BEANSTALK Investment Management

THE SIX-MONTHLY BEANSTALK BALANCED REPORT

Report No. 37
Period: Jan-Jun 23

Performance: 30 June, 2023	Quarter	6 months	1 year	2 years	3 years	4 years	5 years	7 years	10 years
Pre-tax return %	3.1%	3.9%	10.0%	4.0%	12.2%	7.2%	6.0%	7.2%	8.2%
Post-tax return %	2.8%	3.2%	8.6%	2.9%	11.1%	6.1%	5.0%	6.3%	7.3%

* Inception date 2/6/2005. Returns net of fees & costs (excl. initial broker acq'n establishment cost but incl. broker transaction & portfolio liquidation costs). Returns unaudited. Management fees are accounted for in quarter following period to which they relate. Returns greater than one year are annualised. Tax rate 30.5%, 30.7% post FY15.

The Underlying Beanstalk Balanced Portfolio rose for the 6 months to June 30, 2023. It returned a pre-tax gain of 3.9% and a post-tax gain of 3.2%. These returns are net of fees and costs*. The table below highlights some comparable returns from various asset classes.

Market related returns	
ASX 300 Accumulation Index	4.4%
MSCI All Countries World Free Index in $A [International Shares]	16.1%
ASX 200 Property Accumulation Index	3.9%
BBERG Australian Bank Bill Index	1.7%
BBERG Australian Credit Index	2.3%
AUD/USD	-2.7%
Gold USD	4.4%
10 Year Government Bonds	2.2%

Economic comment

Lower bond yields early in the year, a perceived end to the US rate hiking cycle and a boom in AI-related technology stocks led most developed markets higher. The NASDAQ index rallied over 29% and the undervalued Japanese market rose 27%. The Australian dollar fell against most currencies and commodities declined as issues of systemic risk heighted fears of lower growth. Thermal coal declined 67%, Oil fell 13% and Zinc slumped 41%. Gold, seen as a safe haven, rose 4% in response to these concerns. Australian 10-year bond yields swung wildly recording a low of 3.18% before rising to close at 4.03%, just below December levels of 4.05%.

The start of 2023 marked the first signs of serious systemic risk emerging in response to higher interest rates. Silicon Valley Bank failed as losses from holdings of treasury securities, held to back the deposits, meant the bank no longer had sufficient funds to satisfy burgeoning withdrawal requests. Similar bank runs on other regional players in the US forced the closure of crypto-linked Signature Bank of New York and wild share price movements for others. Later, JP Morgan acquired the troubled First Republic Bank stabilising funding conditions for US regional banks. On a separate funding issue, the US administration reached agreement with Congress to raise the debt ceiling and avoid default. Moderating inflation numbers and bank failures were not sufficient to prevent further hikes in the Federal Reserve Board's (FED) funds rate. The FED raised rates 0.25% in February, March and May to take the cash rate to 5.25%. The FED's focus shifted to services inflation and long-term inflation expectations which reached 3.2%, the highest level in 12 years. A 2.7% decline in US non-farm productivity levels reinforced the persistent outlook for inflation.

The US economy has slowed somewhat. Unemployment levels have risen only slightly, from the very low levels of 3.5%, to 3.7%. St Louis FED president Bullard echoed the sentiment of underlying strength saying '…the labour market just seems very, very strong…'. He was not expecting a recession in the second half of 2023. An inventory drawdown early in the year provides possible support, in the form of a rebuild, as the year progresses.

Chinese growth surprised to the upside in the December quarter, rising 2.9%, as the economy exited covid-zero. A necessary intention of authorities is to achieve more sustainable growth. This was evident early in the year with high-tech manufacturing investment growing, from a low base, at more than double overall manufacturing levels. Nevertheless, growth rates for the economy are below levels expected by the government. There has been weakness in lending to households in April. New orders also declined. Developing nations have begun to spend

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more on services than goods, impacting exports. Authorities look to be embarking upon a contained stimulus program. There was a cut in the reserve requirement ratio for banks in March and the 7-day repo rate was reduced from 2.0% to 1.9% in June. An easing of other rates is also afoot. Fixed asset investment, driven by state-owned enterprises, rose 5.6%. Adjusting for covid, the property market is still weak. China's strategy appears to be to prop-up the economy while accepting that lower overall growth rates are unavoidable.

The Japanese economy barely grew in the December quarter. Into the March quarter, post-covid economic activity, business investment and pent-up consumption outweighed weaker global growth and its impact on exports. Momentum has continued, setting up the year for more favourable growth than 2022.

The Bank of Japan (BOJ) has maintained its accommodative policy settings. As the BOJ undertakes a review and inflation emerges, this might change. The base pay increase at the spring wage negotiations at 3.8% was the highest in 30 years. Low productivity growth and other inflationary pressure will also be at play for future BOJ decisions. Such wage increases will be positive for growth as stimulus subsides.

The UK and Europe remain stagnant, barely growing over the March quarter at 0.1%. Services growth compensated for weak manufacturing. These economies are facing inflationary headwinds and higher interest rates. The European Central Bank (ECB) and the Bank of England (BOE) both raised rates to 3.50% and 5.00% respectively.

Following on the heels of the regional banking crisis in the US, European, and indeed global markets, were rocked by significant instability within the globally and systemically important bank, Credit Suisse. A string of scandals, CHF 110 billion of fund outflows, a CHF 7.29 billion loss and a 75% decline in the company's share price finally led to a forced merger with another Swiss bank, UBS.

Inflationary risks have risen in Australia. Services inflation, specifically wage-driven inflation, is setting the ground for persistently elevated prices. This is the case even with lower prices for goods. Compounding the problem have been declining productivity, expansionary budgets, government interference with free-markets and their crowding out of needed investment. The Reserve Bank of Australia (RBA) responded by raising the cash rate from 3.10% to 4.10%, in four 0.25% hikes.

The economy barely grew in the March quarter, rising 0.2% on December GDP levels. Consumers are feeling the pressure from inflation and higher rates. The unemployment rate has edged up to 3.6%, still at very low levels. The housing market has rebounded. Tightness in the housing market does provide a mechanism for stretched borrowers and lenders to clear the market, reducing losses and systemic risk. Consumption is likely to remain weak in the near term and GDP growth very low. Commodities continue to feed the budget. The budget position is likely to surprise going forward as assumptions are conservative.

Portfolio asset allocation, performance and outlook

Growth, inflation and financial stability will be key challenges confronting investors in the year ahead.

The risk of recession has increased in the US with rising rates. The yield curve indicates that a hard landing is required to tame inflation.

Post-recession, a lingering low-growth world will confront investors. Some forces placing brakes on real economic growth rates include ageing demographics, heavily indebted nations and a global economy at full capacity.

Inflation, notably services inflation and increased wage claims, remains persistent with upside risks. Elevated price levels are set to endure for some time. Full employment, the reconfiguration of supply chains and the energy transition are a few examples of contributing forces.

Such inflation has implications for interest rates. After a period of ultra-low interest rates, investors need to consider their portfolios in light of notably higher rates that continue for an extended period.

These increasing funding costs, in turn, pose a risk to financial stability. This was evident following the failures of regional banks in the US and fallout generally within that sector. Rates have risen further in the US since those failures. It is difficult to predict from where the next shock to financial stability might arise.

In this environment the portfolio retains a growing defensive posture with 35% of assets in bonds or cash-related positions. Over the past year, the portfolio has moved from a zero weighting in bonds to an 8% holding. For the same period, exposure to commercial property has been reduced to a very low level. Cash comprises 23% of the

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portfolio and is currently earning 4% pa. A 4% exposure to sterling is adding to returns as higher interest rates in the UK increase portfolio income and demand for pounds.

Persistent inflation and increased risk associated with bulging government debt levels is likely to see the term premium for long duration treasuries increase. In anticipation of an adjustment in the term premium, the portfolio is likely to focus on shorter term government bonds as the fixed income portfolio grows.

The likelihood of higher interest rates and eventual steepening of the yield curve in this way puts into focus other assets such as long-duration growth equities. These amazing companies of the future must now compete for capital against rising risk-free rates and higher long-term treasury yields. The changing term structure of interest rates is becoming a stronger headwind for the share prices of these businesses.

The portfolio seeks to protect returns from inflation through relatively short-duration international and domestic equity holdings. These positions are largely assembled with long-term capital preservation in mind. Holdings reflect investments that represent outstanding value, with defensive balance sheets and often in industries starved of capital for some time. These characteristics suggest a return of pricing power and a beneficial investment status in an inflationary environment.

The Beanstalk Balanced Portfolio returned 3.9% for the six months.

Benchmark	Benchmark Return	Beanstalk Return
ASX 300 Accumulation Index	4.4%	3.7%
MSCI All Countries World Free Index in $A (unhedged) [International Shares]	16.1%	12.6%
ASX 200 Property Accumulation Index	3.9%	3.0%
BBERG Australian Bank Bill Index	1.7%	1.8%
BBERG Australian Credit Index	2.3%	9.0%**
AUD/USD	-2.7%	Not in Beanstalk Portfolio
Gold USD	4.4%	Not in Beanstalk Portfolio
10 Year Government Bonds	2.2%	1.9%***

**Contains returns from Sterling holdings. Effectively no exposure to credit market. Approximate returns. ***Includes > 3-year govt bonds.

The post-fee gain of 3.9% was driven by Australian equities adding approximately 1.9% to performance. International equities and Fixed Interest (including Cash) contributed 1.6% and 0.9% respectively. The top three Australian equities contributing to performance were Adbri Limited (+1.5%), AGL Energy (+1.3%) and Sigma Healthcare (+0.7%). International holdings adding to returns were Japanese Shares (0.4%), Marks & Spencer (0.3%) and JFE Holdings (0.2%). Star Entertainment (-0.8%), AMP (-0.6%) and Australian Vintage (-0.5%) were among those detracting from Australian shares performance. Walgreens (-0.1%), and Adecco (-0.1%) detracted from international performance.

The portfolio added further to its **10-year Australian government bond** exposure sourcing funds from cash. This acquisition represented 3.0% of the portfolio's value increasing overall long duration bond holdings to a low weighting of less than 6%. The cash rate has risen 1.75% since initial purchases of 10-year bonds were made last year. This increase in funding costs is elevating financial risks within the economy and creating a greater chance of recession. These relatively new positions should help protect the portfolio from such recessionary risks.

The Beanstalk Balanced Portfolio retains flexibility given market values, interest rates and portfolio allocations to take advantage of any opportunities that might arise from rises or falls in asset prices. It has a 35% exposure to cash and fixed interest related securities combined. The portfolio is invested 50% into Australian equities and has a 3% weighting to listed property. Fixed interest related securities sit at 12% of the portfolio. Exposure to international equities is at 12% and the portfolio retains a zero weighting to gold. Cash holdings are 23% of the portfolio.

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Global Equities

Global equity markets rose 14.2% in local currency terms (source: FTSE All-World Review*) to June 30, 2023.

International equity markets are marginally expensive on historical measures. Relative value can be found in Oil & Gas, Mining, Chemicals, Tobacco, Household Goods & Home Construction and Banks. Aerospace & Defence, Automobiles & Parts, Travel & Leisure, Technology (Software & Hardware), Industrial Engineering, Support Services, Consumer Goods, General Retailers and Electronic & Electrical Equipment are expensive. Japan, Austria, Poland, Spain, Korea, Brazil, Germany, Singapore and Hungary offer value. The US, New Zealand, the Netherlands, Denmark and Norway are overvalued.

Japan, Austria and Korea trade at relative discounts of 61%, 186% and 43% respectively, including Beanstalk currency assumptions.

Notable Regional Index performance for the last 6 months is outlined below.

Performance (local currency)	6 months	
Europe	up 11%	Not in Beanstalk Portfolio*
Italy	up 22%	< 1% of Portfolio
India	up 6%	Not in Beanstalk Portfolio
Brazil	up 7%	Not in Beanstalk Portfolio
Ireland	up 9%	Not in Beanstalk Portfolio
China	down 5%	Not in Beanstalk Portfolio
Singapore	up 2%	Not in Beanstalk Portfolio
Indonesia	up 6%	Not in Beanstalk Portfolio
Korea	up 18%	Not in Beanstalk Portfolio*
Japan	up 23%	< 2% of Portfolio*
France	up 17%	Not in Beanstalk Portfolio*
Switzerland	up 8%	Not in Beanstalk Portfolio*
Austria	up 5%	0.7% of Portfolio
USA	up 17%	Not in Beanstalk Portfolio*
UK	up 4%	Not in Beanstalk Portfolio*

*Excludes direct holdings. Source: FTSE International Limited (“FTSE”) © FTSE [year]. FTSE® is a trade mark of London Stock Exchange Group companies and is used by FTSE under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE’s express written consent.

The Australian dollar fell against the dollar (3%), the pound (7%) and euro (4%). It rose against the yen (7%). Japanese shares comprise 33% of the portfolio. As the international holdings of the portfolio are un-hedged for currency movements the net effect of currency on the portfolio was slightly positive.

Commentary on Australian equities [50.0% of the portfolio]

Beanstalk - Australian shares six months performance	
Beanstalk Australian Shares (Pre-tax)* Beanstalk Australian Shares (Post-tax)*	3.7% 3.3%
Best Performing Beanstalk Australian Shares	Adbri Limited (up 44.4%) Sigma Healthcare (up 36.6%) AGL Energy (up 34.0%)
Worst Performing Beanstalk Australian Shares	The Star Entertainment (down 34.7%) Australian Vintage (down 33.9%) NZME (down 19.7%)

* All returns are unaudited. Returns greater than one year are annualised. Beanstalk returns are net of entry and total portfolio exit brokerage costs (0.3% assumed). Zero cash assumed. Returns are pre-fees.

The February reporting season revealed corporate outlooks that were, on balance, below expectations. More companies reported results with uncertain guidance or soft outlooks compared to those with positive outlooks or reaffirmed guidance. The market responded emphatically to any lack of confidence expressed by management, possibly exacerbated by the 8% market rally in January. Examples of price declines following the release of company commentary included: **AGL Energy** (down 11%), **Aurizon Holdings** (8%), **James Hardie Industries**

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(7%), **Ansell** (8%), **CBA** (5%), **Bluescope** (8%), **Domino's Pizza** (24%), **Downer Group** (24%), **Qantas** (6%) and **Harvey Norman** (8%).

The notable existence of cost inflation failed to dent margins in aggregate. Company price increases and other measures appeared to produce as many instances of margin expansion as there were contractions. A positive feature of the season, and perhaps a more tangible demonstration of corporate confidence, was a significantly larger number of companies raising or maintaining dividends than reducing them.

The August reporting season will look back on a period where pricing remained tight amidst some stabilisation of inflation and positive cost outcomes through management. Businesses such as **Fletcher Building** and **Adbri Limited** for example have built in efficient work practices to deal with elevated cost levels. These forces should provide support for margins.

Inflation and interest rates are crimping the consumer. Nevertheless, the housing market has stabilised and the labour market is close to full employment. The general economic environment is soft. A closer look reveals very mixed growth rates across industries.

Infrastructure and commercial construction work are expected to experience solid demand. Compare this to the residential sector where the outlook is weak.

Retail demand in car maintenance, camping, sporting and outdoor supplies is firm. Similarly, consumers appear to have an insatiable demand for travel following several years of lockdown. **Qantas** continues to benefit from such demand. It will also suffer as covid openings bring more aircraft capacity to the market and therefore cheaper airfares. **Ansell** is expecting weaker demand from its healthcare business in the short term and **Southern Cross Media** noted that businesses were undergoing a subdued recovery in regional areas.

Outlook statements will diverge significantly by industry. Working capital levels should decline as companies become more comfortable with supply chains thereby freeing up funds for growth or shareholder returns.

Best Performing Stocks for 12 months per FTSE Australian Index		
Pilbara Minerals	up 114%	Not in Beanstalk Portfolio
Wisetech Global	up 111%	Not in Beanstalk Portfolio
Northern Star Resources	up 77%	Not in Beanstalk Portfolio

Worst Performing Stocks for 12 months per FTSE Australian Index		
The Star Entertainment	down 55%	5% of Aust Shares*
Domino's Pizza Enterprises	down 32%	Not in Beanstalk Portfolio
Magellan Financial Group	down 27%	Not in Beanstalk Portfolio

*3% as at 31 December 2022. Purchases after this date made at considerably lower prices.

The Beanstalk Australian Shares Portfolio represents compelling value. Modeling work across the portfolio reveals post-tax internal rates of return on average to be in excess of 25%.

Mining, Chemicals, Oil & Gas Producers, Financial Services and Real Estate Investment Trusts are sectors displaying good relative value in the Australian market. Valuations in General Retailers, Industrial Transport, Construction & Materials and Pharmaceuticals are less attractively priced. Specific stocks trading at low levels include **Bank of Queensland** and **Woodside Energy Group**.

Beanstalk Australian equities – Portfolio changes

A weaker performance against benchmark reduced portfolio turnover to below average levels. Energy related holdings were reduced to fund positions in leisure, domestic cyclicals including building materials and small cap positions in media.

Origin Energy and **AGL Energy** were both used to fund additional holdings in **AMP Limited**, **Star Entertainment**, **Fletcher Building** and **Southern Cross Media**.

Strong performances from **AGL Energy** and **Origin Energy** required a reduction in their oversized positions.

Origin Energy has almost doubled in share price since purchases a few years ago, the result of a takeover from the Brookfield consortium at $8.90 per share.

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AGL Energy rallied 22% from recent lows with investors welcoming the prospect of increased returns from higher electricity prices.

Both companies were used to fund additional positions in **Fletcher Building**. Excluding the unusual covid period, the portfolio purchased these new **Fletcher** positions at prices close to decade lows. Investors appeared to mark down the stock with concern over slowing activity. The company has a strong order book and the outlook for infrastructure and commercial work remains favourable.

A 23% decline in the share price of **AMP Limited** provided an opportunity to increase holdings following recent profit taking at higher levels. The fall in share price reflected an underwhelming results presentation. A recommencement of dividend payments at 2.5cps was seen as too little, placing pressure on the company to return more to shareholders in future periods.

Another financial services company, **Suncorp**, was used, together with **Origin Energy**, to fund further positions in **Star Entertainment**, including acceptance of an entitlement offer.

The **Suncorp** share price rallied after releasing a result ahead of expectations. Good cost management and strong insurance premium growth propelled the business.

The portfolio held a small position in **Star Entertainment** prior to the precipitous fall in its share price. Reviews by Bell and Gotterson have inflicted operational changes to the company's business, increased costs and measures causing an inability to effectively compete with the **Crown** casino. An even greater prospect of financial pain has come from the previous government's announcement of an onerous increase in casino duty rates. This decision is under review from the new labour government. The viability of the casino is potentially in doubt if there is not some relief in this regard. Further, future developments, government income and jobs are on the line should **Star** decide to sell its valuable property holdings, return cash to shareholders and give up on the Sydney operation.

AGL Energy was used to fund heavily oversold positions in **Southern Cross Media**.

Southern Cross Media shares have declined over 60% in the past two years. The company resumed paying dividends following a suspension during the most disruptive covid-years. Today's share price places the company on a 12.8% yield. Investors have fled in the face of exaggerated concerns of reduced advertising spend across the economy.

To further capitalise on the malaise across the media sector, additional holdings in **Here, There & Everywhere** were purchased.

Here, There & Everywhere had almost halved in price over the past year for similar reasons to those mentioned for **Southern Cross Media**. Similarly, **Here, There & Everywhere** is predominately a radio company, providing the most resilient form of advertising in times of economic slowdown. **Here, There & Everywhere** increased its dividend by 33% over the year and is yielding almost 10%.

This value opportunity was funded through sales of **Sigma Healthcare**.

Sigma Healthcare has completed the re-build of its distribution centres. The business is now focused on leveraging this asset base, optimising and simplifying operations and improving the customer score. The company has significantly reduced debt and is poised to exploit growth opportunities now available with its improved infrastructure. The share price has remained well supported in a weak market and this provided an opportunity to switch funds into a better value proposition, **Here, There & Everywhere**.

A more detailed discussion of these portfolio changes can be found in the Six-Monthly Beanstalk Australian Shares Report.

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Outlook - Australian equities

The Australian shares underlying portfolio has a higher exposure to domestic conditions than international conditions. It favours a weaker Australian dollar (is exposed to the USD, euro, pound and $NZ), retains strong balance sheet flexibility in the aggregate, benefits from rising commodity prices and has a low exposure to long-duration stocks and rising bond yields. Beanstalk is focused on balancing the portfolio in a tax-effective manner while redeploying funds into those equities trading at highly attractive discounts to valuations.

The Australian equity market commenced the new calendar year rallying 7.5% to early February only to reverse these gains and decline 8.6% towards the end of March. At the half-way mark for the year, the bourse ended relatively flat. Progress was hindered by four separate hikes in the cash rate.

Higher interest rates, sparked by increased inflationary expectations, have surprised investors in frequency, magnitude and momentum. The outlook for the domestic market in general is challenged by ongoing rate and inflationary pressure. At least one more rate increase is expected over the next two months.

The RBA's contention that inflation and interest rates would remain lower in Australia compared to the US appears to be coming undone. Both wage and shelter price outcomes are debunking two of the three reasons given by the RBA for lower rate outcomes compared to the US.

There are some profound forces at work that will keep inflation elevated. Many of these are operating on the supply side of the economy.

The economy is close to full employment. The immigration of 650,000 people over the next two years in response to this constraint requires an adjustment to the housing stock of the nation. Even before this influx the housing market is not receiving sufficient investment spend for the population. Apartment approvals, for example, rest at 12-year lows.

Expansionary government budgets are crowding out resources necessary to satisfy housing demand. Large infrastructure projects and the capital needed for the energy transition are likely to tighten the market further. Higher mortgage and building costs have reduced affordability and investment in this space.

This phenomenon has spread to other sectors of the economy. Investment as a share of GDP has reached a three-decade low.

Government policy, in particular interference with energy and labour markets, has further reduced investment where needed and the incentive to invest. Wage increases experienced, combined with flat productivity growth, are not consistent with a central bank inflation target of 2-3%. The only remedy is higher interest rates to slow growth and free up economic capacity.

The promise of artificial intelligence (AI) is a potential solution to counter inflation and interest rate pressure. At this stage in its development, AI is still an uncertain promise.

From a portfolio perspective, inflation and interest rate headwinds are being negotiated primarily through the price paid for investments. For instance, numerous entities have been priced for recession for some time now. One example, small capitalisation companies, have fallen well below their average long-term levels relative to the rest of the market.

Other considerations for portfolio management in this environment include a persuasion towards investments operating in underinvested or consolidating industries. These characteristics favour an increase in price for products or services.

The portfolio further manages interest rate challenges by investing in undervalued businesses with rapidly declining debt levels, healthy dividends, associated corporate activity or balance sheets fit for large capital returns.

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International equities [12% of the portfolio]

The Beanstalk international portfolios rose over the six months underperforming the benchmark:

Beanstalk - International shares six months performance $A	
Beanstalk Global 15	**10.7%**
Beanstalk Global Shares	**12.6%**
MSCI All Countries World Free Index in $A (unhedged)	16.1%
Best Performing Beanstalk International Shares	Marks & Spencer (up 61.1%) Japanese Shares Hedged (up 31.9%) JFE Holdings (up 27.5%)
Worst Performing Beanstalk International Shares	Walgreens (down 21.9%) Adecco (down 10.9%) Shinhan Financial Group (down 4.8%)

The **Global Shares Portfolio** generated turnover well above average levels. This reflected the liquidation of three long-term and out-performing positions in the portfolio to purchase an equivalent number of new investments. Energy, conglomerates and shipping were reduced in favour of staples, steel and employment service companies. In addition, banking and telecommunication investments were reduced. Japanese exposure was marginally reduced with increases recorded in Europe.

A large position in **Sumitomo Mitsui Financial Group** was reduced at the beginning of the year.

The company's share price rallied almost 30% as the Bank of Japan announced that it would be adjusting upwards the rate allowance in its yield curve control program. After many years of flat- to declining- net interest margins, investors embraced the real prospect of expanding margins at **Sumitomo**.

Some of these proceeds were invested into **Societe Generale**. With a strong focus on cost and business efficiency this was seen as appropriate. **Societe Generale** generates a return on shareholder funds of above 10% and was acquired at a price of 0.3 times book value compared to **Sumitomo Mitsui Financial Group** at 0.6 times.

Surplus proceeds from the **Sumitomo Mitsui Financial Group** sale were invested into **Orange**, the incumbent French telecommunications provider. Already a member of the portfolio, incremental purchases provided diversification at very low entry levels.

In the space of a few months, **Orange** had rallied 18% against **Sumitomo Mitsui Financial Group** leading to a 26% total gain through to May. The company reported results which showed a strong cost discipline, increased prices, a lower capex outlook and higher base dividend. Holdings in **Orange** were reduced twice to purchase positions in **JFE Holdings**, **Societe Generale**, **Adecco** and **Shinhan Financial Group**.

Like **Societe Generale**, **Shinhan Financial Group** became oversold during the April liquidity crisis affecting the regional banking system in the US. **Shinhan** increased countercyclical provisioning at its latest results providing comfort in the balance sheet of the company. The group increased ROE from 10% to 11.5% and paid a respectable dividend over the March quarter.

Later in the year further sales of **Sumitomo Mitsui Financial Group** were invested into three new portfolio positions: **Tesco**, **JFE Holdings** and **Adecco**.

Tesco appears to be dealing with new entrants to its market more keenly and effectively than in the recent past. Further, the supermarket is well positioned to attract more shoppers in the inflationary environment of today. This reflects an increase in the consumption of meals at home to protect the family budget which is otherwise under attack from rising prices and higher interest rates.

Tesco holdings were also funded through the liquidation of positions in **BP**.

BP has delivered strong returns since initial purchases after the Mexican oil spill disaster. This sale leaves **Total Energies** as the remaining energy exposure in the portfolio. **BP** no longer represented compelling value and the portfolio sought to reduce energy exposure given downside risks to such investments from any global slowdown.

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JFE Holdings, a Japanese steel maker, represented attractive relative value and was purchased for the portfolio. Exposure to inflationary input costs, such as iron ore and coking coal, provided an opportunity to purchase at low levels. The business is working hard to pass through such cost increases to its end customer. A rebound in the Chinese auto sector is helpful although this should be balanced against a tough property market. The company's strategy is targeting price relief in a difficult market for volumes. More recently management upgraded guidance and dividend outlooks.

Earlier in the year, the portfolio liquidated its position in **Sumitomo Corporation** to purchase **JFE Holdings**.

Sumitomo Corporation is another long-term position of the portfolio that has performed well. The position was purchased more than seven years ago. The uplift in mineral prices has provide a strong tail wind for the group. In addition, the business has succeeded and benefited through structural reforms and transformations that have been operating for some time now. More attractive value was found in **JFE Holdings**.

The new position of **Adecco** was also funded through the liquidation of the long-term position of **Mitsui OSK Lines**.

A drop in containership rates has not prevented **Mitsui** from achieving record profits as energy and car carrier ships continue to generate steady profits. **Mitsui** delivers a very strong dividend. There are question marks over how long such a payout is sustainable. A more mid-cycle approach to valuing the company reveals some overvaluation at the current share price.

Funds from these sales were invested entirely into **The Adecco Group**. This company provides career and staffing solutions and is based in Zurich. Its share price has come under considerable pressure following the purchase in July 2021 of Akka Technologies for $US2.4 billion, the largest acquisition ever made by **Adecco**. Fears of indigestion and the impact of rising rates on the employment market seem to have plagued the share price ever since. **Adecco's** margins and cash conversion have come under some pressure recently as the business invests and takes market share. The discount offered by the share price is attractive given a building growth outlook.

Positions in **Adecco** were also funded through the reduction in holdings of **BNP Paribas**.

BNP Paribas had rallied strongly since last December, creating sizeable gains for the portfolio. This was the case even selling into a falling market courtesy of the Silicon Valley banking crisis. The sale occurred to reduce systemic risk exposure within the portfolio and to reflect better valuation opportunities elsewhere.

Largest holdings Beanstalk Global 15 Portfolio	Largest holdings Beanstalk Global Shares Portfolio
Adecco Shinhan Financial Group Societe Generale	Japanese Shares Adecco Shinhan Financial Group

Fixed interest [12.0% of the portfolio]

The Beanstalk fixed interest portfolio rose **4.0%**. A 7% appreciation in the pound drove capital gains. The growing government bond portfolio generated flat capital returns with interest payments contributing to the overall fixed interest gain for the period.

These portfolio returns outperformed benchmark performance figures generated by bond and credit indices.

Listed property trusts [3.0% of the portfolio]

The **Listed Property Trust** portfolio rose 3.0%, short of its benchmark which generated a return of 3.9%. These returns were generated by **Unibail-Rodamco-Westfield**.

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Cash products [23.0% of the portfolio]

The portfolio is 23% invested in bank bills, term deposits, negotiable certificates of deposit and cash. This investment aims to deliver a gross return in line with the Bloomberg AusBond Bank Bill Index. The net return for the six months was 1.8%. We expect the gross return from cash products to be above 2.0% for the December 2023 half year, as long as there is no major change in the Reserve Bank's monetary policy. The net return generated for the year to June 30, 2023, was 3.02%.

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The Beanstalk Balanced Portfolio

PROFILE OF A $500,000 HYPOTHETICAL PORTFOLIO

CLIENT: **Underlying Portfolio**

PORTFOLIO VALUE: **$ 1,486,720** as at 30-Jun-23

PERIOD SUMMARY	30-Jun-22 to 30-Jun-23
Unaudited pre-tax return	10.0%
Unaudited post-tax return	8.6%
UNAUDITED CUMULATIVE RETURNS	
- pre-tax *	203.1%
- post-tax (assuming liquidation)	169.5%
Tax payable/(losses available):	$ 19,599

* incl. Initial broker acq'n cost to establish portfolio. Inception 2nd June 2005

Underlying Portfolio Sector Exposure

For a hypothetical $500,000 Underlying Portfolio (incl decimals adds to 100%)

Aust shares		***50.0%***
WPL	$	64,218
ORG	$	63,325
WBC	$	32,213
AWC	$	38,144
AVG	$	24,076
MYX	$	22,463
AGL	$	56,128
ABC	$	50,548
AMP	$	67,581
BEN	$	25,066
NUF	$	17,370
SIG	$	29,598
FBU	$	64,469
SXL	$	41,029
SGM	$	24,541
APN	$	28,129
NZM	$	11,889
SGR	$	34,568
SUN	$	12,362
NEC	$	35,080
	$	742,797

Fixed interest	**11.6%**
-Govt bonds/USD/EUR	11.6%
-Corporate debt	0.0%
	$ 172,858
Listed property	**3.1%**
	$ 46,173
International shares	**12.3%**
	$ 182,255
Cash	***23.0%***
	$ 342,637

Fund summary

Aust shares	$	742,797
Internat'l shares	$	182,255
Fixed interest	$	172,858
Listed property	$	46,173
Cash	$	342,637
Total	$	1,486,720

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