

# PORTFOLIO UPDATE

## Atlas Concentrated Australian Equity Portfolio

Monthly Report June 2022



- June saw a heavy sell-off in global equities, with most markets falling between -5% and -9% due to rising inflation and the prospects of a recession in the USA and Europe. The Australian market was one of the worst-performing markets over the month, dragged down by the mining and financial sectors.
- The **Atlas Concentrated Australian Equity Portfolio** declined by -5.9%, ahead of the benchmark's return in a very negative month. While most companies on the ASX saw their share prices fall in June, several key positions in the Portfolio had bucked the trend and had a positive month, benefiting from corporate activity or higher energy prices.
- In reviewing the past twelve months, Atlas is very pleased with the performance of the Portfolio, which generated a +1.1% gain that compares favourably against a -6.5% decline in the ASX 200. This was due to the strong performance of several key overweight positions and our investors benefiting from several companies in the Portfolio receiving takeover offers.
- Over the past 12 months, every company in the Portfolio paid a dividend, with 22 out of 24 increasing their dividends, a key measure for corporate health. Excluding the outlier companies that massively increased their dividends, Incitec Pivot and Woodside, the average weighted increase in dividends in the Portfolio was +27%.

	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	12m rolling	Inception % p.a.
Concentrated Aust. Equity Portfolio	1.7%	3.5%	0.1%	0.2%	-1.5%	1.7%	-5.6%	1.3%	6.2%	2.2%	-2.2%	-5.9%	1.1%	8.9%
ASX 200 TR	1.1%	2.5%	-1.9%	-0.1%	-0.5%	2.7%	-6.4%	2.1%	6.9%	-0.9%	-2.6%	-8.8%	-6.5%	7.1%
Active return	0.6%	1.0%	1.9%	0.3%	-1.0%	-1.0%	0.8%	-0.9%	-0.7%	3.1%	0.5%	2.9%	7.6%	1.8%

### Portfolio Objective

Our approach to investing in Australian shares is founded on fundamental company analysis earnings quality and sensible risk management principles. The objective is to build a portfolio of high-quality companies that can deliver consistent and growing dividends with easily forecastable earnings. The Portfolio focuses on companies with strong profit and dividend growth.

### Portfolio Details

Index	S&P ASX 200 Total Return
Number of Stocks	18 - 30
Asset Allocation	100% Equity
Inception Date	June 2016
Security Target	within 5% of S&P ASX 200 weights
Sector Target	within 10% of S&P GICS sector weights
Management Fee	0.44% per annum
Platform	Hub24/Netwealth
Code	ATL001

### Market Update

The key news in June was the RBA raising the official cash rate by 0.5% in early June to 0.85%. The quantum of this rise was higher than expected, along with commentary from the RBA suggesting further rate rises to avoid a 1970s-style wage-price spiral. Rising rates saw the banks sold off, though, in an economy with close to full employment; rising rates will see both expanding profit margins for the banks and low bad debt charges. Similarly, the mining sector was weak after iron ore fell by -12% on concerns about weaker Chinese steel demand amid pandemic lockdowns and declining construction activity.

### Top Ten Active Positions end June 2022

#### Positive

Amcor  
Ampol  
Transurban  
Atlas Arteria  
Incitec Pivot

#### Negative

BHP  
NAB  
Woolworths  
Rio Tinto  
Telstra

### Estimated portfolio metrics for FY23

	ASX 200	ACEP
PE (x) fwd.	16.5	13.1
Dividend yield (net)	3.9%	5.3%
Est Franking	64%	77%
<b>Grossed Up Yield</b>	<b>4.8%</b>	<b>6.8%</b>
Number of stocks	200	24
Avg mcap \$B	12	50
Beta (3mth rolling)	1.0	0.93

Source: Bloomberg & UBS

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### Portfolio Performance

In June, the **Atlas Concentrated Australian Equity Portfolio** outperformed the index, returning -5.9% ahead of the index's return of -8.8%. While finishing ahead of the index is always pleasing, it is hard for a fund manager to feel too triumphant when posting a negative absolute return over any period.

June was a tough month with few places to hide on the ASX, which was sold off heavily on concerns around rising inflation and an impending global recession. However, in the Portfolio, we found a few pieces of positive territory over the month, with Tabcorp (+14%), Atlas Arteria (+12%), Woodside (+7%) and Ampol (+3%) adding value. On the negative side of the ledger, positions in Westpac (-18%), Janus (-14%), and Macquarie Bank (-11%) detracted on no news.

### Year in Review

June caps off an excellent year for the **Atlas Concentrated Australian Equity Portfolio**, though a year that has frequently caused many fund managers to tear out their hair due to volatility.

The Portfolio generated a positive return of +1.1% for the past twelve months, significantly ahead of the ASX 200's fall of -6.5%. A few key positions did well, such as Woodside (+52%), Incitec Pivot (+46%), as well as portfolio stalwarts Ampol (+25%) and Amcor (+23%). Also, our investors benefitted from takeovers in Spark Infrastructure (30%) and CIMIC (+15%). On the negative side of the ledger, our banks' position hurt performance, with most of the pain coming in June.

The Portfolio's focus on income was a clear positive over the past year, with the Portfolio delivering an average +27% increase over 2021. This calculation excludes Incitec Pivot (+315%) and Woodside (+263%), which substantially increased their dividends on surging profits.

### Portfolio Trading

Over the month, the only Portfolio change was adding to Atlas Arteria (+12%), which is likely to receive a takeover offer after IFM revealed they had acquired a 15% stake in the toll road at \$8.10. Additional shares were bought in Atlas Arteria when the share price drifted below \$8.10. A significantly higher bid will be required for IFM to successfully takeover the company.

### Sector Exposure June 2022

GICS Sector	ASX200	ACEP	ACTIVE
Consumer Discretionary	7.5%	11.0%	3.5%
Consumer Staples	5.3%	0.0%	-5.3%
Energy	6.1%	8.1%	2.1%
Banks	22.9%	26.9%	4.0%
Diversified Fins	5.0%	13.9%	8.9%
Health Care	10.0%	11.2%	1.2%
Industrials	6.0%	8.4%	2.5%
Materials	22.7%	12.3%	-10.4%
Telecommunication Services	2.7%	0.0%	-2.7%
Listed Property	5.9%	2.2%	-3.7%
Utilities	1.5%	3.6%	2.1%

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