

Oakleigh Flagship Equities Portfolio

Quarterly Report – December 2023

Investment Objective and Strategy:

The Oakleigh Flagship Equities Portfolio aims to generate returns in excess of CPI + 5% over rolling 5-year periods through a managed portfolio of Australian and international securities.

Stock selection focuses on growth and value securities with emphasis on companies that have a sustainable competitive advantage or business model with monopolistic traits, high sustainable cash flow generation or structural tailwinds.

Performance	Portfolio Return ¹	CPI +5% Target ²	Excess Return
Since Inception (per annum)	+12.3% pa	+10.2% pa	+2.1% pa
	Portfolio Return ¹	All Ords Index	Excess Return
Since Inception (per annum)	+12.3% pa	+6.8% pa	+5.5% pa
Since Inception (absolute)	+39.9%	+22.1%	+17.8%
1 Year	+10.2%	+8.4%	+1.8%
3 Months	+7.3%	+8.0%	-0.7%

Past performance is not a reliable indicator of future performance³.

Commentary

The December quarter abruptly ended the volatile 2023. October saw a sharp sell-off in shares on interest rate rises and geopolitical uncertainty in the Middle East.

As October ended, so did the weakness. On confirmation that Israel was moving into Palestine, shares turned globally. One is reminded of the old stock market saying attributed to a Rothchild in 1810 “buy on the cannons”.

The market went up in an almost straight line from late October until the end of 2023.

The All Ordinaries Index increased 12% in two months from the low, having fallen 4% earlier in October, ending up 8% for the quarter.

Yet, while the rally may have started on easing fears around a broader Middle East conflict, it continued to build momentum on a change in sentiment about the prospects of inflation and interest rates (now down).

Oakleigh was a little early in 2023, suggesting the high post-COVID inflation period was clearly over and that interest rates were at peaks. But it is better to be early, than late.

During the quarter new positions in Resmed (RMD), Deterra Royalties (DRR) and REA Group (REA) were established. These companies all operate high quality, high margin, monopolistic business models. These positions were funded by sales in underperforming/underwhelming stocks, as the Portfolio was fully invested through the quarter.

The Portfolio continues to outperform the All Ordinaries and beat its CPI +5% return objective over the long-term, despite the unusually high inflation experienced between 2021 and 2023.

Top Performers

Vicinity Centres (VCX)	+20%
Seven Group Holdings (SVW)	+18%
Vanguard Australian Property Sec Index (VAP)	+16%
Viva Energy Group (VEA)	+15%
BHP Group (BHP)	+14%

Top Holdings

VanEck MSCI World Ex Aus Quality Hedged ETF (QHAL)	9.4%
Commonwealth Bank (CBA)	6.8%
BHP Group (BHP)	5.5%
Wesfarmers (WES)	4.7%
National Aust. Bank (NAB)	4.6%

‘Top Performers’ - Total Returns (stock price gains plus distributions) over the quarter or for the period the stock position was held by the Portfolio during the quarter.

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Portfolio Details

Investment Objective:

CPI + 5%p.a. over rolling 5-year periods

Benchmark:

S&P/ASX All Ordinaries Index

Minimum Investment:

\$50,000

Management Fee:

0.75%

Performance Fee:

Nil

Investments:

Australian shares and listed property, international shares (via Exchange Traded Funds (ETF's) and managed investments)

Indicative Number of Holdings:

15-30

Suggested investment timeframe:

5 Years

Availability:

- Macquarie Manager II
- Macquarie Consolidator II

Stock of the Quarter

ResMed (RMD) has a long growth trajectory as the sleep apnea market remains significantly underpenetrated. The demographic and healthcare trends promoting digital health and providing value-based treatment in the homecare setting should result demand for products expanding strongly. ResMed's strategy, which focuses on providing cloud-connected respiratory devices, sees it well placed to benefit. In fiscal 2022, it's a new flagship product, AirSense 11, was launched, roughly seven years after the AirSense 10. Morningstar forecast the company to gain market share as higher patient adherence supports reimbursement rates, as well as the resupply of masks and accessories. Meanwhile, ResMed's only other cloud-connected competitor, Philips, is likely to be significantly hampered as it prioritizes replacing over 5 million units after a product recall announced in June 2021.

In 2023, the Resmed share price decreased materially on concerns about competition from Ozempic and other GLP-1 drugs: Ozempic and other glucagon-like peptide-1 (GLP-1) medications are showing promise in treating obesity and managing type 2 diabetes. These drugs can lead to significant weight loss, which is a common risk factor for obstructive sleep apnea (OSA), the condition that ResMed's devices primarily treat.

While we think drugs like Ozempic have much potential, we are hugely skeptical that these drugs will mean the 'end of obesity' as some pundits predict, and used the share price weakness to add Resmed at favourable prices (approx \$23.50).

About the Portfolio Manager

Oakleigh Investment Management Pty Limited (Oakleigh Investment Management) is the Portfolio Manager of several investment portfolios, including the Oakleigh Flagship Equities Portfolio. Oakleigh Investment Management is part of the Oakleigh Financial Services group, an Adelaide based, boutique financial services business with advisers who have been providing financial solutions to small business owners, families and high-net-worth clients since 2004. The group specialise in portfolio construction, asset allocation and investment management with a focus on equities. Oakleigh Investment Management is advised by the experienced investment professionals that comprise its Investment Committee.

Performance

1. Performance is calculated before the Management Fees (but inclusive of indirect investment management fees). Assumes reinvestment of distributions and franking credits. Returns over periods longer than 12 months are annualised.
2. Based on CPI + 5% per annum where CPI is Consumer Price Index, Australia. CPI + figures shown here use the most recent published figure based on CPI data issued by the Australian Bureau of Statistics (ABS). The quarterly Target Return is calculated based on a quarter of the most recent publicised annualised CPI rate (due to the quarterly CPI not being released by the ABS for one month after the end of the latest quarter).
3. Inception Date 16 October 2020.

Performance data provided is sourced from Iress Portfolio System (IPS).

Past performance is not a reliable indicator of future performance. Oakleigh Investment Management does not guarantee the performance of the Oakleigh Flagship Equities Portfolio.

Important information

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The disclosure document for the Oakleigh Flagship Equities Portfolio can be obtained at macquarie.com.au/investing/macquarie-wrap. For more information on services provided by the Oakleigh Financial Services group refer to the Financial Services Guide (FSG) at oakleighfinancial.com/tcs.



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