company sees the value in being opportunistic in adding new music royalties as part of its stable.

Union Pacific Corporation (UNP: US)[1]

Share price	14/3/23: US$195.15
Result	Q4 FY22
Revenue	$US6.18 billion, up 7.8% on the pcp.
Underlying EPS	$US2.67, an increase of 0.4% on the pcp.
Key points	• Operating revenue growth was driven by volume increases (+1%) and higher surcharge revenue offset partially by a negative business mix. • Cost growth remained an issue particularly in sourcing adequately skilled professionals in the right locations and December was a challenging month with impact of extreme winter weather on the rail network. • As a result, growth in revenue was more than offset by operating expense expansion due to these operational inefficiencies and a higher inflationary environment. • Management issues 2023 guidance with an expectation that full year carloads would exceed industrial production growth (current forecast for the latter is a decline of -0.5%). It also anticipated improvement in operating ratio (operating costs relative to revenues) for the full year and pricing growth in excess of inflation.
Our comments	• Our overall view on the business remains intact. • Arguably more than some other businesses it has seen meaningful challenges from supply chain disruptions, higher labour costs and energy prices. • It has however demonstrated the quality of its moat with pricing power a key lever in countering these impacts and passing them on to the end customer instead of absorbing through lower profit margins. This has been tested more recently, but we expect over time that productivity initiatives and the easing of supply chain challenges will support business results going forward. • We continue to see Union Pacific as an inflation-protected annuity stream over the longer-term with revenue stability that should support our portfolio with its defensive nature.

Visa Inc. (V: US)[1]

Share price	14/3/23: US$218.66
Result	Q1 FY23
Revenue	$US7.9 billion, up 11.9% on the pcp.
Underlying EPS	$US2.18, an increase of 20.4% on the pcp.
Key points	• Visa saw a strong result in Q1 with strength broad-based as all segments saw revenue growth with International Transactions the most material at +29%

	against the prior corresponding period. Key to this was a continued recovery in cross-border travel which resulted in cross border volume growth climbing 11%. • The business returned $US4 billion to shareholders through a mix of dividends and buybacks. • Despite the more negative macroeconomic backdrop, payment volumes have held up more generally with a 7% increase excluding currency impacts while transactions grew more strongly at 10%. • The cross-border rebound has been a material tailwind in recent quarters although this impact is beginning to abate. Macroeconomic weakness in developed economies may put the travel recovery at risk although the reopening of China could be a positive offset to counteract this. • The business announced the appointment of Ryan McInerney as CEO effective 1 February. He has served as President of Visa since 2013 and succeeds Alfred Kelly Jr who had been in the CEO role since 2016 and now assumes the role of Executive Chairman at the same time. Kelly has presided over substantial value creation in his tenure with his continued involvement and McInerney's experience within the business should allow for a smooth transition.
Our comments	• Visa continues to play a role in global commerce as a key payments processor with its duopoly with Mastercard remaining intact. • Travel volumes are a notable boost to overall sales and as travel demand continues to recover it remains a useful upside catalyst in the near-term albeit one whose impact is beginning to soften as we get closer to a return to normalcy. • The business has seen margin expansion more recently in line with the boost in underlying consumer spending further justifying our position as a high-quality exposure to global commerce.

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Making business ***personal***

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