Wealth Update

Spring 2023

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Welcome to our latest Wealth Management Update.

This edition covers the following topics:

- International equities, should you go Hedged or Unhedged?
- Is real estate the right asset to fund retirement?
- Reporting season update – Australian equities
- Reporting season update – International equities

International Equities, should you go Hedged or Unhedged?

What do the terms "hedged" and "unhedged" mean in an international investing context?

When investing in international markets, the purchase of securities is denominated in foreign currencies, and therefore at the time of purchase or sale the price of the asset for a foreign investor is dependent on the asset price and prevailing exchange rate (the spot rate). The actual return on investment is then influenced by three components:

1. movements in the underlying asset price,
2. changes in the Australian dollar spot exchange rates,
3. the correlations between changes in asset prices and exchange rate movements[1].

A hedged strategy is when the underlying assets are protected by a series of financial derivatives (such as currency forward contracts or cross-currency interest rate swaps) which lock in the exchange rate of the sale of an asset at a future date, so the return component is protected from movements in the value of the AUD.

An unhedged portfolio return will be greater than the hedged portfolio returns if the AUD falls relative to the basket of currencies underpinning the international investments (after taking into account the cost of hedging). The opposite is also true. An international equity portfolio where the currency risk is hedged will outperform the same unhedged portfolio when the AUD rises.

A common way for a high net wealth investor to obtain hedged international exposures is via an Exchange Traded Fund (ETF) such as the Vanguard MSCI Index International Shares (Hedged) ETF (VGAD.ASX). Unhedged exposures can be obtained by buying shares directly via an international broker, or via an ETF such as the Vanguard MSCI Index International Shares ETF (VGS)[2]. Putting in place complex forward foreign currency contracts to mitigate currency risk is an art best left to institutional investors who have sufficient scale to cover the cost and timing of various liquidity events.

Period Returns						
For Periods Ending 31 August 2023, annualised						
APIR Code	**Product Name**	**3 Months**	**6 Months**	**1 Year**	**3 Years**	**5 Years**
VGAD	Vanguard MSCI Index International Shares (Hedged) ETF	6.67%	10.7%	11.87%	8.3%	7.6%
VGS	Vanguard MSCI Index International Shares ETF	7.19%	15.6%	22.09%	13.08%	10.95%

Source: Lonsec iRate

A hedged strategy reduces volatility (up to a point)

The characteristic of the Australian Dollar being labelled as a 'risk currency' is well embedded into the psyche of foreign currency traders. Australia's export revenues are heavily exposed to natural resources which are cyclical in nature, this is further amplified with China being Australia's largest trading partner. Despite being one of only a few nations to have a AAA credit rating[3] and independent monetary policy, historically the AUD tends to sell off in periods of equity market corrections, as investors sell growth assets in favour of safe havens such as gold or the USD.

This behaviour played out most recently in March 2020 when in the early stages of the response to the outbreak of COVID-19 pandemic the AUD to USD exchange rate fell to intraday lows of $0.57 from $0.70 weeks earlier[4]. Despite only having a handful of known COVID cases at the time and some of the least restrictive health orders, the immediate outlook for the Australian economy was dire off the back of China's harsh response to the pandemic. An investor with a fully hedged portfolio worth $100,000 would have seen the value fall to $78,040 whereas a fully unhedged portfolio would have been worth $85,380 at the end of March 2020. It can be beneficial to not use currency hedging when economic conditions are expected to

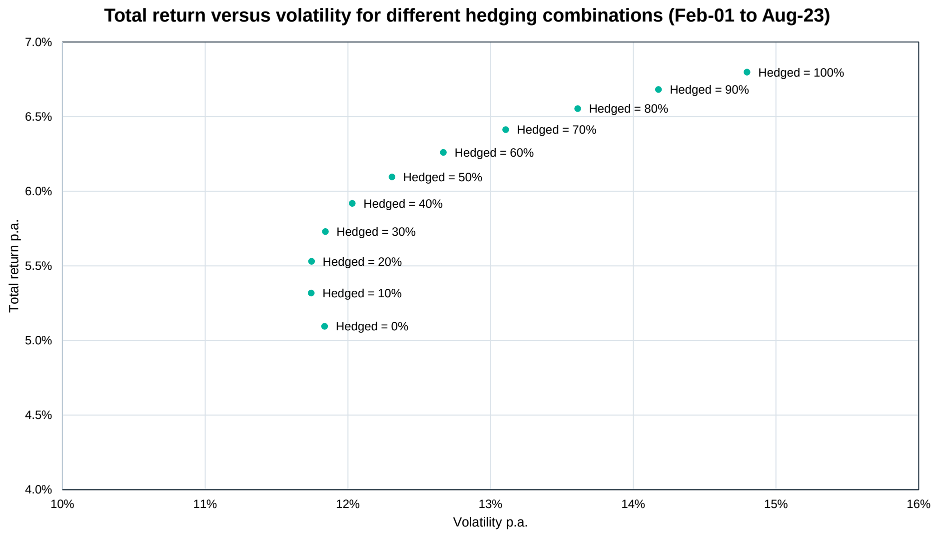
[1] 'The Impact of Currency Hedging on Investment Returns', *Reserve Bank of Australia, (accessed 8 September 2023).*
[2] https://www.vanguard.com.au/adviser/invest/funds-and-etfs (accessed 5 September 2023).

[3] Bloomberg

[4] Bloomberg

deteriorate (when market volatility may be high). Conversely, currency hedging can enhance international equity returns when economic conditions are expected to improve (all other things being equal).

Taking the view of betting on the AUD during risk-on periods, below is a chart of our analysis of different hedging ratios for a portfolio over the past 20 years, using MSCI World ex Australia index as a proxy for an asset price. As our analysis shows, a 100% unhedged portfolio would produce a return of approximately 5% p.a. over the period. However, a 30% hedged portfolio would achieve at least 0.5% p.a. more for the same level of volatility or risk, an inherently greater risk adjusted return. Excluding the impact of transaction costs (as hedging strategies typically cost more), a 30% allocation would be the optimum strategy here. For a 60% hedged portfolio or more the risk return could be lower as the volatility or risk was higher.



Source: Bloomberg, PPWM calculations

Our argument for a 30% hedged portfolio is further supported when you take into consideration the industry data. According to the ABS Foreign Currency Exposure report, as of 31 March 2022, 27.8% of foreign currency assets were hedged (equities or private assets)[5]. The NAB 2021 Superannuation Fund FX Survey, concluded managed funds that applied a hedged ratio to their international equity exposures had an average target hedged ratio of 33%, broadly in line with surveys conducted in previous years (29% in 2015)[6].

Near term outlook

If we apply the assumption that the ideal long term hedging ratio is 30% for the international equities portion of your portfolio, what hedging strategy should you apply for the next 18 to 24 months.

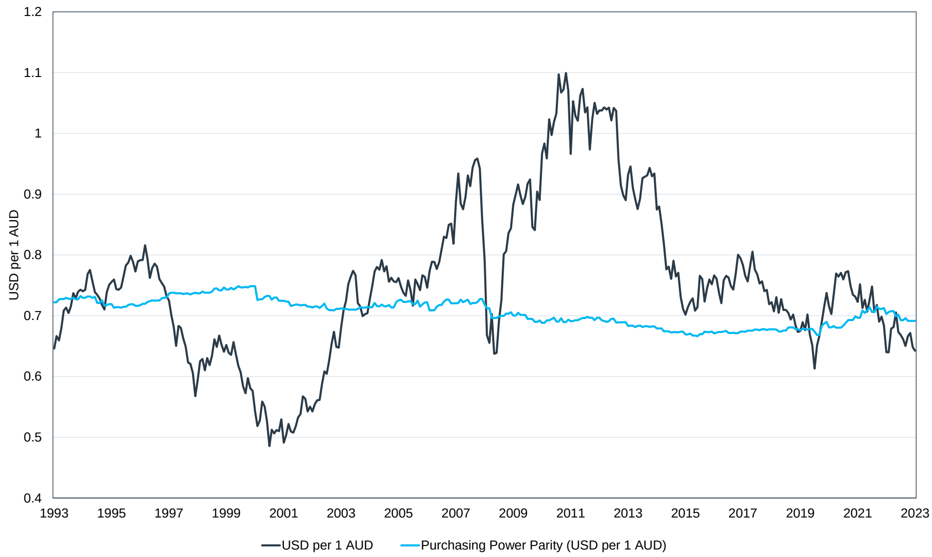
1. underweight -10% of target (20%),
2. neutral at target (30%),
3. or overweight +10% of target (40%).

We can answer this question by studying the “intrinsic value” of the Australian dollar at different points in time by using the OECD metric of Purchasing Power Parity (PPP) as a proxy for the fair value of the AUD. Every year the OECD[7] measures the same basket of goods in different currencies with a view of using the PPP as a theory to calculate what exchange rate is required to make the value of the same basket of goods equal in different countries. If the spot foreign currency rate is above or below the PPP, then the currency is inherently overvalued, and if the spot rate is below PPP, then its undervalued. For 2022, the PPP for AUD/USD was $0.704 (OECD, 2022). Below is a chart of the intrinsic value vs the spot rate of the AUD to USD overtime. If the spot rate is above the PPP, then being less hedged (below target) would be more favourable, if the spot rate is below the PPP, then having more hedging (above target) would be advantageous. One important condition of the mean reversion of the spot rate to fair value is the noticeable time lag, historically it can take 5 to 7 years to revert to fair value. In fact, the currency was trading above the PPP for the entire period of 2009 to 2020, as such being underweight the target would have outperformed being neutral. At the time of writing

[5] ‘Foreign Currency Exposure’, *Australia Australian Bureau of Statistics (ABS) March Quarter data*, 2022, https://www.abs.gov.au/statistics/economy/international-trade/foreign-currency-exposure-australia/latest-release (accessed 05 September 2023).
[6] ‘Broadening Horizons, 10th Biennial NAB Superannuation FX Hedgeding Survey’, *National Australia Bank (NAB)*, 2021.
[7] OECD is the Organisation for Economic Co-operation and Development, an intergovernmental organisation with 38 Member countries (including Australia), which focuses on measures to stimulate economic progress and trade between member nations. *OECD*, 2022, https://data.oecd.org/conversion/purchasing-power-parities-ppp.htm (accessed 05 September 2023).

this article the spot rate is $0.65 which suggests the currency is undervalued relative to the fair value of $0.70 by approximately 8%. If the AUD to USD continues to fall away from its fair value in correlation with equity markets, then being overweight the hedging target will lead to less desirable outcomes. If you take a more positive outlook on equity markets, this suggests a slightly overweight hedged position is favourable going forward, recognising it may take a full economic cycle for the spot rate to revert to its fair value.

AUD-USD exchange rate versus PPP valuation (Sep-93 to Sep-23)



Source: Bloomberg, based on respective CPI rates

Other considerations:

- Hedged exposures typically cost more to hold. Using the example of the two Vanguard ETFs mentioned earlier, VGS vs VGAD, the management fees for the latter (hedged) ETF is 0.03% higher per annum[8].
- It is inherently impractical for a high net wealth investor to hedge direct share purchases on a reliable basis. In practice the only way to effectively hedge market exposure is via a professionally managed fund or ETF which increases fees and costs.
- As briefly touched on above, the covariance between spot price on foreign exchange rates and asset prices varies based on the investment horizon and asset class. Therefore, the optimum portfolio allocation varies between asset classes. Typically, more defensive assets such as government bonds or corporate credit will have a higher allocation to hedging 66% to 100% as the foreign currency risk is higher. According to the ABS Foreign Currency Exposure report, as of 31 March 2022, 76% of total foreign currency denominated long-term debt security liabilities were hedged (fixed interest government bonds or corporate credit)[9].
- Investors who rely on regular dividend streams from their international investments, may typically have a higher hedging ratio as the currency risk has greater impact on their return of investment in the short term.
- It may also be more tax in-efficient for an investor to have a hedged portfolio as profits from successful hedging strategies are typically paid out annually via a cash distribution.

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[8] https://www.vanguard.com.au/adviser/invest/funds-and-etfs (accessed 5 September 2023).

[9] *Australian Bureau of Statistics (ABS) March Quarter Data,* 2022.

Is real estate the right asset to fund retirement?

Real estate has long been a trusted investment but at times when low debt and high liquidity are necessary, such as in retirement, people should be open-minded about other investment classes.

Australians love property and for good reason. National dwelling values have increased by 5.4% p.a. on average across the last three decades, highlighting the value in a tangible investment that has delivered impressive returns over the long run.

As much as 57% of household wealth is held in housing, but as retirement looms it might be time to embrace the advantages of more liquid asset classes, such as shares and bonds.

Liquidity refers to how easily an asset can be converted into cash when needed.

Real estate and shares and bonds offer the potential for attractive returns over time, but the difference is how readily we can tap into our investments. Converting real estate into cash can be a time-consuming process but shares and bonds can be quickly accessed.

Portfolio diversity is important to consider but so are individual circumstances. People may need to finance treatment for unexpected health complications, travel or support for their family and a liquid investment can come in handy if something unpredictable arises.

Debt is also a factor. Real estate is often a leveraged asset but in retirement people should be as close to debt free is possible, for two reasons.

Loan repayments are obviously an additional drain on cash flow, and if a retiree's marginal tax rate is nil, claiming interest costs as a tax deduction may no longer be beneficial.

Case study: Property vs Shares

Let's consider two retiree investment scenarios, each with a value of $1.5 million, and we've intentionally made the total return assumptions similar so that we can focus on the impact of liquidity.

Investment Property		**Investment Portfolio**
5% pa	**Capital Growth**	4% pa
3% (rental yield)	**Yield**	4% (income yield)
25% of rental yield	**Annual Costs**	1% value/30% income yield

The 'Investment Portfolio' features liquid assets, with approximately 75% growth assets (shares) and 25% defensive assets (bonds) – similar to what would be offered in most super funds. The returns are not guarantees, or predictions, on what will occur in the future.

As the below table shows, the total return is similar for both strategies, as expected, but the biggest deviation is with 'Accessible Return', which is significantly higher in the Investment Portfolio.

Investment Property	
Capital Growth	50,000
Rental Income	30,000
Property Maintenance Costs	(7,500)
Total Return p.a.	72,500
Accessible Return (to fund retirement)	**22,500**

Investment Portfolio (Shares/Bonds)	
Capital Growth	40,000
Income Yield	40,000
Costs	(10,000)
Total Return p.a.	70,000
Accessible Return (to fund retirement)	**70,000**

The Accessible Return for the Investment Property is calculated as the rent of $30,000, less costs of $7,500, leaving an after-costs rental amount of $22,500. The Investment Portfolio can fund withdrawals of up to $70,000 p.a. without depleting the capital value. The key difference is the ability to draw-down an amount equivalent to the capital growth.

The retiree also has easy access to their capital of $1.5m if it is invested in liquid assets, allowing the purchase of, for example, a $100,000 caravan for that long-awaited trip around Australia.

Let's examine the debt angle here as well. Using our example above, any loan repayments on an investment property would be funded from the net rental income of $22,500.

This would further reduce the retiree's cash flow, which impacts spending on living costs, and potentially leave them exposed to interest rate movements, adding risk to their financial position during an interest rate hiking cycle.

Property investors can receive a tax benefit from investment debt, as the interest cost of the loan is tax-deductible. The higher the marginal tax rate, the greater the tax saving. However, a retiree whose taxable income is otherwise zero is unlikely to receive any tax benefit.

While circumstances will differ from one individual to another, retirees should be wary of the risks from holding investment debt.

An investment property may produce strong capital growth, but cash flow is king when planning a comfortable retirement, and liquidity should be one of the top priorities for retirees.

This may mean reviewing your investment strategy, and reallocating funds to more liquid asset classes, as you approach retirement.

A little advance planning can go a long way to ensuring retirees have enough cash flow to fund the retirement lifestyle while remaining agile enough to handle life's unpredictable moments.

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Reporting season update

Australian Equity Portfolio

Note: Default is in AUD unless otherwise stated.

APA Group Ltd (APA: AU)[10]

Share price	8/9/23: $8.56
Result	FY23
Revenue	$2.35 billion, up 5.1% on the pcp.
Underlying EBITDA	$1.73 billion, an increase of 2% on the pcp.
Key points	• FY23 saw revenue growth of 5.1% driven by strong performance within its Energy Infrastructure (gas pipeline) segment and inbuilt inflation escalation. Profit growth was weaker, up 3.5% excluding its Orbost asset divestment in July 2022, due to greater investment spending and increased emission reduction costs. • Management guided to weaker growth of 1.8% for its FY24 distributions in order to take advantage of investment opportunities from its development pipeline including both new renewable energy generation and gas assets. It expects maintenance capital spending to maintain existing assets will peak in FY24 before falling for subsequent years. Foundation capital spending (including emission reductions program) will similarly peak in FY24. These investments are expected to yield attractive long-term returns to investors as a trade off to a near-term drag on results. • The company also announced its acquisition of Alinta Energy's Pilbara business which consists of both gas pipelines and renewable generation assets catering to the mining sector in Pilbara, WA. These assets benefit from long-dated contracts with inflation escalation and a strong development pipeline. These should prove essential for the mining sector as it confronts longer-term emission reduction targets going forward.
Our comments	• This was a mixed set of results. Profit growth was weaker than expected due to the capital spending needs. The focus will be on these investments performing going forward in FY24. • Basslink contributed a welcome $24 million to EBITDA and a full year of ownership coupled with the Pilbara assets will see a substantial uptick in both revenue and earnings for FY24. On an underlying basis the test for management will be how well these renewable assets perform over the long run given the scale of ambitions in this space. Acquiring the Pilbara assets at a premium to APA's own valuation was a slight disappointment but the test will be on how they maximise their utility and generate earnings growth going forward. • The strength of pricing power in its gas assets remains largely intact and core to our investment thesis with gas vital as a fuel for electricity generation and for industrial applications. Importantly it lacks the stigma attached to other fossil fuels such as coal due to its lower emission footprint and will remain critical over the medium term as a transition fuel while Australia navigates towards its emission reduction targets. • The thesis of APA as a play on core gas infrastructure assets with a long tail of renewable opportunities remains largely intact however and we believe the outlook over the medium term remains favourable.

[10] Company Transcripts, Reuters and Bloomberg

AUB Group Ltd (AUB: AU)[10]

Share price	8/9/23: $30.67
Result	FY2023
Revenue	$1,111.4 million, up 61.2% on the pcp.
Underlying EPS	$1.2932, up 33.7% on the pcp on a constant currency basis.
Key points	• AUB Group saw a strong result in FY23 bolstered by the inclusion of its Tysers acquisition in the UK which contributed 9 months of performance to the overall results. Excluding Tysers, underlying net profit after tax (NPAT) still rose an impressive 29.6% for the year showcasing the strength of AUB's core Australian and New Zealand operations. • As with other peers, inorganic growth (acquiring smaller brokers as part of a broader industry consolidation) remains an intact path with acquisitions contributing 17.2% of underlying NPAT growth and organic growth, a further 12.3% for the full year. • Overall divisional performance was strong for the full year with all segments seeing double-digit top line and bottom-line growth along with margin expansion. The New Zealand business is improving and beginning to approach overall Group profitability, a favourable tailwind to future results. • Finally, management guided to continued strength for FY24 with guidance for underlying NPAT to grow by 15.3% excluding Tysers (23.2% including Tysers).
Our comments	• Overall, this was a strong result slightly ahead of consensus expectations. This corresponded to our views heading into reporting season where management had issued a number of upgrades on its initial FY23 guidance as underlying business performance continued to be stronger-than-expected. • AUB continues to be well positioned to capitalise on growth both organically and via acquisitions at attractive margins. Its valuation (20.8x FY24e EPS) is in keeping with its successful track record and the available opportunity set. It should continue to offer an attractive mix of earnings growth and dividend returns over the medium term.

BHP Group Ltd (BHP: AU)[10]

Share price	8/9/23: $43.16
Result	FY2023
Revenue	US$53.8 billion, down 17% on the pcp.
Underlying Profit	US$13.4 billion, down 37% on the pcp.
Key points	• On the positive side the business saw increased sale volumes of key commodities such as iron ore, nickel and copper. • However, this was more than offset by lower commodity prices (the largest driver) and inflation across its cost structure particularly the cost of labour as well as diesel and electricity prices. • The company completed the acquisition of OZ Minerals for US$5.9 billion which added exposure to both copper and nickel assets in Australia that should improve growth over the medium term given the need for these in areas of future demand such as energy efficiency and electric vehicles. • In its outlook management noted it expects some further headwinds from lagged inflation to continue into FY24. In addition, the demand outlook remains uncertain with weaker economic growth in the developed world expected to drag on commodity prices but to be partially offset by demand from India and to a lesser extent, China.
Our comments	• Much of the decline in profitability lay outside BHP's control with the firm ultimately a price taker for its commodity products. It also remains one of the world's lowest cost operators, particularly in iron ore. Management's remarks on cost inflation in iron ore sector becoming structural were notable as it suggests the industry cost structure may become prohibitive for a number of operators that cannot mine iron ore for less than $US80 a tonne. • Another concern is the potential rise in operating costs for its newer Australian operations including the OZ Mineral acquisition as a result of mooted government changes to labour regulations. • Lastly BHP's operations continue to depend on the global demand backdrop and management's remarks to that effect suggested the uncertain outlook may see limited upside from commodity prices in the near term.

Carsales.com Ltd (CAR: AU)[10]

Share price	8/9/23: $28.76
Result	FY2023
Revenue	$781 million, up 53% on the pcp.
Underlying EPS	$0.741 up 17% on the pcp.
Key points	• Carsales enjoyed a strong FY23 with revenue up 18% on a pro-forma basis (adjusted for acquisitions and one-off transaction costs) and pro-forma EBITDA likewise up 19% over the same period. • It was a year of consolidation. The business completed the acquisition of the remaining 51% of its US subsidiary, Trader Interactive, and also increased its Brazilian exposure by upping its stake in auto marketplace webmotors from 30% to 70% in May 2023. These acquisitions are expected to boost revenue and earnings growth over the medium term particularly as the Brazilian market matures and (ideally) grows to reflect its successful South Korean business. • Its core Australian business saw double-digit growth across its underlying segments with revenue and adjusted EBITDA up 13% and 14% respectively on a pro-forma basis. Its international divisions also performed strongly with EBITDA growth ranging from 9% in the case of Asia to 50% in the case of Latin America (mainly webmotors). • Group EBITDA margins expanded from 52.1% to 52.6% and the business maintained high quality cash conversion ratio of 99% (reported EBITDA relative to operating cashflow) a reflection of its attractive working capital dynamics as a marketplace business. • Finally, management guided to good growth in both Revenue and EBITDA for FY24 on a pro-forma basis, consistent with their practice of eschewing numerical targets
Our comments	• This was a strong result in FY23 with double-digit revenue growth coupled with margin expansion as well as a material 22% increase on the full-year dividend. • The margin expansion on its international businesses is also encouraging as it shows progress in not just achieving top line growth but also targeting markets that can approach the strong profitability of its core Australian business. • Overall, we expect the business to continue growing earnings at a high single digit pace with attractive returns on capital for the medium term. Risks to this lie in potential macroeconomic sensitivity if global economic conditions worsen further. There is also execution risk with its new acquisitions and ensuring results justify the substantial investments made to date. Initial signs are positive, but it will be gradual, multi-year process to deploy technology and learnings from its Australian model to these developing markets.

Coles Group Ltd (COL: AU)[10]

Share price	8/9/23: $15.83
Result	FY2023
Revenue	$40.5 billion, up 5.9% on the pcp.
Underlying EPS	$0.781, down 0.6% on the pcp.
Key points	• Sales growth was led by the core Supermarket division which saw revenue rise 6.1% for the full year while its Liquor segment had flat top line growth due to cycling a lockdown affected FY22. • The business completed the divestment of its Coles Express franchise to Viva Energy (ASX: VEA) for gross proceeds of $319 million. • The weakness in profitability was impacted by an increase in financing costs due to the higher interest rate environment. Another factor was wage inflation and higher input costs contributing to a higher cost-of-doing-business. Management also cited rising theft as a cost headwind with total loss (a measure of theft, waste and markdowns) up 20% for FY23 leading to a lower increase in gross margin than would have otherwise occurred. • Construction issues saw the commissioning of two new automated customer fulfilment centres (CFCs) substantial delayed with higher capital spending requirements of $120 million now anticipated as a cost of this delay. Investment spending is expected to be slightly lower in FY24 with guidance for a midpoint of $1.3 billion even after allowing for additional CFC costs. • Finally, in its FY24 outlook management cited its efforts to combat total loss as a key priority while noting supermarket volumes had remained slightly positive to start FY24 and its expectations of continuing sales offerings to maintain volumes. It also plans to add 14 new Liquor stores in net terms and renew over 100.
Our comments	• The cost overruns on its new distribution centres were disappointing and will pose a near-term headwind to the business into FY24. • More broadly speaking we see the business in a stronger position once these initiatives have been completed that should allow for higher efficiency and lower operating costs. The news of rising, organised theft in this announcement was surprising and an area to watch as US-listed peers have themselves fallen victim to much more organised theft efforts in recent years. • The miss on expectations saw the share price correct, retracing its 2023 gains. Going forward even with the FY24 outlook challenges the business remains positioned to act as a reasonable defensive allocation within the portfolio with far less cyclically sensitive earnings as we are observing elsewhere in the market.

CSL Ltd (CSL: AU)[10]

Share price	8/9/22: $268.91
Result	FY2023
Revenue	US$13.31 billion, up 31% on the pcp (in constant currency terms).
Underlying EPS	US$5.92, up 17% on the pcp (in constant currency terms).
Key points	• The Core CSL Behring business performed strongly thanks to a mix of record plasma collections (necessary to create its products) and strong growth in immunoglobulin sales, up 21% in constant currency terms. • Underlying demand for immunoglobulin continues to hold up given its essential nature in treating chronic immune deficiency conditions for patients. • Plasma collections were up 31% for the period supported by lifting of COVID-related restrictions and enhanced marketing efforts. Collection costs including labour and donor compensation dropped ~14% over the period year, help boosting overall profitability. The return to pre-COVID margins is expected to take between 3-5 years and will be influenced by currency impacts, new product launches and changes in business mix. • Its other main divisions in Seqirus and Vifor saw revenue growth of 9% and 14% respectively, the latter on a proforma basis. Vifor's integration in the broader business is well-advanced with the targeted synergies remaining on track. • Higher financing costs as a result of debt to fund its Vifor acquisition and higher interest rates weighed on underlying profit growth which was up 20% versus an operating profit growth of 27%. • Management guided to FY24 underlying profit of $US 2.95 billion in constant currency terms, representing 15% growth on a midpoint basis. Revenue is expected to also grow at 10% on a midpoint basis.
Our comments	• The gradual margin improvement in CSL Behring will be an important part of rebuilding investor sentiment as the business bounces back from COVID-restrictions impacting its plasma collections. • Vifor had an encouraging initial result with double-digit revenue growth at operating profit margin of 46%. Its ongoing performance will also be a key part of the CSL story given its material contribution to profitability and the potential for newer treatments to challenge its particular market niche. • The strong revenue and profit growth guidance relative to the valuation and return on capital is encouraging. It should position the business well for further earnings and dividend growth over the medium term.

Endeavour Group (EDV: AU)[10]

Share price	8/9/23: $5.34
Result	FY2023
Revenue	$11.9 billion, up 2.5% on the pcp.
Underlying EPS	$0.295, up 6.9% on the pcp.
Key points	• The FY23 result missed consensus expectations on revenue and EPS by 0.6% and 2.3% respectively. Weakness in its Retail division with EBIT falling 1.2% was a key contributor. • Its Hotels business benefited from increased consumer spending on eating out and comparison to a lockdown affected FY22. EBIT rose strongly, up 35.9% for the period and contributed to an overall 10.7% increase in Group EBIT. • Higher interest rates dragged on overall profitability with a 22% increase in financing costs seeing underlying profit growth lag the expansion in EBIT. • The Retail division was impacted by comparison to a lockdown affected FY22 result (that had boosted performance). In addition, its cost of doing business increased due to higher labour costs. • Customer membership continued to climb with 5.2 million active members of its My Dan's program, up 15.6% on FY23. This is helping the retail business with the vast majority of sales (and repeat business) tied to My Dan's members. • Changes to the regulatory environment for poker machines pose a concern for earnings in the Hotel division. As the largest poker machine operator nationally, the new restrictions proposed by the Victorian government could see a level of structural impairment on profitability to the extent they reduce the frequency and quantum of gambling at Endeavour sites. Management had moved to implement some of the proposed changes such as reducing opening hours some 10 months earlier than the government proposal and has also signalled that other facets of the reform had already been in place in other markets and were not a major concern as such. • Lastly management flagged that consumer spending on more premium liquor products has continued to hold up strongly even with current macroeconomic headwinds which should be supportive for the resilience of its retail business. It also saw a stronger start to FY24 with the first 6-weeks of sales up 2.5% and 4.6% on the FY23 result across its Retail and Hotels operations respectively.
Our comments	• The overall result, while somewhat short of consensus, was not overly concerning in our view and showcased the resilience of the business even after cycling a period of above-average earnings in the retail business. • The broader concern is regulatory change leading to materially lower profitability for its gaming operations (located within its Hotels division). The worry is that the changes proposed in Victoria to date could be extended into other states as well. This threat has seen materially weaker investor sentiment as a result. • We acknowledge the concerns here but feel, to an extent, it has reflected a "sell first" attitude amongst investors over prospective, near-term headwinds. The proof will be seen in coming months from the underlying business performance which we note was off to a reasonable start based on the first six weeks of trading in FY24. The lack of substantive downgrades on guidance by management would suggest that they are not seeing some of the more bearish sell-side views in current business performance which could lay the grounds for a potential rerating later in FY24.

HUB24 (HUB: AU)[10]

Share price	8/9/23: $32.60
Result	FY2023
Revenue	$279.5 million, up 45% on the pcp.
Underlying EPS	$0.461, up 136% on the pcp.
Key points	• HUB24 saw a strong result in FY24 bolstered by overall growth in funds under administration by 23% to $80.3 billion. Platform asset growth was driven by its leading position as a wealth management platform that saw it lead the industry in net inflows with $9.7 billion added for the financial year and overall market share rising from 5.1% to 6.1%. • Continued revenue growth and increased scale has also seen underlying EBITDA margins for its Platform expand materially from 33.3% in FY19 to 40.8% in FY23. The cons In addition higher cash management fees helped support expansion in overall revenue margins by 0.04% to 0.36% of overall FUA. • The number of active advisers on its platform was up 15% to 4,011, comprising some 26% of the addressable market according to management disclosures. • Acquisitions were a feature of the result with its Tech Solutions business see 91% growth in underlying EBITDA and now consisting just over 24% of underlying Group EBITDA. • Lastly management updated their FUA guidance (excluding PARS FUA) to $92 billion -$100 billion for FY25 implying an ambitious growth rate of over 23% p.a. for the next two years comprising a mix of net inflows and positive market movements. We note that a $50 million share buyback and a 62.5% increase in its full-year dividend payout will further bolster shareholder returns.
Our comments	• Overall, this was a strong result for Hub24 as the company continued to take market share from legacy players and benefit from greater scale with expanding profitability. • The business remains well-positioned to take further share given its still relatively small size versus larger, legacy offerings. • The Tech Solutions division has potential to continue adding ancillary revenue and profitability to the core platform business. Hub24 has been ambitious in the scale of its acquisitions in this space and used its shares effectively to help fund these, taking advantage of its relatively more premium valuation. • The concern though will be twofold, firstly in terms of realising synergies and effectively consolidating these acquisitions. The second concern will be whether in its hands it can achieve meaningful earnings growth from this collection of businesses. To take one example, Class, this was historically a profitable business that had an attractive industry niche but struggled substantially to grow beyond its initial use case (SMSF management software). Hub24 has a larger customer base, and we will be monitoring its execution in this space closely given the material (>20%) contribution it makes to overall earnings. • The overall business will remain sensitive to market ructions particularly as it grows in size with new inflows less able to offset market corrections in growing overall FuA. Over the medium term we remain confident that it will grow both earnings and dividends at a rate materially above the broader market.

NIB Holdings (NHF: AU)[10]

Share price	8/9/23: $7.62
Result	FY2023
Revenue	$3.1 billion, up 10.9% on the pcp.
Underlying EPS	$0.414, up 39.9% on the pcp.
Key points	• NIB saw a strong result in FY23 with both revenue and EPS beating consensus expectations by 0.5% and 1.2% respectively. • Its core Australian health insurance (arhi) business saw its highest net policyholder growth in over 8 years at 4.7%, more than double the estimated industry rate according to management. • The arhi business saw underlying profit decline 7.3% for the year with a net margin of 8.9% still well above target levels of 6-7%. This is due to deferred claim lodgement and COVID-19 restrictions on medical procedures. Management is still expecting a gradual decline in profitability to its 6-7% guidance as healthcare usage normalises. • Importantly other business segments showed a marked recovery from a lockdown affected FY22 with nib Travel's revenue and operating profitability at their highest level since 2015 with an underlying operating profit contribution of $14 million, up from a $7.4 million loss in FY22 as we saw increased passenger traffic globally with both domestic and international markets seeing growth. • Investment returns also supported the overall result with a $54.7 million contribution to pre-tax profits, a sizeable improvement from a $30 million loss in FY22. • Lastly its new division, nib Thrive, saw substantial growth by acquisition with over 27,000 National Disability Insurance Scheme (NDIS) participants supported by its plan management businesses. Management maintained their goal to hit 50,000 by FY25 with early FY24 acquisitions already expected to take participant numbers to around 37,000. This business delivered a promising albeit small underlying profit of $3.1 million on revenue of $14.6 million in FY23, a margin of 21.2% which is expected to improve as additional scale is reached with synergy targets also achieved. • Management guided to net policyholder growth of 3-4% for its arhi health insurance business and expectations of rising claims costs to see margins approach the 6-7% target. Its other segments are expected to perform strongly supported by increased travel as well as new student and worker entrants into Australia while synergies and further consolidation is expected to improve profitability for nib Thrive.
Our comments	• This was an encouraging result for NIB as the business is seeing benefits from COVID-19 (that saw restrictions reduce claims costs) unwind and be offset by improved operating performance in its other divisions. • The business is well-positioned to capitalise on rising population growth with its various segments leveraging off strong underlying demand for health services. • Two notes of caution in the results were first, the profitability of its core health insurance business which should continue to decline as claims cost normalise. This has been well-guided by management and should be largely offset by results achieved in other segments. • Second, the long-term profitability of nib Thrive remains in flux until the current acquisitions are consolidated. A large-scale acquisition program carries risks of overpaying for targets as well as operational challenges in realising synergy benefits. FY23 profit margins are promising and further growth while keeping costs controlled will be important in proving out management's growth strategy in this space.

Rio Tinto Ltd (RIO: AU)[10]

Share price	8/9/23: $110.93
Result	1H 2023
Revenue	US$26.7 billion, down 10% on the pcp.
Underlying EPS	US$3.529, down 34% on the pcp
Key points	• Rio Tinto saw a relatively disappointing decline in results driven predominantly by falling commodity prices. Stronger operational performance in iron ore, where the business grew volumes by 6% helped partially offset the 11% decline in prices but saw overall revenues still down by ~5%. Higher inflation in input costs such as diesel prices also contributed to the decline in profitability. • The results slightly exceeded consensus expectations for revenue by 3.4% but missed on EPS by 1.1%. • Management flagged longer-term targets for its Mongolian operations at You Tolgoi which now represent ~25% of Group assets and is expected to increase production to 500kt of copper production from 2028 and become the world's 4th largest copper mine by 2030. • Ambitious capital spending is expected for the second half and beyond into 2025 with $US7 billion in FY23 and up to $10 billion in each of FY24 and FY25. A material portion of this will be growth spending particularly its Simandou development in Guinea that will be a new, sizeable iron ore mine underpinning its Pilbara and Canadian assets.
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 were also factors given the exposure to fluctuations in market prices for diesel as an example. • 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. Given the expectations around demand over the medium term these should underpin earnings growth going forward. • Oyu Tolgoi will be a focus in coming years, given the capital already sunk into the operations there and 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. This being said, the business has accounted for a substantial amount of cashflows generated by its other profitable divisions and there is no guarantee further cost blow-outs might occur even as sustained production has begun. On the flipside however the critical use cases of copper remain intact particularly its industrial uses which should continue to underpin pricing over the medium term particularly given the limited supply coming onto the market over the same period. • 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)[10]

Share price	8/9/23: $23.50
Result	FY23
Revenue	US$4.223 billion, up 18% on the pcp (+21% in constant currency terms).
Underlying EPS	US$6.44, up 11% on the pcp.
Key points	• The business saw a strong result in FY23 with double-digit growth in both revenue and underlying EPS. • This growth was underpinned by demand for both its sleep apnoea treatments and the connected software offerings with the latter enjoying high single-digit organic growth. • Gross margins showed weakness however with a decline of 1.2% to 56.5% driven by unfavourable product mix and higher input cost inflation. These were only partially offset by higher selling prices. • Management maintained their longer-term target of improving overall patient treatment numbers from over 160m in FY23 to 250m in FY25. • The company also announced the acquisition of Somnoware, a leading sleep and respiratory care diagnostics software provider to deepen its current offerings. The plan is to keep this software available as an open platform that will complement Resmed's devices.
Our comments	• One concern that emerged during August was investors' fears regarding weight-loss drugs such as Novo Nordisk's Ozempic and their potential to help combat obesity which is a driver of sleep apnoea (a chronic condition treated by Resmed's devices). This coupled with the miss against earnings expectations saw shares sell off sharply. • In our view the underlying performance remained strong, and we would note that the extrapolation being made by some investors may ultimately be premature. It arguably parallels our experience with Universal Music Group earlier in the year where concerns over AI-generated music contributed to a 20% decline in its share price before ultimately recovering. • We are closely monitoring the situation and management's remarks to understand what structural damage (if any) is expected from these weight-loss treatments and will evaluate the business in due course on that basis.

South32 Ltd (S32: AU)[10]

Share price	8/9/23: $3.29
Result	FY2023
Revenue	US$4.52 billion, up 0.4% on the pcp.
Underlying Earnings	US$0.56 billion, down 44% on the pcp.
Key points	• South32 missed slightly on underling earnings (3.5% below consensus) and revenue (6.6% below consensus) for its FY23 results. • The company had similar challenges to other major miners with declining commodity prices the key driver of declining profitability. Other challenges included higher input cost inflation from labour costs as well as higher energy prices. • The underlying business units were challenged by reduced production from its Brazil Alumina segment as these assets transition to cleaner-energy powered furnaces which is expected to recover materially in FY24 and FY25. Another disappointment was the impairment on its US exploration efforts with higher-than-expected costs required to proceed further due to labour cost inflation and dewatering expenses (to make the site viable for further exploration). • Management issued guidance expecting volume growth across its aluminium and base metals asset with metallurgical coal weaker due to necessary capital works for further mining. • Cost pressures are also expected to persist into FY24 due to a mix of higher energy and labour costs although there is scope for reduction due to operational improvements and sensitivity to other input costs (such as fuel prices). • Finally in its outlook management cited positive dynamics for its portfolio including a reduced supply backdrop in aluminium and limited new mine development for copper relative to the demand for both commodities which is expected to support pricing over the medium term.
Our comments	• Overall, South32 navigated the current period as would be expected for a commodity producer. There is limited scope to protect against falling commodity prices besides working to contain operating costs and producing higher volumes to offset the impact of lower pricing. • The capital return efforts remain a key theme of S32 with management reducing outstanding shares by 15% since listing in FY17 and anticipating a further US$133 million in shareholder returns via dividends and buybacks by March next year. • One concern will be on cost discipline and ensuring any future cost overruns remain contained particularly after the impairment taken on its US operations. The favourable geopolitical backdrop (developing energy transition resources is a strategic priority in the US) should offer a measure of support but ultimately cost discipline will be key to ensuring a profitable mine is ultimately established.

Transurban Group (TCL: AU)[10]

Share price	8/9/23: $13.15
Result	FY2023
Revenue	$3.3 billion, up 26.2% on the pcp.
Free Cashflow	$1.7 billion, up 44.5% on the pcp.
Key points	• Transurban saw a strong result in FY23 as a recovery in traffic volumes from a lockdown affected FY22 saw revenue and free cashflow surge. Full year traffic volumes are now at a record high across all locations excluding Melbourne. • Average daily traffic (ADT) was up ~20% across its toll road portfolio which saw a 26% increase in toll revenue, the latter bolstered by inflation-linked pricing mechanisms. EBITDA, a profitability measure, was also up strongly, growing 28.9% for the year with EBITDA margins expanding from 68.8% to 71% over this period. • Prudent capital management saw its financing costs rise only slightly from 3.9% to 4.1% in FY23. Meanwhile the majority of its revenues are expected to continue growing at or over 4% p.a. thanks to inbuilt floors in its toll road agreements (taking the greater of CPI or 4% as an example). • The business successfully delivered the M4-M8 link in Sydney both on budget and ahead of schedule with further works underway on new Sydney opportunities. In addition, it is engaging with the ACCC over the potential acquisition of the Eastlink motorway in Melbourne to further diversify its toll road portfolio. • FY23 saw a strong surge in distributions (up 40%), bolstered from the bounce back as lockdown restrictions ended. FY24 is marking a return to more normal circumstances but distributions are still expected to be up 7% to a record high of $0.62 per share. • Michelle Jablko has been promoted from CFO to the new CEO effective 19 October 2023 after a long history of CFO responsibilities including at ANZ. This is the first internal successor at Transurban, and a major focus will be on navigating concerns over rising costs of living and how to address these without unduly impairing business profitability.
Our comments	• This was a strong result for Transurban and was expected to be given the impact of lockdown restrictions in depressing FY22 performance. • The outlook remains positive with inflation-linked revenue underpinning distribution and earnings growth for FY24 with a high degree of confidence. • Risks lie in construction cost overruns for existing projects as well as any political pressure to combat rising toll costs, particularly in Sydney where the bulk of the Transurban portfolio lies. While the company is being proactive on political engagement it may be a potential headwind if political pressure compels new concessions to be made for motorists. • Another risk is whether a slowing economy may see increased diversion away from toll roads although the critical nature of these locations, strong population growth projections and sizeable commercial usage should help combat these. • Overall, we see Transurban as a well-positioned provider of vital infrastructure that coupled with its strong pricing power should see it strongly compound both earnings and distributions over the medium term.

Telstra Group Ltd (TLS: AU)[10]

Share price	8/9/23: $3.92
Result	FY2023
Revenue	$23.2 billion, up 5.4% on the pcp.
Underlying EPS	$0.167, up 16% on the pcp.
Key points	• Telstra had a mixed set of FY23 results with revenue slightly below consensus expectations (-0.5%) while underlying EPS finished above consensus (+2.1%). It also lifted its full-year dividend payout by 3% to $0.17 per share, a trailing cash yield of 4.2% (grossed up yield of 6.1%). • Underlying EBITDA growth of 9.6% was in line with the higher end of full year guidance for FY23 while revenue growth was at the bottom end of the guidance range. EBITDA growth was driven by results in its Mobile segment as well as the Digicel Pacific acquisition in July 2022. Excluding Digicel, underlying EBITDA grew 5%. • Mobile was a key performer in 2023 with growth across all products and segments that saw top line expansion of 8.3% and underlying EBTIDA up 15% with net growth in subscribers as well even with price increases. • Revenue growth in its fixed broadband offerings remains challenged due to high competition reducing margins and leading to customer churn. • International business EBITDA growth of 84% was flattered by the acquisition of Digicel. Excluding this impact EBTIDA growth was up 5.7% on an underlying, constant currency basis while Digicel Pacific saw 5% EBITDA growth in constant currency terms. • One potential catalyst for share price growth in recent years has been building expectations that Telstra's corporate reorganisation would pave the way to sell off certain infrastructure assets at a premium valuation, realising value for shareholders. This now appears unlikely with management reiterating that it sees the best option at present is retaining ownership for the medium term. • Management issued FY24 guidance for growth of 2.6% and 3.75% for revenue and underlying EBITDA respectively.
Our comments	• Overall, this was a mixed set of results and based on the price reaction (down 2.8%) on the day of release one that disappointed investors. • The recovery in overseas travel and price increases pushed through its Mobile segment were an important driver of overall earnings growth whilst the Digicel acquisition (assisted with Government support) also helped bolster earnings growth. • The move away from potential divestments of its infrastructure assets is also somewhat disappointing as it takes away a potential catalyst for shareholders to gain short-term value from asset sales and subsequent returns of capital from the profits generated. The onus is on management now to generate stronger returns on these assets going forward after a mixed FY23 performance where underlying EBITDA grew 3.9% (only 0.1% if commercial & recoverable works are included). • Telstra is overall positioned to continue growing earnings in mid-single digits and returning capital to investors. It is current trading at 7x Forward EV to EBITDA (a valuation ration), towards the upper end of its 10-year range. It may experience further share price pressure if results do not deliver against guidance but given its pricing power and market dominance this should be achievable in our view.

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.

Aena SME SA (AENA: EU)[11]

Share price	8/9/23: €1144.90
Result	HY23
Revenue	€2.33 billion, up 24.1% on pcp.
Underlying EBITDA	€1.17 billion, an increase of 49.5%.
Key points	• Aena surprised on the upside with both revenue and underlying EBITDA for the first half of 2023. • A key driver of the improvement was a recovery in travel from pandemic lows with passenger traffic of 129.4m across their network, an increase of 23.4% on HY22. • This recovery in traffic had a flow-on effect for ancillary services such as car hire, retail outlets sitting within its Commercial division which saw 27.9% revenue growth on pcp. • Its average interest rate rose 0.9% following interest rates hikes by the ECB but remain low at 1.9% reflecting the longer-duration of its asset base and its high credit quality enabling it to borrow at attractive rates. Only 27% of its debt issuance is variable, offering a shield against further rate hikes. • Even more economically challenged jurisdictions such as the UK saw marked improvement with Aena's London Luton airport experiencing EBITDA growth of 47.5% on pcp. It also saw improved profitability with an EBITDA margin of 41.6% compared with a pre-COVID level (HY19) of 37.4%. The improvement in profitability reflects the pricing power of this asset and the ability to weather higher inflation by passing on these costs to passengers and businesses.
Our comments	• 2023 has seen a strong start to the year where pent-up travelling demand has underpinned strong passenger growth across the Aena airport network. • The question after this year is twofold. First how will demand respond to a full year of higher interest rates and second has pricing power been retained in the post-pandemic world? • On demand, this continues to hold up well with the number of passengers now marginally above 2019 (pre-pandemic) levels. Management also held to its guidance for 2023 passenger volumes, targeting 94% to 104% of 2019 levels and remains optimistic for the rest of the calendar year in line with peers. • On pricing power, management approved a 4% hike to the adjusted annual maximum revenue per passenger for 2024. This should continue to underpin top line and earnings growth going forward even if volumes see some signs of weakness. • Overall, this marked a strong start to 2023 and despite obvious headwinds such as weaker economic growth in Europe, demand has remained resilient which should underpin further earnings and dividend growth for the year ahead.

Apple Inc (AAPL: US)[11]

Share price	8/9/23: US$177.56
Result	Q3 FY23
Revenue	US$81.8 billion, down 1% on the pcp.
Underlying EPS	US$1.26, up 5% on the pcp.
Key points	• Outperformed consensus expectations with stronger-than-expected revenue and earnings (4.6% above) results for the quarter. • The June quarter historically has been a weaker one for iPhone sales and the 2023 experience was no different. A key driver of the stronger-than-expected results was the continued strength of the Services division which saw revenue reach an all-time high. Services now encompasses over one billion paid subscriptions ranging from streaming music to software applications in the App store. • iPhone sales of US$39.7 billion missed estimates as the business is still comparing against strong demand for devices in 2022. In addition, the smartphone market is struggling in the US in general with the iPhone taking market share despite its more premium pricing approach. This has had a side benefit however in terms of lower input costs given overall market weakness, helping improve profitability. • iPhone sales in China were a rare source of strength with double digit sales growth according to CEO Cook in contrast to an overall market decline of 8% for the June quarter. This was due to a record quarter of consumers switching to the iPhone as well as strong demand from consumers upgrading their existing devices. • One disappointing aspect was CFO Luca's guidance for the September quarter flagging a similar drop off in revenue, below consensus expectations for flat growth. • The company also picked up its research and development spending, US$22.6 billion for FY23 year-to-date, over US$3 billion higher than the similar period in FY22. Spending on generative artificial intelligence was a notable driver of the uptick. To date these initiatives have not led to material product results to broaden the Apple offering.
Our comments	• Elongated upgrade cycles (longer periods between moving consumers onto the next iPhone) remain a challenge for the business in terms of improving overall revenue growth. The other challenge has been just how big a beneficiary of pandemic-induced demand its smartphones were. • Offsetting these challenges on the hardware side has been the growth of its Services ecosystem and its ability to lock consumers once they join. Churn (people leaving the ecosystem) has remained markedly low, and this coupled with a lower cost-to-serve has underpinned margin expansion for the overall business. • Overall, the limited volume growth in iPhone sales has been a point of concern. The business continues to be managed well in aggregate, but it is clearly taking time for product demand to reset before we begin to see positive volume growth. A new upgrade cycle for the iPhone could be critical in that regard given the macroeconomic headwind of a rising cost of living that may weigh on discretionary spending in the near term. • Another area that we continue to monitor is the develop of new products as a result of the company's R&D spend to see if these will yield attractive returns such as augmented reality (Vision Pro). This is an area still in its nascency but

[11] Company Transcripts, Reuters and Bloomberg

	could be an important source of positive sentiment if a new product vertical is able to be developed.

Abbott Laboratories (ABT: US)[11]

Share price	8/9/23: US$100.67
Result	Q2 FY23
Revenue	$US10.05 billion, down 11.4% on the pcp (up 11.5% on organic basis excluding COVID-19 test sales).
Underlying EPS	$US1.08, a decrease of 22% on the pcp.
Key points	• Strength in surgical procedure volumes during the June quarter drove sales of medical devices and more than offset higher costs from raw materials and staff. Organic sales growth of 14.2% for division was bolstered especially by its glucose monitoring system FreeStyle Libre which saw 24.7% growth to $US1.3 billion in global sales. • This positive result drove a beat on quarterly profit estimates with adjusted EPS of $US1.08 per share compared to consensus expectations of $US1.05. • In addition, the outlook remains strong for both device and non-COVID-19 testing demand as hospital visits normalise with the company expecting the recovery in non-essential surgeries to be sustainable in the near term supporting revenue growth. • Recovery in the nutrition segment is on track with management stating it had recovered 75% of the market share lost as a result of shutting down its Michigan plant last year. This recovery helped drive organic sales growth of 9.9% vs pcp. • Finally, management maintained its full-year adjusted EPS guidance of $US4.40 despite now expected a lower contribution to earnings from COVID-19 testing sales. In addition, it upgraded guidance for organic sales (excluding COVID-19 testing) to be in the low double-digits, an improvement on its April update.
Our comments	• Abbott was one of many companies that benefitted from the pandemic. In its case boosting sales of COVID-19 tests. This is rapidly retreating particularly after the US government ended the emergency status of the pandemic as of 11 May earlier this year. • Thankfully however we are seeing a pronounced bounce back in surgical volumes leading to a recovery in Abbott's medical device segment with stronger-than-expected demand offsetting weaker sales of COVID-19 tests. • In addition, in Nutrition, the company has worked hard to recover market share and we should see this normalise further over time, helping boost both revenue and earnings growth. We do caution however the potential for adverse development in this space due to ongoing legal action over safety concerns in its infant formula products (which triggered the initial shutdown). In addition, there are reports of a regulatory probe into potential collusion with other businesses bidding for state contracts on baby formula. • Overall, the business is effectively navigating to a post-pandemic world and emphasising its strengths in medical device innovation which should see it continue to grow earnings and dividends strongly over the medium term (consensus anticipating 8.3% EPS growth p.a. until 2026).

American Water Works (AWK: US)[11]

Share price	8/9/23: US$137.71
Result	Q2 FY23
Revenue	$US4.82 billion, up 9.8% on the pcp.
Underlying EPS	$US1.44, an increase of 17% on the pcp.
Key points	• AWK saw a strong result in the June quarter with revenue and underlying EPS exceeding expectations by 8.1% and 10.5% respectively. • Favourable weather had a sizeable contribution on the EPS beat adding US$0.07 as drier-than-expected conditions saw higher water usage. • The larger component however came through higher pricing and a larger regulated asset base with recent rate filing decisions helping recover over 75% of cost inflation. A further US$555 million of acquisitions were under agreement as of 30 June which should underpin revenue growth for the second half. • Management maintained its 2023 for EPS growth of 7.2% on an underlying basis (this excludes the favourable weather impact experienced in the June quarter).
Our comments	• The substantial capital raising this year should continue to lay the ground for additional investment and earnings growth. • The value of its water infrastructure assets including embedded inflation protections has been showcased even in a tougher interest rate regime for the US. • One near-term risk may be share price sensitivity to further interest rate hikes but infrastructure assets unlike global real estate have proven to be far more resilient in terms of the price investors have been willing to play. The critical value of their assets coupled with the ability to increase prices in line with inflation quickly has been a key driver of the divergence. • Overall AWK is well-positioned to continue expanding earnings and dividends with the latter on track for 8% growth in 2023, consistent with the long-term target of 7-9% growth p.a.

Adobe (ADBE: US)[11]

Share price	8/9/23: US$560.46
Result	Q2 FY23
Revenue	$US4.82 billion, up 9.8% on the pcp.
Underlying EPS	$US3.91, an increase of 17% on the pcp.
Key points	• Adobe surpassed expectations for the three months ending May with both revenue and earnings per share ahead of consensus expectations by 1% and 3.3% respectively. • CEO Narayen upgraded the full-year profit forecast to US$15.70 per share, a 1% improvement on its March update and is targeting full year revenue of $19.3 billion representing 9.8% growth on FY22. He cited Adobe's generative AI technology, Firefly, as an important driver of the upgrade contributing to improved sales of its creative cloud products with over 0.5 billion generations in its first 3 months since launching as a beta (trial) product. • Segment performance was strong overall with the two core divisions, Digital Media and Creative, both growing revenue 14% in constant currency terms. Document Cloud also saw a similar level of revenue growth. • Currency remained a drag on results with overall revenue up 13% if currency was held constant as opposed to the 9.8% reported. • There was no material update on its acquisition of rival Figma which is expected to clear regulatory challenges and close by the end of 2023.
Our comments	• Adobe continues to perform well as it exercises pricing discipline and deepens its product suite to enable revenue growth and profit margin expansion. • While the core business continues to remain "sticky" with customers we would like to see definitive progress on the Figma acquisition to help deepen customer lock-in and head off the longer-term competitive threat. This remains a lingering risk until the necessary regulatory clearances are obtained. • Artificial intelligence is also emerging as a source of increased customer demand as the take-up for its beta solution, Firefly, illustrated in a short space of time. It will also be a source of ongoing investment spending, but we take comfort in management's emphasis on profitability in their statements to the market that it will not come at the cost of materially reduced profitability. • Lastly new customer wins such as JP Morgan and Volkswagen are a welcome confirmation of the attractiveness of the Adobe product suite. We do draw some caution however on the macroeconomic headwinds to business technology spending which are beginning to see projects being delayed and were noted by management in this latest of results. This may lead to reduced spending next year and pose a headwind to growth.

Alphabet Inc. (GOOGL: US)[11]

Share price	8/9/23: US$135.26
Result	Q2 FY23
Revenue	$US74.6 billion, up 7% on the pcp (up 9% in constant currency terms).
Underlying EPS	$US1.44, an increase of 19%% on the pcp.
Key points	• Overall advertising revenue rose 3.3% on pcp to US$58.1 billion, an acceleration on the previous quarter. • YouTube revenues saw a return to growth, driven by brand advertising with revenue of US$7.7 billion, up 4% on the pcp. This exceeded consensus expectations even as Alphabet contends with the rise of TikTok in the short-form video space. • Google Cloud maintained profitability (albeit flattered by changes to depreciation expenses to start 2023) with strong revenue growth of 28% year-on-year. Management noted increased customer interest in AI solutions for this space as a source for future growth but also flagged near-term headwinds from customers looking to optimise their technology spending • Other Bets, the division comprising Alphabet's venture-style investments such as self-driving car business Waymo, continues to be loss making at US$0.8 billion even with a 48% increase in revenues to US$0.3 billion. • The company flagged signs of stabilising advertiser spending on YouTube as well as the expansion of new features to improve monetisation. YouTube subscriptions are also emerging as a strong source of revenue growth with new subscriber additions even with increased pricing. • The overall improvement in profitability was driven by two factors. First the acceleration in Search advertising revenue growth. Second was the renewed focus on cost discipline including reduction in headcount (the firm had arguably over-hired in the wake of strong demand during the pandemic) and lowering real estate overheads by adjusting office usage in line with reduced staff numbers.
Our comments	• Overall, this was a welcome result. The core part of the business, Search, saw growth continue to resume after comparing against abnormally strong periods of demand during lockdown restrictions. It should underpin continued growth, bolstered by Cloud and other offerings at an attractive valuation in our view for a dominant global player. • In addition, both Google Cloud and YouTube subscriptions are functioning as important sources for both top line growth and profitability. • Of potential concern with the YouTube result is whether the business has adequately "figured out" navigating the challenges of Apple's App Tracking Transparency protocol (which allows blocking app tracking for advertising purposes) for more directed advertising opportunities. As a testament to that we have seen a material slowdown in YouTube revenue growth since late 2021. The latest quarterly result was welcome but given its driver was brand advertising as opposed to more directed, targeting options it remains unclear how sustainable this uptick will be going forward. The ability to push through price increases and grow subscribers should help offset any structural slowdown in advertising revenue growth here. • AI was a feature of the earnings call showcasing its use in empowering new product offerings but there was limited, concrete information to illustrate the revenue or earnings impact to date. The strength in core search advertising has helped negate a narrative around ChatGPT helping Microsoft's Bing take material market share.

	• Finally, after a period of largesse due to surging demand in the pandemic, cost discipline has emerged as a larger priority. This has bolstered profitability and should be supportive of earnings growth going forward.

Johnson & Johnson (JNJ: US)[11]

Share price	8/9/23: US$160.03
Result	Q2 FY23
Revenue	$US25.5 billion, up 6.3% on the pcp.
Underlying EPS	$US2.80, an increase of 8.1% on the pcp.
Key points	• Management upgraded guidance for operational sales (adjusted for currency movements and COVID-19 vaccine sales) as well as underlying earnings per share. Sales growth is increased to be up 6.5% for the year (versus earlier guidance of 5%) while EPS will be up 5% (versus 4% guidance previously). • In a manner, similar to peer Abbott, J&J saw strong demand for products from its MedTech segment driving growth for the quarter which topped consensus expectations on both revenue and earnings. • This division benefitted from a surge in demand for non-urgent surgeries that had been deferred during the coronavirus pandemic and saw adjusted revenue growth of 9.9% (after controlling for currency impacts and the net effect of any acquisitions or divestments). • The Dec-22 acquisition Abiomed, a cardiovascular medical device business, helped fuel MedTech growth due to increase demand for heart monitoring solutions. • Separately its pharmaceuticals division saw 3% growth driving by several drugs including the impact of reduced sales for its COVID-19 vaccine. Growth was 6.2% if COVID-19 vaccine sales and currency impacts are accounted for. CEO Duato highlighted its progress on new drugs and maintained confidence it would reach a 2025 sales target of US$57 billion for the division. • Claims of the company's talc products remain a lingering issue with a second attempt at resolving lawsuits now underway in New Jersey courts to settle existing claims and prevent further new cases from proceeding. • Finally, management subsequently executed the divestment of the bulk of its Consumer Health division (now called Kenvue) after results via an exchange offer with shareholders. This saw 191 million J&J shares exchanged for 1.5 billion Kenvue shares at an approximately 5% discount with J&J now retaining only 9.5% of the outstanding shares of Kenvue.
Our comments	• The overall result for J&J was encouraging particularly the upgraded guidance for 2023 and flagging confidence in its pharmaceutical pipeline which is still cycling a period of vaccine demand that is now largely past. • The overall strength in Medtech should continue to support the stock as a gradual compounder going forward supported by the development of new drugs for its pharmaceutical division. • Lingering talc claims will continue to be a source of angst for investors and may pose a headwind to its valuation until definitively resolved.

Microsoft Corporation (MSFT: US)[11]

Share price	8/9/23: US$329.91
Result	Q4 FY23
Revenue	$US56.2 billion, up 8% on the pcp (up 10% in constant currency terms).
Underlying EPS	$US2.69, an increase of 21% on the pcp (up 23% in constant currency terms).
Key points	• Microsoft recorded a strong result to end FY23 with the company beating consensus expectations on both top line and earnings outcomes. • A key driver was its Intelligent Cloud division which saw the top line grow at 17% in constant currency terms driven by Azure and other cloud services that were up 27% for the period. • There was also strength in its Productivity and Business Processes segment (encompassing its Office product suite, LinkedIn amongst other solutions) with revenue up 12% in constant currency terms. • Currency remained a slight headwind detracting 2% off both top line and earnings growth for the quarter. This is expected to reverse in 2024 with currency contributing 1% to revenue growth. • The company emphasised the strength of artificial intelligence (AI) demand it was seeing amongst its customer base and its focus on delivering new AI-driven solutions to clients. These include its Copilot assistant for Microsoft 365 as well as plans to sell cloud computing services to enable other firms to build AI products. • Essentially management is excited at the growth potential for this space and expects to grow investment spending each quarter through FY24. It is aiming to be measured in overall cost growth with operating costs growth forecast to remain low in its guidance and operating margins expected to be maintained. Its guidance highlighted the deferred nature of an “AI dividend” in terms of boosting earnings. Meaningful contributions are anticipated to be delayed until the second half of FY24 for products such as Copilot. The business has also begun to integrate AI functionality across its product range to address both client demand (developers and users) as well as increase their utility value. • Lastly on Activision management confirmed it remained confident it would be able to complete its Activision acquisition despite regulatory challenges compelling Microsoft to extend its deadline to October.
Our comments	• Microsoft is emerging as a well-placed player to provide both “picks and shovels”, the tools necessary to power AI services, as well as improving its own product suite with AI tools. Management clearly sees a large opportunity as flagged by the capital spending targets but one that is less immediate in nature with limited monetisation flagged for the upcoming financial year. • The core business remains impressively profitable with Azure Cloud a strong growth engine albeit with growth decelerating from its pandemic highs. • The business also continues to be disciplined in capital returns to shareholders via a mix of dividends and buybacks which should help underpin share price appreciation going forward. • Overall the stock remains well-placed to continue growing earnings strongly via its cloud solutions and AI offers a further tailwind to future growth that should continue to underpin the stock over the medium term.

Nestle S.A. (NESN: CH)[11]

Share price	8/9/23: CHF 105.20
Result	HY23
Revenue	CHF 46.3 billion, up 1.6% on the pcp (up 8.7% on constant currency basis).
Underlying EPS	CHF 2.43, an increase of 4.3% on the pcp (up 11.1% on constant currency basis).
Key points	• Nestle recorded another strong half to begin 2023. The business continued to leverage its brand power in pushing through pricing hikes to offset higher input costs. • On a constant currency basis, sales growth continued to be led by emerging markets which were up 9.6% versus 8% for developed markets. That result was largely price driven however with volumes flat for emerging markets and slightly negative (down 1.4%) for developed market customers. • Management flagged an improvement in volume growth for the second half of 2023 driven by increased marketing, moderating price hikes and the net impact of optimising its product portfolio. • Currency movements were a notable drag on results however, reducing revenue and earnings growth by 6.7% and 7% respectively for the half. • Finally, the company upgraded full year guidance with organic sales growth of 7.5% and EPS growth of 8% (both in constant currency terms). This was a slight improvement on prior revenue guidance of 7% growth (on a midpoint basis).
Our comments	• Overall, this was a strong result to start the first half. This was one of many companies to derate in 2022 as growth slowed from its heights during the pandemic. Inflation also posed a material challenge to growing volumes given the need to hike prices to maintain profitability. • We think Nestle trades at an attractive valuation relative to its fundamentals and longer-term averages. Currency headwinds are notable but looking past them the underlying business has weathered this period well and looks set to continue compounding earnings growth and return capital to shareholders over the medium term. Share buybacks as an illustration supported 1.2% of the growth in EPS (on a constant currency basis). • A return to growth in underlying volumes remains critical as we look ahead. Consumer appetite for price hikes cannot be tested indefinitely particularly as we start to see inflation moderate. This remains an area we will closely monitor to see if management can get it back on track going forward.

Novo Nordisk (NOVOB: DK)[11]

Share price	8/9/23: DKK 1352.60
Result	HY23
Revenue	DKK 107.7 billion, up 29% on pcp (30% in constant currency terms).
Underlying EPS	DKK 17.41, an increase of 44% on pcp.
Key points	• Novo Nordisk saw strong revenue growth of 37% in its Diabetes and Obesity Care businesses for the first half of 2023. This was concentrated in its GLP-1 products and obesity care with growth rates of 50% and 157% respectively. An offsetting factor was the Rare Disease segment which saw revenue decline by 18% over the same period. • Obesity care sales were driven by its Wegovy drug especially in the US where it accounted for the vast majority of branded prescriptions. Management flagged further supply chain investment to ease restrictions on lower dose options and a staggered rollout in other overseas jurisdictions to manage available supply relative to demand. • Overall global market share trajectories were somewhat mixed with Diabetes care up to 32.7% (up from 31% in 2022) while GLP-1 declined 0.7% over the same period to 54.1% and insulin share has held steady at 44.3%. Importantly regarding the GLP-1 trajectory this market is still expanding at a rapid rate and the current market share is still materially above 2021 levels. • Management also upgraded guidance across the board with sales growth of 30% for 2023 (up from a midpoint of 27%) in constant currency terms while operating profit is expected to be up 34% (upgraded from 31% growth) on a similar basis. • Finally management remains committed to returning capital to shareholders with a 30% upgrade to the interim dividend and a 25% upgrade to share repurchases for 2023 to date.
Our comments	• Overall, this was a promising result particularly with the upgrade to FY23 guidance. The result did however amount to a slight miss for the June quarter on both revenue and underlying EPS, the former due to weaker insulin sales, the latter partly driven by increased marketing of GLP-1 drugs. • A key driver of further growth will be improving supply with Wegovy in particular flagged as supply constrained relative to market demand. Assuming this can be gradually resolved it may offer scope for additional upgrades to guidance. • Other points of concern include the competitive threat posed by Eli Lilly's new drug retatrutide following promising study results in diabetes and obesity treatment. • Weakness in the Rare Disease segment is another risk factor we monitor albeit less material given the recent success in GLP-1 drugs with this division less than 10% of overall sales in the first half. It could prompt calls from other shareholders for the business to explore divestment options in the near term however. • Novo remains well-placed as a leading provider of diabetes and obesity care with a commanding market position. While there are competitive threats on the horizon from peers such as Eli Lilly we believe they are well-placed to take advantage of the current growth opportunity set and continue growing at a high rate and attractive margins over the medium term.

Universal Music Group (UMG: EU)[11]

Share price	8/9/23: €23.21
Result	HY23
Revenue	€5.148 billion, up 8.7% on pcp (9.1% in constant currency terms).
Underlying EBITDA	€1.122 billion, an increase of 15.6% (16.2% in constant currency terms).
Key points	• UMG saw slight gross margin expansion with the cost of revenue (including artist royalties and product costs) falling to 54.6% in HY23, down from 55.1% in the pcp. This was due to lower merchandising product costs. • Adjusted EBITDA margin expanded by 1.3% to 21.6% supported by a mix of revenue growth and operating leverage. Another factor was cash savings of €33m from an equity compensation plan rolled out at the start of the year. • The Recorded Music segment saw revenue growth of 10.3% in constant currency for HY23 compared to HY22. This was driven by 11.6% growth in subscription revenue while physical product revenue also rose an even stronger 20.8% in constant currency terms. Adjusted EBITDA rose 15.6% supported by revenue growth and operating leverage. • Artist success also continued apace with seven of the top 10 albums in the US for 2023 and similar success in the UK and Japanese markets. UMG announced the renewal of artist Karol G, one of the most successful Latin musicians with almost 80 billion global music streams so far as well as signing on another popular Latin musician and the Best New Artist at the 2023 Grammy Awards, Anitta. • One factor that emerged in 2023 is market concerns about the prospect of artificial intelligence (AI) being used to replicate and generate music that UMG held copyright over. Management flagged this in these results and its efforts to work with online platforms to ensure copyrights were protected. Subsequently the company is reportedly in talks with Google to reach an agreement over AI usage to ensure its rights are protected and adequately compensated. This could be another channel for revenue growth if AI-generated content becomes more widespread.
Our comments	• Overall, this result marked a strong start to 2023 with high single digit revenue growth and even better earnings expansion. The latter was flattered somewhat we would note by a shift from cash compensation for staff to equity compensation (which increases shareholder dilution). • The overall quality of the result was strong notwithstanding this factor with operating leverage and the quality of its artist catalogue continuing to underpin strong growth and profitability. • Efforts to improve the quality of its artist catalogue continue with retention and new signings helping pay multi-year dividends given the staying power of these works for consumers. • On the AI front management looked to combat a market narrative that had emerged over the competitive threat posed by AI-generated music. While it is still in its infancy UMG appears to be seeking a compromise with online platforms such as YouTube, Spotify and the like to ensure artist royalties continue to be monetised even if AI-generated music becomes a widespread medium. This could be analogous to how streaming helped to reduce the impact of piracy on the industry, but it remains early to make such definitive statements. • Finally, management flagged some potential upside from streaming platform pricing initiatives from late 2023. This refers to price increases by the likes of Spotify and Apple Music that should be supportive of further revenue growth going forward.

Union Pacific Corporation (UNP: US)[11]

Share price	8/9/23: US$210.57
Result	Q2 FY23
Revenue	$US5.96 billion, down 5% on the pcp.
Underlying EPS	$US2.57, a decrease of 12% on the pcp.
Key points	• The June quarter marked a disappointing result for Union Pacific with a 2.1% miss on top line growth and a further 6.5% miss on underlying earnings growth relative to consensus expectations. • The revenue miss was driven by a combination of lower volumes (down 2% on previous period), unfavourable mix of business and reduced fuel surcharge revenue. Higher prices helped partially offset these factors. • Operating ratio (a measure of costs relative to revenue) rose strongly by 2.8% to 63%. This was driven by a new labour agreement accounting for 1.1% of the increase while poor core results contributed 3.7%. A material offsetting factor (2%) came from weaker fuel prices. • Looking forward, management flagged weaker-than-expected volumes for consumer goods as the driver of a likely miss in its guidance for full-year volume growth. • This disappointing set of results and external fund manager pressure saw the Board move to replace CEO Lance Fritz with new CEO Jim Vena who had previously served as COO from 2019 to 2021. CEO Vena is seen as a proponent from improved operating efficiency (an area that the business had struggled in recent years) and a welcome appointment by the market with shares rallying over 10% on the day it was announced.
Our comments	• The Union Pacific result flagged the ongoing challenges that are besetting the business with pricing power only partially offsetting these factors. • The slowdown in consumer goods poses an additional concern with the company confirming it is unlikely to meet its guidance on full year volumes, pressuring revenue and earnings growth unless price hikes are able to offset the weaker volumes. Until these macroeconomic headwinds ease it will likely prove difficult for results to meaningfully improve in the short term. • New CEO Jim Vena has a strong reputation for operational improvement hence the push for his appointment by investors. The current economic environment may limit his ability to make a near term impact, but it is an overall positive to see the company respond to weaker business performance and should, over time, translate into stronger results.

Vinci SA (DG: EU)[11]

Share price	8/9/23: €102.50
Result	HY23
Revenue	€32.4billion, up 13.5% on pcp.
Underlying EPS	€3.65, an increase of 12% on pcp.
Key points	• Revenue growth of over 13% for the first half of 2023 was driven by Vinci's international businesses which saw an increase of 20% versus a 7% increase within France. Euro strength was a slight detractor of 0.6% on overall sales growth. Even in a period with additional acquisitions organic sales growth remained strong at 9.3% highlighting the heightened level of demand across its business units. • The Concessions division (a mix of highways and airports within France and overseas) saw revenue up 20% driven by its airport franchise with a 58% increase on the first half of 2022. • Demand from customers for its solutions in decarbonisation and IT transformation drove a strong result for the Energies business with revenue growth of 18% that saw all four of its underlying sectors (from building solutions to ICT) experience double-digit growth. • Vinci Construction saw 11% revenue growth driven by steady demand in civil engineering as well as its building segment where rehabilitation projects and hospital construction remain ongoing drivers. • Earnings before interest and tax (EBIT, a measure of profitability) rose 25% to €3.5 billion. This was driven by a result of €2.4 billion from its Concessions business (airport EBIT doubling to €0.8 billion). • Management updated its 2023 outlook indicating free cash flow at the upper end of the €4 billion to €4.5 billion range. It expects similar traffic levels across its toll road concerns to 2022 and further recovery in airport passenger traffic albeit with more to come in 2024 due to a longer-than-expected rebound in Asia. It also highlighted margin improvement across both its Energies and Construction division alongside improved sales growth with its overall order book reaching a record high of €61.5 billion, growing 9% for the year and representing over 13 months of average business activity, a testament to the underlying tailwinds supporting these businesses.
Our comments	• The strength of its Concessions business with more recovery still to come from the airport network should continue to underpin revenue and earnings growth through the cycle. Given the sizeable order book its more cyclical businesses such as Construction are well-placed to navigate a weaker macroeconomic environment. The resilience of its French operations in growing revenue 7% despite subdued economic growth highlights the essential nature of its assets and services. • This result was a welcome beat on both revenue and profitability that should lay the ground for another strong year after 2022. At current guidance, the stock is trading at a reasonably attractive valuation with a free-cashflow yield of over 7% that should support additional acquisitions or capital returns to investors with a consensus forecast yield of 4.3% this year.

Visa Inc. (V: US)[11]

Share price	8/9/23: US$247.14
Result	Q3 FY23
Revenue	$US8.1 billion, up 11.7% on the pcp.
Underlying EPS	$US2.16, an increase of 9.5% on the pcp.
Key points	• Visa continued to perform strongly with both revenue and underlying EPS coming ahead of expectations. • Resilience in consumer spending was a key driver with growth in both payments volume (up 9%) and processed transactions (up 10%). • Cross-border volume (up 17%) also continues to be a tailwind with rebounding travel activity and (Northern hemisphere) summer encouraging tourism spending. • US dollar strength dragged on results with an almost 1% headwind to revenue growth and a ~1.2% drag on earnings growth. • Processed transaction growth has slowed to ~10% but remains well above 2019 levels (by over 50%) • Visa announced the acquisition of Pismo, a cloud-native issuer processing and core banking platform for $US1 billion in cash. The company expects Pismo to help support customers with a suite of cloud-native APIs supporting additional capabilities such as banking ledger and issuer processing as well as additional products across multiple jurisdictions including Latin America and Europe. It marks the extension of another ancillary service offering as Visa looks to build new sources of revenue by upselling its existing client base particularly given stronger demand for digital solutions as many clients work to digitise their own processing platforms.
Our comments	• Visa continues to benefit from growth in spending globally as a key payments' platform and capital-light business with above-market earnings growth and returns on capital. • The company is also working towards further developing its services adjacent to payments processing. The Pismo acquisition is an important step in this journey, and we may expect to see more development (whether by acquisition or not) as Visa looks to stay close to its end-customers and maximise the value they are getting from its offering. • Capital return discipline is also remaining intact with over US$11 billion between share buybacks and dividends to investors for 2023 year-to-date thus far. This should continue to bolster shareholder returns by boosting earnings growth over time.

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