DNR Capital Australian Equities Income Portfolio

Performance Report April 2023

Performance

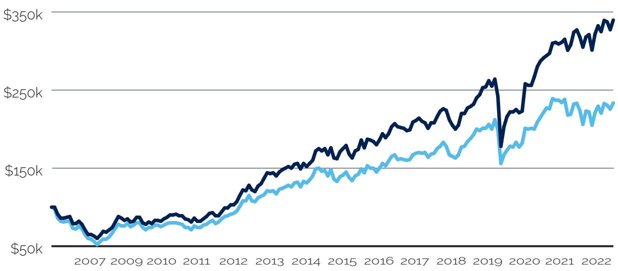
The DNR Capital Australian Equities Income Portfolio outperformed the S&P/ASX 200 Industrials Total Return Index by 0.29% in April. The Portfolio's dividend yield expectation for 2023 is currently 4.2% (5.5% grossed up for franking credits).

Gross active return as at 30 April 2023

	1mth %	3mth %	1yr %	3yr p.a. %	5yr p.a. %	7yr p.a. %	10yr p.a. %	Incep.* p.a. %
Income Portfolio	3.78	0.15	3.88	18.81	10.26	10.02	10.25	8.25
S&P/ASX 200 Industrials Total Return Index	3.49	0.30	0.28	11.73	6.78	7.32	7.36	5.65
Excess return	**0.29**	**-0.15**	**3.60**	**7.08**	**3.48**	**2.70**	**2.89**	**2.60**
Income Portfolio dividend yield incl. franking credits[1]	**0.00**	**2.31**	**6.60**	**7.58**	**6.82**	**7.19**	**7.96**	**7.26**
Franking %	0.00	73.7	80.6	75.2	75.7	74.2	73.3	71.8

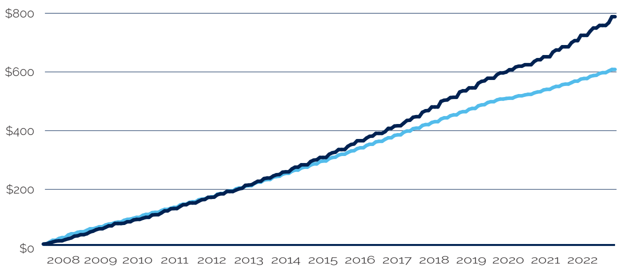
*Inception date—December 2007.
Source: DNR Capital
[1] Portfolio income yield calculated as the sum of all income received over the period divided by the capital base at the start of the period and uses income sources ex-date (including franking credits).
Performance data relates to the DNR Capital model Portfolio Performance of an investment in this model portfolio through a Portfolio Service may have different performance to the performance in this monthly update as a result of different policies and procedures at different Portfolio Service operators. Past performance is not an indication of future performance. No allowance has been made for taxation and fees are not taken into account.

Growth of $100,000 since inception



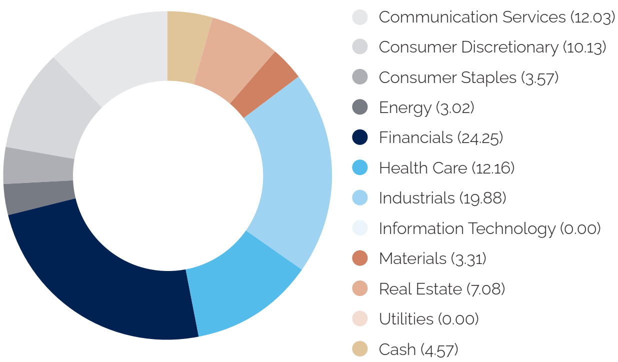
Source: DNR Capital

Accumulated income from $1,000 since inception



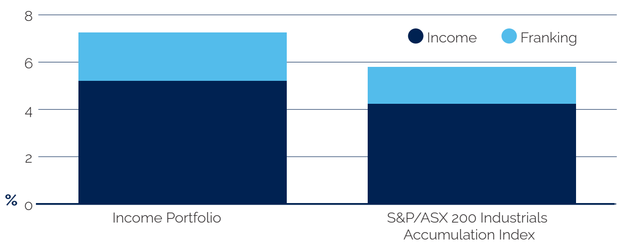
Source: DNR Capital

Sector weightings %



Source: DNR Capital

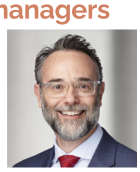
Income yield incl. franking credits since inception



Source: DNR Capital

Experienced portfolio managers

Jamie Nicol
Chief Investment Officer



Scott Kelly
Portfolio Manager

Top 5 active holdings

Security details
IPH (IPH)
TPG Telecom (TPG)
QBE Insurance Group (QBE)
Aurizon Holdings (AZJ)
The Lottery Corporation (TLC)

Monthly top contributors and detractors

Top 3 contributors		Alpha*
Commonwealth Bank of Australia	No Holding	0.27%
TPG Telecom	Overweight	0.24%
IPH	Overweight	0.24%

Top 3 detractors		
The Lottery Corporation	Overweight	-0.19%
Amcor PLC	Overweight	-0.13%
Endeavour Group	Overweight	-0.10%

* Alpha is the portfolio return less benchmark return. These tables represent the stocks contribution of alpha to overall portfolio alpha and is determined by the stocks active weight relative to the benchmark and share price return relative to the benchmark.

Contributors

- **Commonwealth Bank of Australia (CBA, no holding):** has modestly underperformed on no news but following a period of outperformance.
- **TPG Telecom (TPG):** Telstra put through large price increases on its prepaid plans during the month, giving the market increased confidence that it will also raise prices on its post-paid plans in line with recent inflation, indicating the mobile industry remains rational and open to future price increases.
- **IPH (IPH):** the company updated the market about its recent cyber-breach, indicating minimal client impact and that no data from IPH's document management system was compromised (where sensitive pre-filing patent information lies). Market sentiment lifted on the news of the minimal effects on client losses..

Detractors

- **The Lottery Corporation (TLC):** underperformed over the month following concerns around a lack of large jackpots resulting in lower revenue. Revenue will fluctuate with jackpot sequences however, underlying trends should support continued solid growth.
- **Amcor PLC (AMC):** destocking trends and demand deterioration continue to be flagged by management, customers and competitors leading, to concerns about volume weakness.
- **Endeavor Group (EDV):** underperformed as regulatory uncertainty lingers, and Star Casino's Gold Coast operations highlighted slowing gaming earnings in Southeast Queensland. Subsequent quarterly releases highlighted normalising gaming revenue and a return to positive retail liquor comparable sales growth.

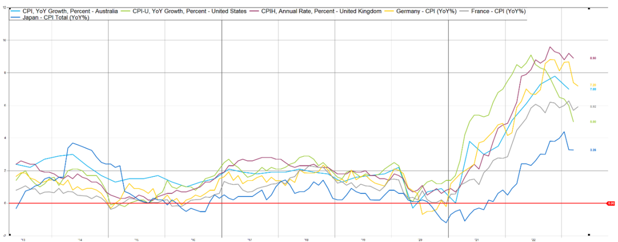
Portfolio and maket review

The S&P/ASX 200 Industrials Total Return Index was up 3.49% during the period. A-REITs (+5.3%) were the best performing sector, with bond yields stabilising and the RBA pausing rate hikes. The sector rebounded as the market began pricing a top in interest rates as a more dovish sentiment echoed through central banks (Stockland (SGP) +11.8%, Mirvac (MGR) +15.9%). Information Technology (+4.8%) also outperformed, similarly benefitting from lower terminal rate assumptions. A bias towards established, profitable companies has begun to emerge as interest rates increase from ultra-low levels (WiseTech Global (WTC) +5.3%, Xero (XRO) 4.4%). Utilities (+1.4%) underperformed, with the under-offer Origin Energy (ORG +0.6%) damping sector returns as it remains tied to its offer price. Consumer Staples (+1.8%) also underperformed, with A2 Milk Company (A2M -6.5%) downgrading earnings on the back of lower volumes.

Inflation in major countries

Markets rallied in April as investors anticipated slowing inflation and lower interest rates. Inflation may be peaking in a number of countries but remains elevated globally. Markets tend to react to the direction of inflation, so moderating consumer prices are typically favourable for equity valuations. We are witnessing inflation moderating, but the lagged effect of higher pricing expectations on wages remains a key question.

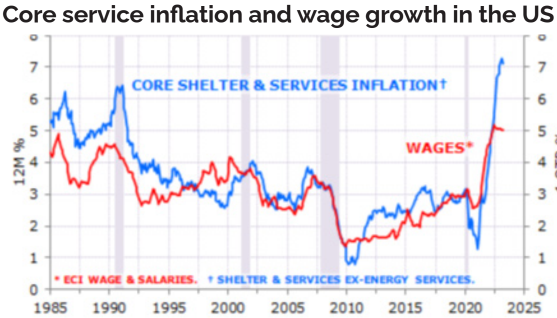
Select global consumer price indices



Source: FactSet

A slowing economy, combined with pressure on US regional banks, leaves the US Federal Reserve and other central banks with less flexibility in dealing with sticky inflation.

Core service inflation and wage growth in the US

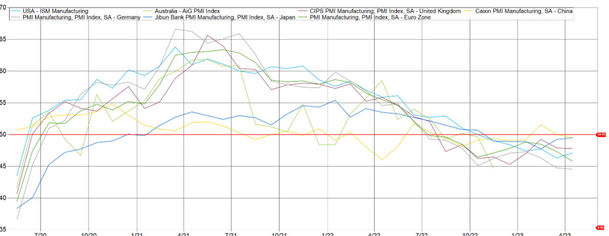


Source: Minnack Advisors

Economic outlook

Economic indicators remain mixed. US business confidence has fallen to a level that suggests a reasonable economic slowdown, and globally, Purchasing Managers' Indexes (PMI's) are at contractionary levels. Combined with tighter lending standards, markets are anticipating further contraction in economic activity.

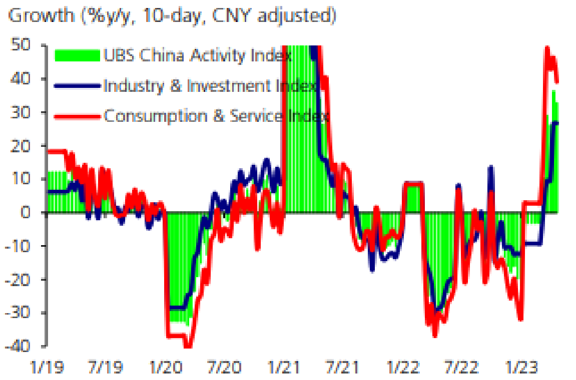
Select global manufacturing purchasing manager indices



Source: FactSet

China's reopening has been the source of much excitement and remains on a different trajectory to the developed world. However, the pace of economic recovery has disappointed.

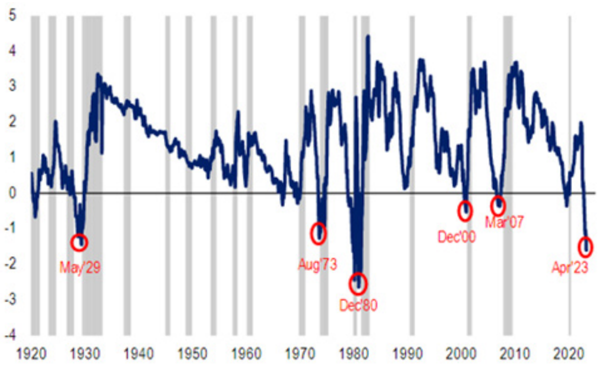
China activity, investment & consumption indices



Source: CEIC, Wind, G7, China Port Association, UBS estimates

Lead indicators remain consistent with a recession in the US and Europe, with yield curves supporting this. Historically, when the ten-year bond rates are lower than short term interest rates, the bond markets herald an economic slowdown.

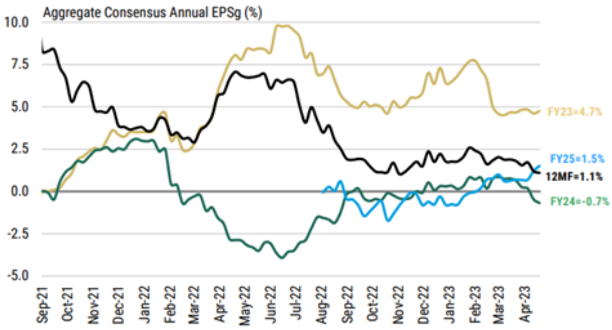
US 3s10s yield curve



Source: BofA

With this in mind, it is somewhat surprising that markets have not been weaker. Sentiment is reasonably subdued, and volatility is low. Unlike many previous slowdowns, this potential recession has been widely anticipated, and investors have been positioned accordingly. This widely anticipated recession is taking longer to unfold. High levels of residual savings among consumers and the flow on effects of fiscal stimulus have driven surprisingly resilient earnings. Consequently, we have not seen the pullback in earnings generally observed in a recession (perhaps this remains in front of us).

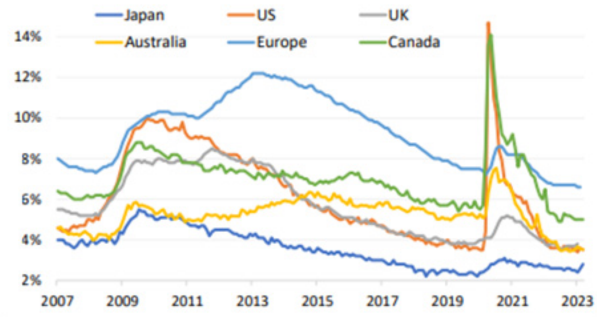
FY22-25 annual aggregate consensus EPS growth trends



Source: RIMES, IBES, Morgan Stanley Research. Data as April 20, 2023

Labour markets are a lagging indicator of central bank rate cycles and their impact on GDP growth. But nonetheless, even after a year or more of rate hikes, there is still no notable increase in the unemployment rate across most major economies.

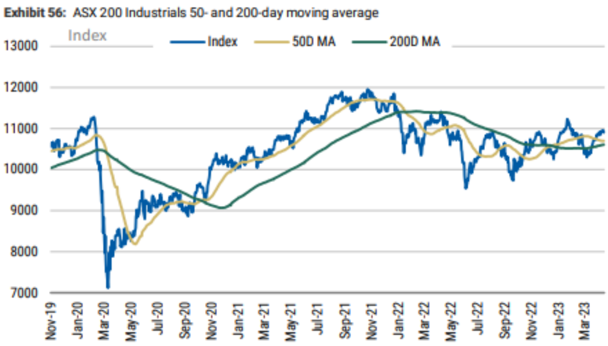
Unemployment rate by country



Source: UBS, Macrobond

Markets have therefore shown reasonable strength, particularly in Australia where the proximity to China has supported resources and energy valuations.

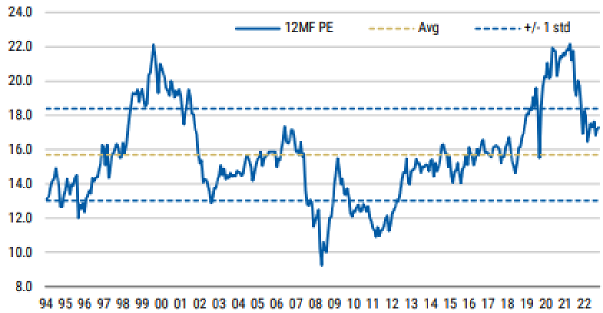
ASX 200 Industrials 50- and 200-day moving average



Source: RIMES, Morgan Stanley Research

We view the economic outlook as uncertain, but the market has at least partially anticipated this. Valuations are trading near long-term averages, notwithstanding downside risk to earnings should the global economy begin to slow.

ASX 200 Industrials 12mf Price-to-Earnings (Latest = 17.3x)



Source: RIMES, IBES, Morgan Stanley Research. As at April 28, 2023

However, investors still appear to be paying large premiums for the ASX's most defensive stocks highlighting the scepticism of the market on the economic outlook.

PE valuation of the ASX's most defensive stocks vs ASX200

Source: UBS, Refinitiv, 'Defensive diamonds' TLS, WOW, AMC, COH, RHC, MPL, COL, BWP, CWY

Overall, we believe that resource demand combined with elevated population growth, positions Australia as more resilient than many other markets.

About DNR Capital and the Portfolio

Concentrated: Investing in 15-30 highest conviction, Australian listed equities. Concentrated portfolios of quality companies maximise the opportunity for outperformance.

Style neutral and quality focussed: A disciplined approach to quality and valuation.

Dual investment objective: Acknowledging the value of both income and capital, this strategy focuses on delivering a high level of tax effective income, that grows over time, in addition to growing the investors capital.

A diversified set of opportunities: At DNR Capital, we categorise income generating companies as:

- **Growers:** A company that is delivering below market income in the short term, however is expected to deliver above market income growth over the long term.
- **Compounders:** A company that is delivering a market level of income, with the potential to deliver above market income growth on a sustainable basis.
- **Cows:** A company with a solid balance sheet and capital management potential that is being under-valued on traditional earnings-based metrics.
- **Yielders:** A company that is delivering sustainable and cash-backed dividends, however with minimal (or no) income growth.

Experienced and aligned team: The portfolio managers have more than 45 years of combined investment experience and are invested alongside our clients.

Proven process: DNR Capital was established in 2001 and a consistent firm-wide investment process has delivered more than 19 years of investment outperformance.

Office address	Postal address	Telephone	Email	Website
Level 23 307 Queen Street Brisbane QLD 4000	GPO Box 3263 Brisbane QLD 4001	07 3229 5531	info@dnrcapital.com.au	dnrcapital.com.au