Monthly Report
Core Australian Equity Portfolio
December 2023

Market Commentary

The Australian equity market finished the calendar year on a strong note in December, with the S&P/ASX 200 building on the 5.0% November rally with a further 7.3% gain over the month. The end of year rally helped lift the total return for CY23 to 12.4%, the third best return over the past ten years.

The ongoing decline across inflation data and apparent peak in the rate cycle saw REITs (+11.5%) atop the leaderboard for gains for the second consecutive month. Health care (+9.1%) continued its recovery rebound while the materials sector (+8.8%) also enjoyed strong gains.

Utilities (+2.5%) and energy (+3.4%) lagged the broader market as ongoing concerns about demand, particularly for oil and gas, in a slowing global growth environment weighed on investor sentiment.

Forward earnings expectations were downgraded by 2.1% in December, led lower by negative revisions across resources on the back of lower lithium and oil. However, ex-resources earnings remain robust and the start 2024 has seen upward revisions of ~2% heading into reporting season.

We see several reasons for Australian equity investors to remain positive including a sufficient deceleration in inflation for the RBA to hold the cash rate steady at 4.35% before potential cuts in the back half of the year. Additionally, although GDP is slowing near-term there are multiple factors to drive growth higher in the second half of the calendar year in our view including high immigration, ongoing strength in employment and near-record terms of trade.

Portfolio Commentary

The portfolio advanced 9.4% in December, outperforming the S&P/ASX 200 Total Return Index by 1.1%. Outperformance was driven by positive contributions from both top-down sector allocations and bottom-up stock selection.

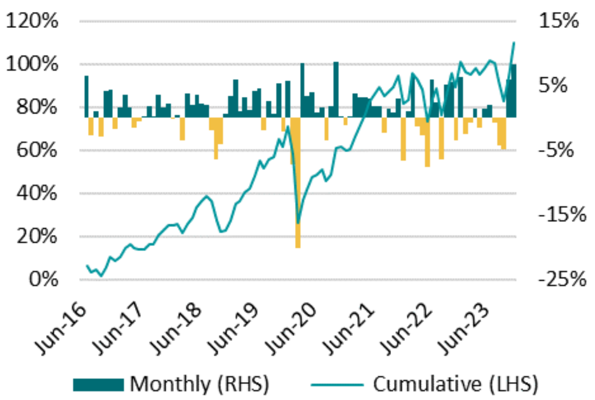
Our stock selection within the materials sector was the primary driver of outperformance during the month on the back of strong gains for James Hardie (JHX), BHP Group (BHP) and some temporary reprieve for lithium producers Allkem/Arcadium (AKE/LTM) and Mineral Resources (MIN).

Portfolio Characteristics

Characteristic	Portfolio
Beta	1.05
Dividend Yield (gross) (%)	5.6
PE Ratio (1yr forward) (x)	17.6
P/CF (x)	9.7
P/BV (x)	2.4
ROE (%)	14.9
Tracking Error (%)	3.0

Source: Bloomberg, Infinity Asset Management

Cumulative Portfolio Return (%)



Source: Bloomberg, Infinity Asset Management

Performance

Period	Portfolio	Benchmark	Excess Return
1 months	8.39%	7.26%	1.13%
3 months	9.40%	8.40%	1.00%
1yr (p.a.)	11.00%	12.42%	-1.42%
3yrs (p.a.)	9.13%	9.24%	-0.11%
5yrs (p.a.)	11.29%	10.28%	1.01%
Since Incept.	110.11%	95.95%	14.16%

Source: Bloomberg. Benchmark: S&P/ASX 200 TR Index. Incept: 30th June 2016 Past performance is not an indicator of future performance. Performance is gross of fees

Stock Attribution

Company	Positive	Company	Negative
Macquarie	0.45%	Fortescue	-0.34%
James Hardie	0.44%	Westpac	-0.27%
Qube	0.39%	ANZ	-0.23%

Sector Attribution

Sector	Positive	Sector	Negative
Materials	0.55%	Comm Serv	-0.29%
Industrials	0.46%	Energy	-0.18%
Health Care	0.37%	Discretionary	-0.11%

Top Active Holdings

Company	Active (%)	Company	Active (%)
Macquarie	5.1	James Hardie	2.9
BHP Group	3.6	ResMed	2.8
Qube	3.4	Altium	2.8
Transurban	3.3	Goodman	2.7
CSL	3.1	NAB	2.5

Relative Sector Positioning

Sector	Active (%)	Sector	Active (%)
Health Care	5.0	Materials	-0.7
Industrials	4.4	Staples	-0.8
IT	3.0	Energy	-1.3
Utilities	1.1	Discretionary	-2.8
Cash	0.9	Comm Serv	-3.9
REITs	0.3	Financials	-5.2

Key Contributors

Macquarie Group (MQG) gained 8.6% in December. There was no material information released during the month, however we believe that commentary provided by management at the November 1H24 result was digested by the market as investors began to focus on the higher probability of a strong H2. We remain confident that transaction activity is likely to continue to improve while asset realisations also regain momentum, and we therefore maintain our positive outlook for 2024 despite slowing credit growth and lower commodity volatility.

James Hardie (JHX) continued to rally in December, up another 16.0% after delivering a solid 2Q24 result with adjusted net income of $178.9m for the period up 2% on the prior corresponding period and ahead of market expectations. Despite volume declines across all regions, higher average net sales prices and strategic initiatives to control manufacturing and procurement efficiencies helped drive EBIT margins higher. Additionally, as momentum continues to improve in the US housing market JHX management provided 3Q24 guidance for adjusted net income which was 20% above market forecasts. Despite the strong rally over the past 12 months, we continue to see further upside as US housing market activity gains pace with the prospect of future rate cuts in 2024 likely to continue to drive demand.

Qube Holdings (QUB) advanced 11.0% during the month despite no material company specific news. Freight and logistics remain a focal point for many industries and companies post covid as management teams revisit and right size supply chains and we believe that QUB is well placed with its diversified operations to continue to win new customers.

Key Detractors

Fortescue (FMG) not held, gained 16.1% in December as spot iron ore remained elevated and finished the year at over $130/t despite ongoing concerns about the strength of the Chinese economy and particularly weakness across the property sector. Offsetting some of the detraction of not owning FMG within our portfolio was our large overweight towards BHP Group (BHP) which was up 8.9% for the month.

Westpac (WBC) not held, advanced 7.2% during the month on the back of the broader market rally. The recent FY23 results released in November however highlighted ongoing concerns about slowing credit growth, high levels of mortgage competition and an increasing cost footprint and we therefore remain comfortable being underweight the banks and refraining from owning WBC in the portfolio.

ANZ Group (ANZ) was up 6.4%% in December. Like WBC above, despite the gain we remain comfortable being underweight the big four banks and not owning ANZ in the portfolio as we see a challenging environment facing the sector and earnings in 2024.

Portfolio Changes

There were no major changes to the portfolio during the month following a busy period of rebalances post the August 2023 reporting season. Allkem (AKE) did however complete its merger with Livent to become Arcadium (LTM) on the ASX. This was a 1 for 1 switch with the portfolio reflective of this.

Outlook

We remain cautiously optimistic over the medium to longer-term for large cap Australian equities and expect mid to high-single digit returns for the domestic market for 2024.

Despite the recent rally, we see several reasons for Australian equity investors to remain positive including a sufficient deceleration in inflation for the RBA to hold the cash rate steady at 4.35% before potential cuts in the back half of the year. Additionally, although GDP is slowing near-term there are multiple factors to drive growth higher in the second half of the calendar year in our view including high immigration, ongoing strength in employment and near-record terms of trade.

To capitalise on this view, we've maintained our slight growth bias within the portfolio and continue to see opportunities to add value by favouring high quality businesses (GMG, CSL, Macquarie and Brambles) with strong balance sheets (Wesfarmers and Woolworths), low relative debt (BHP and CSL) and who can compound mid to high single-digit earnings growth (ALU, Xero and Qube) regardless of the economic cycle.

Given the ongoing macroeconomic uncertainties however, we've maintained an overweight towards more defensive parts of the market such as health care, infrastructure, and consumer staples.

Platforms:	BT Panorama: DAM0411AU HUB24: INF008 Netwealth: MACC000380 CFS Edge: EIRNINFCAE	**Minimum Investment Horizon:**	3 to 5 years
Asset Class:	Australian Equities	**Minimum Investment Amount:**	A$25,000
Style:	Active	**Investment Management Fee:**	0.5184% p.a.
Benchmark Index:	S&P/ASX 200 Total Return Index	**Portfolio AUM:**	$445m