

# QUARTERLY UPDATE

ISSUE 40 - Q2 2024

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# Market Update Quarter 2 2024 .....



**By Peter Durbin**  
Chief Investment Officer

**Global Indices were mixed through the June quarter with the winners continuing to be the tech driven indices such as the US Nasdaq 100 and the S&P 500, which were up 8.26% and 3.92% respectively. The UK's FTSE 100 was also up 2.66% and Hong Kong's Hang Seng Index increased by 7.12%. The strength in the UK was unrelated to the tech-driven gains in the US, with banks, healthcare and energy being the main drivers despite weakness in consumer discretionary, while the Hang Seng also benefited from strength in banks, energy, and technology.**

Most other major indices, however, found themselves in negative territory including the ASX All Ordinaries (down 1.72%), the Japan Nikkei 225 (down 1.95%), and the Euro STOXX 50 (down 3.73%).

Notably, it was the US-based Dow Jones Industrial Average (DJIA) that caught our eye, its performance of -1.73% a stark contrast to the large gains in fellow US indices, the S&P 500 and Nasdaq 100. This points to the narrowness of the market that is driving the gains, particularly in the US. In the six months to June 2026, the S&P 500 had 320 stocks finish with positive performance, however, 15 stocks contributed 11.95% out of the 14.48% gained. If we isolate just the June quarter, the number of stocks with positive performance falls to 213, and all of the 3.92% performance came from just four companies: Nvidia, Apple, Microsoft, and Alphabet.

Because the DJIA is composed differently from the others and is not weighted by company size, it tells a very different story to its US counterparts. While I don't believe the Dow Jones is a very useful index to the modern investor (having only 30 stocks that are share price weighted, not market cap weighted), the contrast is telling.

These gains that are continuing in the mega caps are all a result of the spending that is occurring to reap benefits from artificial intelligence (AI). This theme is not new. Indeed, we are now 18 months after the date when the first generative AI bot, OpenAI's ChatGPT, was introduced with much fanfare. More products and product updates have been released by a plethora of other companies since. This is coming at a great expense to those that are offering the products and that spending is flowing only to a few companies. But it is both sides that have been rallying.

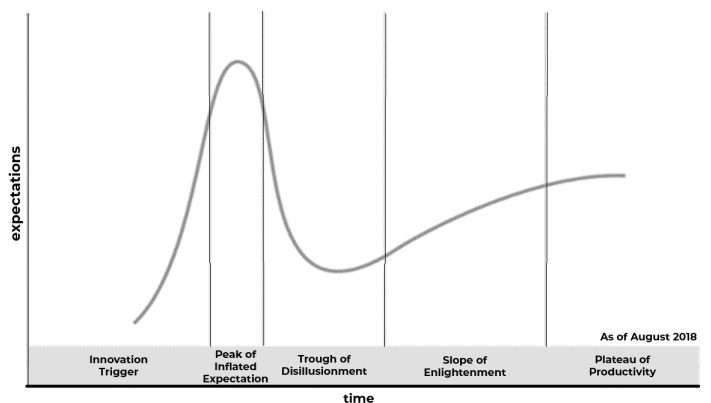
Mega cap tech has been spending big on AI infrastructure to support the products they are launching (or have launched) because to produce an intelligible output (either in the form of text, image, or in some cases video) it takes an incredible amount of computing power, a lot of which

comes in the form of data centre space and high powered graphics processing units (GPUs, or computer chips). This spend has gone from the likes of Meta, Alphabet, Amazon, and Microsoft (as they are developing generative AI products and infrastructure) towards chip makers and designers, primarily Nvidia.

In this time, Nvidia's share price has increased primarily from profit and margin increase, while the share price increase in the others has come more (but not totally) from increased expectations of future profits derived from AI products as a result of the large capital expenditure. This is suggested by the expansion in forward multiple in each of the stocks.

We think the market may be following the Gartner Hype Cycle, which illustrates the perception and excitement of a new technology over time.

## The Hype Cycle



ID: 370163

2018 Gartner, Inc.

While the chart does not directly demonstrate the actions of a market or a stock price, we think the correlation is likely to be similar. If early 2023 was the "Innovation trigger", it is likely we are now somewhere within the "Peak of Inflated Expectation".

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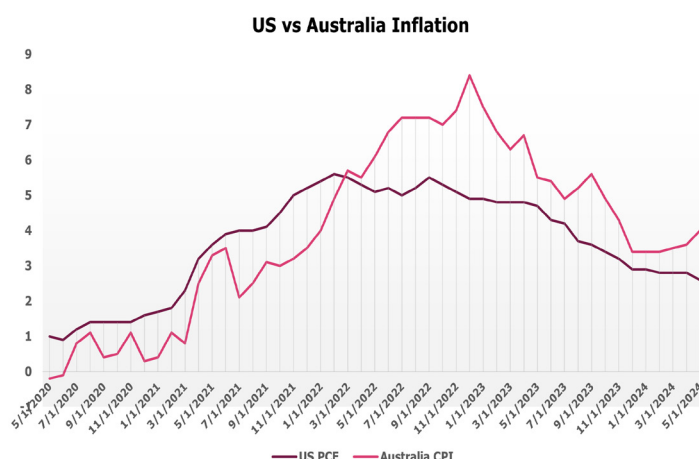
# Oracle Q2 2024 Market Update

To put a market flavour to this, some investors and the media appear to be asking more questions about this capital expenditure as to when it will turn into profits. And rightly so. The truth is, with hundreds of billions of dollars spent on AI capital expenditure in 2023, 2024, and 2025, the revenue being earned on AI products is minimal, and the productivity gains seen from the use of these products are also not meaningful yet either. The reasons why are not important to this discussion, but when the market comes to this same realisation, it could lead into the “Trough of Disillusionment”, which would not be positive for the so-called Magnificent 7 until real, measurable revenue impact is seen in the “Slope of Enlightenment”.

Which brings us back to the narrowness of the rally. If the largest contributors to the strong performance is coming from a handful of the largest companies in the index, what happens if these companies stop performing? We aren't in the business of making broad predictions about indices (indeed, our investors are not invested in the indices either), but we are invested in some of the same companies, and we do think this poses a real risk to the performance of some indices. This is why we have reduced some exposure to select tech stocks to both lock in some profits and reduce the risk of overexposure to a sector that continues to heat up.

More than ever this points to the importance of owning high quality businesses with defensible, recurring earnings that are trading at a reasonable valuation. This is the strategy we employ across our equities portfolios and is the strategy we will back in any time of market turbulence.

The market continues to obsess over interest rates with each month bringing new data and new opinions. We continue to believe that rate cuts are unlikely anytime soon, with the US more likely to cut before Australia does. The main reason why is the difference in inflation trajectory. The US personal consumption expenditures (PCE), which is the Federal Reserve's preferred measure of inflation, continues to fall and its most recent reading, in May, was 2.6%. This is getting close to the Fed's target of 2%. Australia, on the other hand, has also seen a marked reduction from the peak, however, progress has stalled and CPI has not fallen at all in 2024, having increased to 4.0% at the last reading in May, well above the target range of 2-3%.



Source: ABS, BLS

This is ringing alarm bells and some economists are forecasting more rate hikes, not cuts. Christopher Joye opined in the AFR last month that the reason he believes rate hikes are on the cards is because the RBA did not raise the cash rate high enough in the first place. He argues the RBA should have followed in the footsteps of other central banks in the UK, Canada, New Zealand, and the United States in increasing the rate to over 5.0%. With a strong labour market and strong aggregate demand underpinned by large budget deficits, there was no case for stopping at 4.35% as the RBA has, except for political pressure.

Indeed, the Australian market has now priced in zero to less than one rate increases in the next 6 months, while the US market is expecting 2.5 cuts. Canada and the European Central Bank have already begun their rate cutting cycle. We won't bet the farm either way, but continue to manage your capital with prudence with a goal to achieve strong risk adjusted returns. We believe our performance across our strategies is the outcome of this way of money management.

# Oracle Global Equities Portfolio Update



**Johan Snyman**

Portfolio Manager

The Global Equities Portfolio finished the second quarter of 2024 with a gain of **1.11%** relative to our benchmark, the MSCI ACWI ex Australia (in A\$). On a 12-month basis, the relative outperformance is **3.63%**. It is also worth highlighting the two-year performance, with a **21.32%** p.a. return, against the benchmark's **17.84%** p.a. return.

It is fair to say we have our sights now set on the Global portfolio's three-year performance, with your new (old) Portfolio Manager now managing the Global portfolio for just over two years. The risk parameters such as the Sharpe and Information Ratios have been improving which implies the returns generated are of good quality relative to risk.

Notable contributors to the outperformance in the quarter under review are the three semiconductor names in the Global Portfolio (Nvidia, TSMC and Qualcomm), and Alphabet. An analysis of the benchmark reflects only three sectors delivering a positive contribution in the quarter under review – Information Technology, Communication Services and Utilities. An attribution analysis of the quarter performance reflects on the four stocks accounting for more than 2.25x the total performance of the Global portfolio – it is no wonder many market commentators keep referring to market concentration.

Large just keeps getting bigger – the S&P500 equal weight Index relative to the S&P500 Index is now at its lowest levels since the Global Financial Crisis (GFC) going back to 2008 and 2009 (see chart right).

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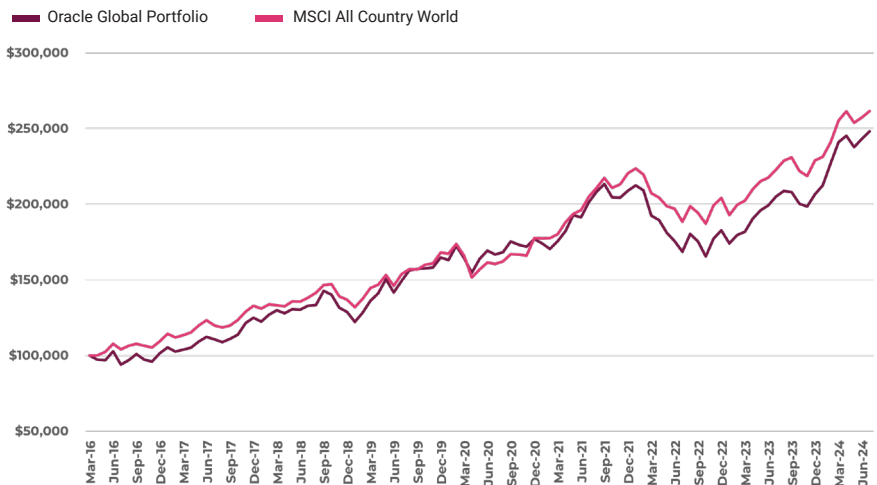
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## Portfolio Performance

Rolling	Global Equities Portfolio	Benchmark (MSCI All Country World Index)	Outperformance
3 month	1.15%	0.04%	1.11%
6 month	16.84%	13.06%	3.78%
1 year	21.02%	17.39%	3.63%
2 year p.a	21.32%	17.84%	3.48%
3 year p.a	7.22%	8.47%	-1.25%
5 year p.a	10.71%	11.21%	-0.50%
Since Inception p.a (1 March 2016)	<b>11.52%</b>	<b>12.23%</b>	<b>-0.71%</b>

## Comparative Performance

Global Equities vs MSCI All Country World (since inception)



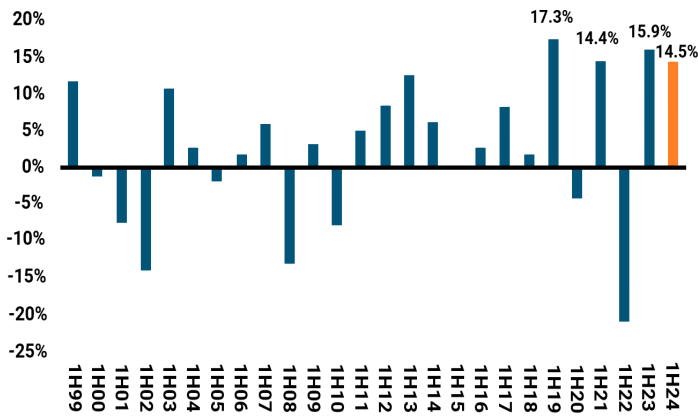
# Oracle Global Equities Portfolio Update

According to The Kobeissi Letter, this ratio has accelerated as the S&P 500 has rallied by 14% while the equal-weight has advanced by just 5%, since the start of 2024. The disconnect has been driven by the five largest stocks which have seen a 32% gain combined this year.

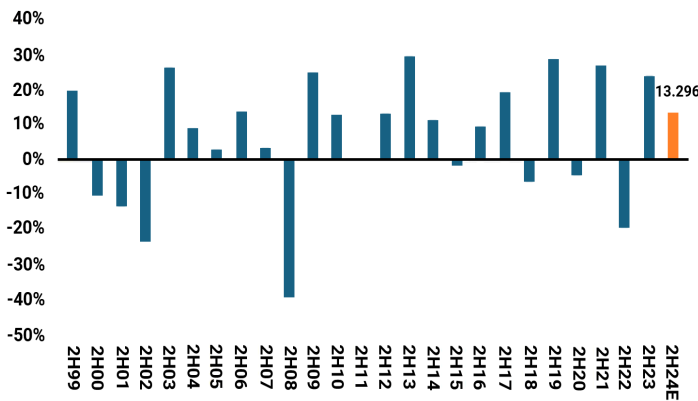
Since January 2023, the S&P 500 is up a massive 41% while the equal-weight index is up just 16%. At the same time, Russell 2000 Equal Weight is flat, up just ~3%.

According to Piper Sandler, the performance of the S&P 500 during the first half of 2024 (1H24) is one of the top three best first half periods in the last 25 years. If we take consensus for the S&P 500 at the end of 2024, the implication is a challenging second half.

**S&P 500 - % change in 1Hs**



**S&P 500 - % change in 2Hs**



**Nvidia** was (again) the top performer for the quarter, followed by **TSMC** (again) and **Alphabet**.

Have you heard of St Vidia's Day? It is a predictive rhyme written about Nvidia's earnings results. Nvidia is the clear market leader in graphic processor units (GPUs). GPUs were initially designed for parallel processing to enable computer and gaming consoles to process richer 3D graphics more quickly than the standard central processing units (CPU) that computers come with.

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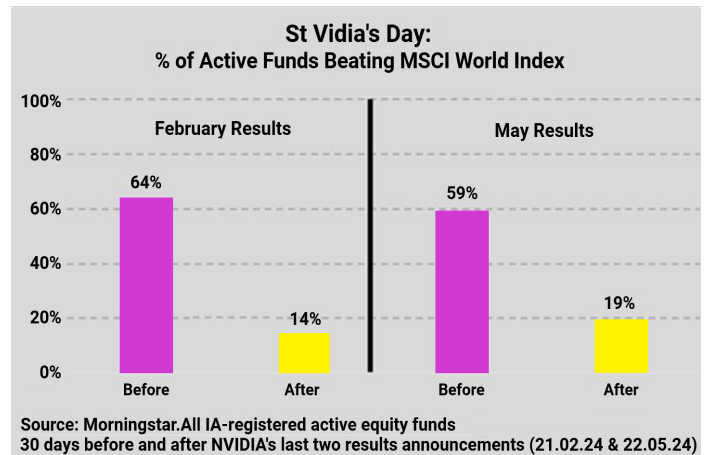
Its applications today have significantly broadened and are now at the heart of the computing system. In the Cloud/ Data Centre environment their GPUs are used to execute algorithms needed to power Artificial Intelligence (AI) models.

Here is the rhyme:

*'St Vidia's day, if results do beat  
Active managers knocked off their feet  
St Vidia's day, if thou doth fail,  
Index funds shall turn so pale.'*

The predictive rhyme held true for May 2024 – the AI semiconductor leader beat expectations, and active managers were knocked off their feet.

In the 30 days before, 59% of active funds were ahead of the global market. In the 30 days since, only 19% of them managed the same feat.



Footnote: true to form, 30 days' later the market has started to broaden out again, helped by Nvidia's steep correction over the last week or so in the Q under review.

The next St Vidia's Day falls on 21st August (second quarter results). Place your bets...

During the quarter, we initiated one new position in **Zoetis** (ZTS). It took the tally of stocks in the Global portfolio to thirty-one.

**Zoetis** is the market leader in animal health care. Only three companies of the top six in animal healthcare are listed – Zoetis, Elanco (the Eli Lilly spin-off) and Virbac. In terms of size, margins and returns, Zoetis occupies the top spot.

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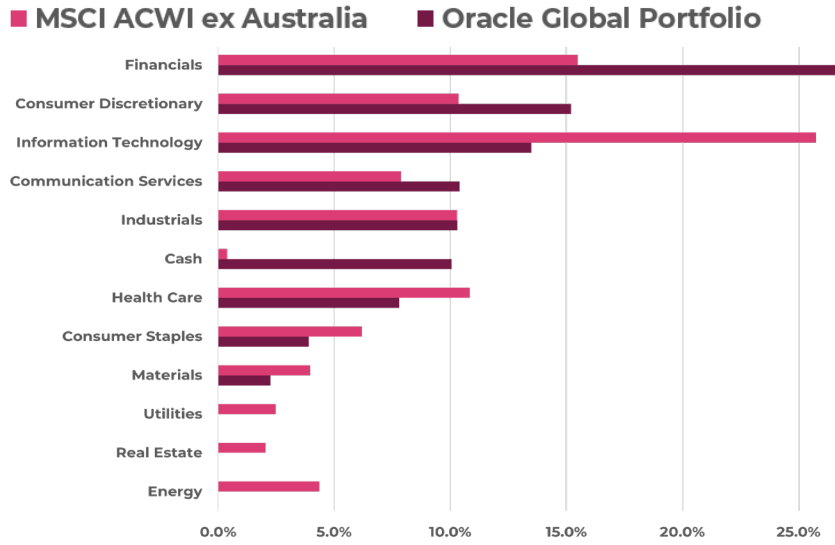
# Oracle Global Equities Portfolio Update

We had to exercise a lot of patience with our **Zoetis** purchase – we completed a company research report in September 2023, with the recommendation that an investment in **Zoetis** would in no way harm the quality of the Global portfolio – its high margins and premium returns would be supportive of the Global portfolio’s overall quantitative characteristics. It was only a matter of valuation – seven months later the stock price had fallen back below our updated fair value, presenting a good opportunity to execute our purchase.

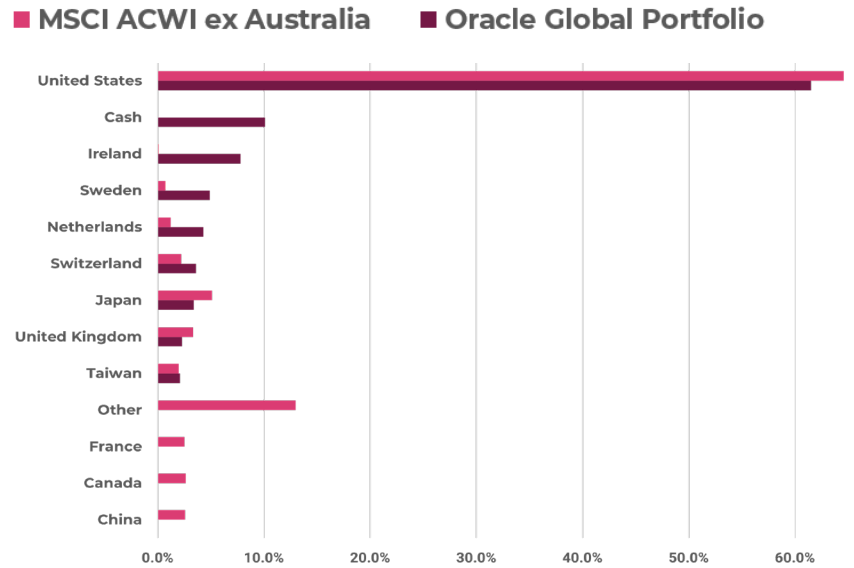
Besides the new position in Zoetis in the quarter under review, we added to the Global portfolio’s weighting in **Vertex Pharmaceuticals, Corpay (the old Fleetcor), TSMC** and **General Electric**.

During the quarter under review, we trimmed the weightings of **JPMorgan** and **Nintendo**, and then towards the end of the quarter, the three semiconductor companies in **Nvidia, Qualcomm** and **TSMC**.

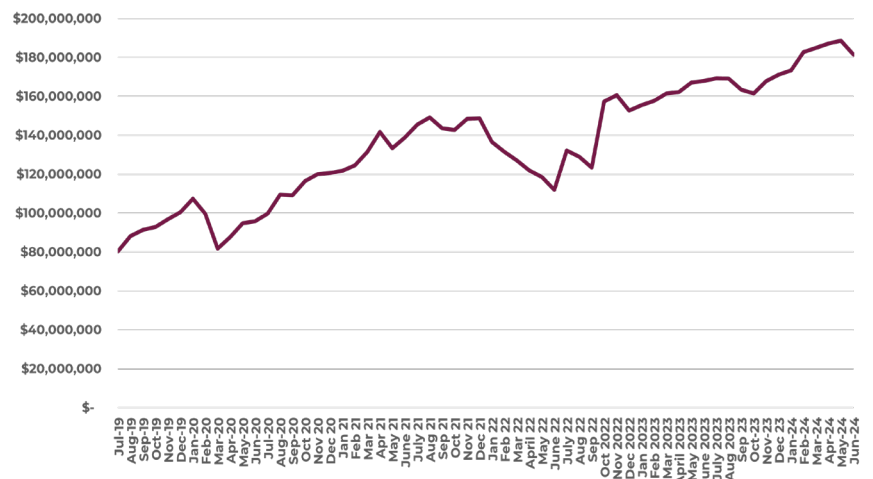
## Market Segments



## Geographic Exposure



## Funds Under Management (since inception)



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# Oracle Global Equities Portfolio Update

Top 10 Performers	Portfolio Position	3 month Performance
Nvidia	3.13%	33.69%
TSMC	2.06%	21.79%
Alphabet	6.44%	17.88%
Qualcomm	1.98%	15.98%
Costco	3.90%	13.56%
GE Aerospace	2.21%	5.79%
Vertex Pharmaceuticals	2.83%	8.60%
Zoetis	2.59%	7.92%
Adobe	1.83%	7.63%
Investor AB	3.90%	7.06%

Portfolio Characteristics	Portfolio	Index
Forward EPS Growth - 3 years	18.1%	15.0%
Price/Earnings Forward - 1 year	21.3	17.6
PEG Ratio	1.18	1.17
Dividend Yield	1.1%	2.1%
Return on Equity (RoE)	19.3%	13.4%
Return on Invested Capital (ROIC)	12.9%	6.9%
Operating Margin	18.4%	12.7%
Gearing (Debt/EBITDA)	1.5	2.3
Beta	1.08	
Number of Holdings	31	2,352

Portfolio Overview	
<b>Investment Manager</b>	Oracle Investment Management Pty Ltd
<b>Investment Objective</b>	To provide investors with long-term capital growth and tax effective income. The portfolio aims to outperform its benchmark over a rolling 7-year period.
<b>Investment Strategy</b>	To use active bottom up stock selection, focusing on buying quality securities at reasonable prices. The securities are assessed as meeting our investment criteria of strong earnings growth and as likely to provide attractive returns to investors.
<b>Benchmark</b>	MSCI ACWI ex Australia in A\$ (unhedged)
<b>Investment Universe</b>	Primarily large cap international securities listed on major international exchanges. Portfolio may invest in listed ETFs.
<b>Recommended Investment Period</b>	3 - 5 years
<b>Minimum Initial Investment</b>	\$50,000
<b>Inception Date</b>	1 March 2016

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# Oracle Australian Equities Portfolio Update



**George Kurian**  
Portfolio Manager

It is the end of the financial year. It is scoreboard time. How have we done over the last year? The Australian Equities Portfolio has returned **14.9%**, which is a return that is about 22% higher than the benchmark's return of **12.2%**. While one year is not our main performance indicator, it nevertheless provides a mid-term assessment. Active investing should be about generating value for clients beyond the mere passive 'Noah's Ark' style of investing. If we could generate similar outperformance over the next couple of years, we would have helped the retirement accounts to go much further than that obtained by just slavishly following the indices. That is impacting people's lives positively, and we are thankful that active funds management allows us such an opportunity.

The Australian stock markets pulled back in the quarter after the strong rise in the first quarter. The key reason was the continued interest rate uncertainty. While many global central banks such as the European Central Bank and the Bank of Canada have cut rates, the all-important US Fed is still in hold mode. Moreover, the Reserve Bank of Australia (RBA) has discussed raising rates, adding more fire to the melting pot of global rates uncertainty. Without clear direction on the trajectory of the interest rates, it is as if the stock markets decided to take some profits in Q2 especially considering the strong rally over the last six months.

It is often said that in one's search for truth, one would come across 'known knowns', 'known unknowns', 'unknown knowns' and 'unknown unknowns'. Finding the alpha truth in our market Odyssey is no different. We pick the stocks based on known knowns, i.e. facts about companies which we know, and which is public information.

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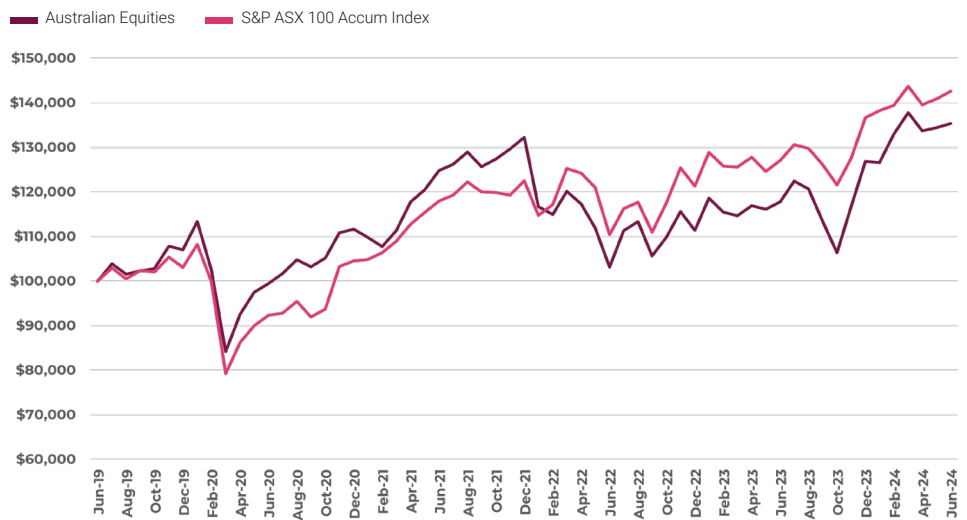
## Portfolio Performance

Rolling	Australian Equities Portfolio	Benchmark (S&P ASX 100 Accumu Index)	Outperformance
3 month	-1.77%	-0.80%	-0.97%
6 month	6.66%	4.33%	2.33%
1 year	14.90%	12.23%	2.67%
2 year p.a	14.54%	13.67%	0.87%
3 year p.a	2.73%	6.52%	-3.79%
Since Inception p.a (1 July 2019)	6.24%	7.35%	-1.11%

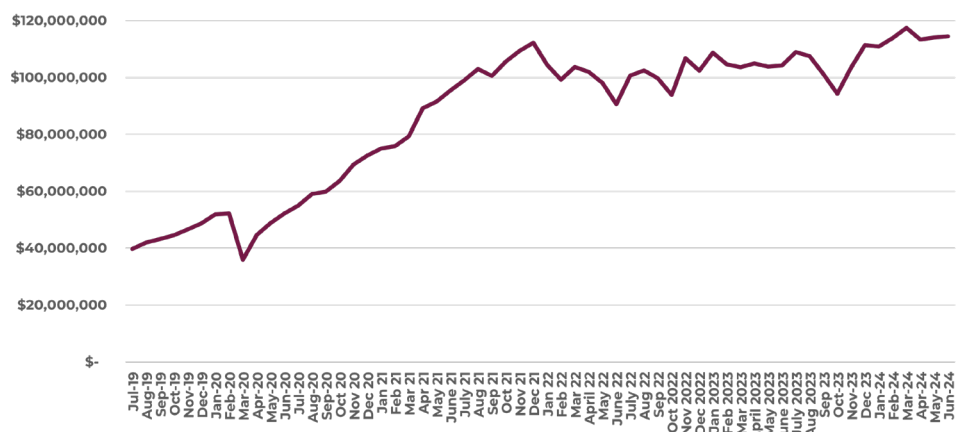
Benchmark data is S&P/ASX200 Accumulation Index prior to 1/7/2022.

## Comparative Performance

Australian Equities vs S&P ASX 100 Accum Index (since inception)



## Funds Under Management (since inception)



# Oracle Australian Equities Portfolio Update

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The interest rate trends are a classic example of a known unknown. This is because while we know that the interest rates could rise or fall, the exact trajectory and the timing of that change is unknowable. We spend most of our time trying to reduce the unknown knowns. This is done by constantly tracking new stock/industry developments, and by seeking out information to provisionally confirm or disconfirm our own hypotheses about the future of our companies. The unknown unknown is 'The hand of God', which the humans can neither predict nor understand the full impact even after the tsunami has hit. However, we try to soften this unknown hand by being conservative – in stock picking with a margin of safety, in portfolio management with conservative weights, and in risk management with diversification. Hence, in our quarterly letters, we always try to discuss more about the 'knowns' like individual stocks and sectors, and less about the 'unknowns' like the big macro-economic variables.

**The top 5 'known' winners for the quarter were Pro Medicus, GQG, Newmont, Fisher & Paykel Healthcare and Aristocrat Leisure.**

## Pro Medicus (PME)

PME was a holding for many years in our Emerging Companies Portfolio. As PME has now graduated into the ASX 100, we initiated a position in the name in the Australian Equities Portfolio. PME provides medical imaging technology to hospitals, primarily in the US. The key product is Visage 7, which is a cloud-based imaging solution used in Radiology. The earnings are highly defensive due to the contracted nature of the income stream, and there is a large runway for growth as the market penetration is still at an early stage. The stock ran as Pro Medicus continued to sign new contracts. The most recent announcement was about five new customer contracts with a combined minimum value of A\$45m. The new clients are a diverse group with two children's hospitals, two private radiology groups and a cancer centre. These contracts are also transaction based with further potential upside from volume usage.

## GQG partners (GQG)

GQG continued its surge as the total Funds Under Management (FUM) as of May 31st, 2024, reached US\$150.1bn (up from a 'mere' US\$104.1bn as of 30th June 2023). International Equity (i.e. Global excluding United States) FUM reached US\$58.9bn, Global Equity FUM reached US\$37.6bn, Emerging Market Equity FUM reached US\$41.1bn, and US Equity FUM reached US\$12.5bn. Over the last year, GQG has also been the best performing stock in the portfolio with returns of about 123%.

## Newmont (NEM)

Newmont was up strongly in April as it reported strong Q1 2024 results. The average realized gold price was US\$2,090/oz up from US\$2,004/oz in Q4. Attributable gold production was 1.68 million ounces (Moz). Gold AISC (All in Sustaining Costs) was US\$1,439, down from US\$1,485 in Q4. Adjusted earnings before interest, taxes, depreciation, and amortisation (EBITDA) was up 22.6% over the prior corresponding quarter to US\$1,694m. Adjusted net income per diluted share was up 19.6% over the prior

corresponding period to \$0.55 per share. For FY24, Newmont expects the attributable gold production to be 6,930 thousand ounces.

## Fisher & Paykel Healthcare (FPH)

Fisher & Paykel is one of the best companies on the ASX. Why? It has perfected the 'Razor and Blades' business model with 89% of its total revenues coming from consumables. This is because these consumables need to be changed every couple of weeks as they are used in the Intensive Care Units (ICU) of hospitals, and for Nasal High Flow (NHF) therapy post extubation when patients are weaned off the ventilators. Fisher's NHF therapy is replacing older therapies which require manual titration for oxygen flow. Fisher also has a home care division that caters to the Sleep Apnea patients where Fisher's CPAP device (Continuous Positive Airway Pressure) is the No. 3 player after ResMed and Philips. The stock price increase this quarter was driven by the strong FY24 result. Revenues increased 8% over the prior year in constant currency and operating profit was up 10%.

## Aristocrat Leisure (ALL)

Aristocrat reported strong 1HFY24 results with its gaming machines market share in North America reaching 40%. Aristocrat is also capturing nearly 100% of the industry's net additions of gaming machines. Its installed base of leased units is now the combined size of the next two largest competitors in Light & Wonder and IGT. We remain bullish on Aristocrat as more US states are also likely to allow real money gaming over the next couple of years. Aristocrat is one of our top 5 positions.

A few positions went against us this quarter. Starting with Block (SQ2), which retraced most of the YTD gains, thanks to the news of regulation in the Buy Now Pay Later (BNPL) sector. However, we view the credit card type regulation on the BNPL sector as the inevitable maturing of the sector. Specifically, this would mean that Block must provide additional services such as refund charges on returned products or cancelled services, provide consumers with detailed billing statements etc.

## James Hardie's (JHX)

James Hardie's 4th Quarter FY24 results were modestly below expectations and the FY25 guidance was well below the market expectations. This is due to the ongoing slowdown in the US due to the high interest rates, and as consumers are delaying repair and remodelling spend. We trimmed some weights when James Hardie's stock was flying high, and so the portfolio impact is only modest. Given such a high-quality fibre cement business, we are keen to hold James Hardie through the cycle for the eventual housing upturn.

There was no major news on lithium stocks like **Arcadium Lithium (LTM)** and **Mineral Resources (MIN)**. Given the volatility in the lithium prices, lithium stocks are highly volatile especially viewed on a short-term time frame. While the Spodumene and Lithium Hydroxide prices have fallen significantly over the last 18 months, the 2024 forecast is for the prices to stabilize or modestly increase. This is because the lithium miners have been closing

# Oracle Australian Equities Portfolio Update

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mines and reducing production, so supply should eventually match the demand. The drop in lithium prices has been driven by the slowdown in electric vehicle (EV) sales. However, given the secular growth prospects as automobiles shift from Internal Combustion Engines (ICEs) to electric vehicles (EVs), we expect the demand slowdown to be only cyclical in nature.

## Reliance Worldwide (RWC)

Reliance pulled back after the trading update when it reconfirmed the trading outlook for FY24. Over the last year, Reliance's stock price moved from about \$4.00 to \$5.87 at the peak and is now back to about \$4.40. We booked profits twice in the company this year when the stock was running high, and so we currently have only 0.8% weight in the name.

## BOUGHT

### Perpetual (PPT)

Is Perpetual a perpetual whipping boy? Even a cursory glance at this company's disaster stories in the financial press would make one think so. There are good reasons to support this 'perpetual underperformer' argument. Perpetual has created no excess returns for shareholders going back as far as the turn of this millennium. However, even this seemingly perpetual dark cloud has a silver lining. Given Perpetual's current FUM of \$225bn, there is room for significant operating margin improvement as the current margins are much lower than where they should be given the size and scale of the core business. We are also likely to be at the end of FUM outflows for Perpetual, which should facilitate the recovery. The current CEO would be gone in a year, Perpetual's Wealth Management and Corporate Trust business would be sold to Kohlberg Kravis Roberts (KKR), and so at the new focused Perpetual, even an average CEO would be able to reduce the bloated costs. Moreover, Perpetual's largest shareholder, the highly respected Washington H Soul Pattinson (ASX:SOL), is also now in the fray having offered \$27 for the stock last December as part of a complex deal. While we await the completion of the KKR deal and the new CEO, we are paid about 7% forward dividend yield to wait.

### ResMed (RMD)

One of the idiosyncrasies of the stock market is that one stock can give multiple profit harvests. In August last year ResMed dropped severely on worries that the new weight loss drugs would severely impact ResMed's CPAP (Continuous Positive Airway Pressure) business for Obstructive Sleep Apnea (OSA). We said 'No' and topped up. Mr. Market said 'No, you are wrong' and pushed the stock down further. ResMed in its quarterly reports quantified the large Sleep Apnea market and provided reassuring trends on the once declining gross margins. The stock rebounded from about \$22.00 to about \$33.00 and was one of the best performers for us in 2024. However, another round of worries started after Phase 3 clinical trial results came out for a new weight loss drug – Eli Lilly's Stepbound. The results also announced a headline grabbing 'disease resolution' for about 51.5% of the OSA patients. So, the market reasoned that OSA cure while good for patients wouldn't

be so good for ResMed. As we write this, the stock is now back down to our average cost. However, there are several issues here for the weight loss drugs to address before achieving 'the cure'. First, the OSA market is very large at about 1 billion people and with a very poor diagnosis rate (about 20% in the US and 10% in the international markets). Given that the main issue for OSA is the lack of awareness (snoring a longevity problem? Not for our fathers and grandfathers), weight loss drugs would increase the OSA awareness as patients seek medical help. Second, the cost for GLP-1 therapy is about US\$12,000 p.a. compared to CPAP's \$350 p.a. (plus the initial cost of about US\$1,000 for ResMed's AirSense). This price difference along with the potential unpleasant side effects from weight loss drugs, means that mild to moderate OSA patients are likely to be prescribed CPAP first. Finally, the study also indicated that the best results were obtained with a combination of weight loss drugs and CPAP therapy. As to the claims of a 'cure', it is important to note that for real life results to match the clinical trial results, OSA patients should only consume less than 500 calories a day. Given that the weight loss seeking patients are not exactly famous for their spartan self-disciplines, we are happy to bet that the 'Giants of Fast Foods' just won't say 'No' to the quick and easy delights of gourmet pleasure.

### Pro Medicus (PME)

As noted above, in April this year we added Pro Medicus to the Australian stock portfolio. This medical stock performed well, returning 38% to for the quarter against ASX100's 0.59% return.

### Aristocrat Leisure (ALL)

Taking advantage of the price weakness during May, we significantly increased the position in Aristocrat Leisure. In hindsight that addition proved timely as the stock surged 12.3% on 16th May, the day it announced its results, and is now about 25% higher.

### Block (SQ2)

If someone would ask for the top 5 ASX 100 stocks likely to give the most returns over the next 5 years, Block would surely be on our list. In that context, what do you do when the market sells off such a heavyweight stock for a lightweight reason? We say 'lightweight reason' because the entire BNPL (Buy Now Pay Later) gross profits are only about 7% of Block's total gross profit. So, the entire company gets sold off because of some regulatory concerns on a part of that 7% BNPL profits. What would you do in that scenario? We chose to increase our weight.

### Atlas Arteria (ALX)

We increased our position in Atlas as the stock had pulled back and the forward dividend was about 7.6%. While US interest rates are not likely to fall steeply this year, the European rates are more likely. Atlas, with its key toll road in France, would be a beneficiary in that scenario. Meanwhile, the Atlas CEO has resigned, and we expect a new CEO to be chosen who is more acceptable to IFM. IFM, ALX's largest shareholder, has also been increasing its stake, which gives us further confidence in the long-term strategic direction.

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*Please see the Important Information disclaimer on the back page.*

# Oracle Australian Equities Portfolio Update

## SOLD

**Goodman (GMG), WiseTech (WTC), Wesfarmers (WES), Carsales (CAR), Reliance Worldwide (RWC), GQG Partners (GQG), Macquarie Group (MQG)**

All these stocks rallied strongly over the last year so we decided to take some profits as part of the portfolio risk management.

### ANZ Group (ANZ) & Westpac (WBC)

In the quarter, we continued the sale of our last two banking positions in ANZ & Westpac. For the first time in many years, we have no exposure to the big 4 Australian Banks, which we consider overvalued and unlikely to generate alpha over the next couple of years.

## Portfolio Overview

<b>Investment Manager</b>	Oracle Investment Management Pty Ltd
<b>Investment Objective</b>	To provide investors with tax effective income, dividends and capital growth. The Portfolio aims to outperform its benchmark over a rolling 3 to 5 year period.
<b>Investment Strategy</b>	To use active stock selection to invest in quality businesses. The businesses are assessed as meeting our investment criteria of a high return on equity, growth potential and their ability to consistently deliver dividends to investors.
<b>Benchmark</b>	S&P/ASX 100 Accumulation Index
<b>Investment Universe</b>	Companies listed on the ASX that have a market capitalisation similar to those in the S&P/ASX 100 Accumulation Index.
<b>Recommended Investment Period</b>	3 - 5 years
<b>Minimum Initial Investment</b>	\$25,000
<b>Inception Date</b>	1 July 2019

Top 10 Performers	Portfolio Position	3 month Performance
Pro Medicus	1.37%	40.66%
GQG Partners	5.29%	28.70%
Newmont	4.70%	18.88%
Fisher & Paykel Healthcare	1.49%	18.45%
Aristocrat Leisure	3.87%	16.64%
WiseTech	2.78%	6.76%
REA Group	0.98%	6.03%
Steadfast	0.48%	5.10%
Macquarie Group	4.63%	4.57%
Goodman	2.23%	3.23%

Portfolio Characteristics	Portfolio	Index
Historical EPS growth - 3 years (Median)	8.8%	12.7%
Forward EPS Growth - 3 years	13.5%	8.1%
Price/Earnings Forward - 1 year	18.6	16.6
PEG Ratio (Median)	2.15	1.89
Dividend Yield	3.0%	3.9%
Return on Equity (Median)	9.9%	8.8%
Return on Invested Capital (Median)	8.6%	7.7%
Operating Margin (Median)	22.1%	14.5%
Gearing (Debt/EBITDA)	0.86	1.41
Beta	1.09	
Number of Holdings	35	206

Please see the Important Information disclaimer on the back page.

# Oracle Emerging Companies Portfolio Update



**Jack Magann**  
Portfolio Manager

The Emerging Companies Portfolio had a strong financial year, returning **17.87%**. This compares to our benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which returned **9.34%** over the same period. Outperforming our benchmark by **8.53%**. Pleasingly, the portfolio also outperformed the large-cap index, the S&P ASX300 Accumulation Index, by **5.95%** for the financial year.

For the quarter, the Small Ords Index was down **-4.46%**, after the index had a strong start to FY24, returning **14.45%** in the first 9 months of the year. With Australian inflation coming in higher than expected during the quarter, there is concern that the Reserve Bank of Australia (RBA) may need to raise the cash rate again. This caused investors to sell down Australian equities during the quarter. Pleasingly though, although still a slightly negative result at **-0.51%**, the Emerging Companies Portfolio had an excellent quarter relative to the Small Ordinaries Index, outperforming it by **3.95%**. We have previously discussed our focus on preserving capital in market drawdowns, while still capturing the upside in a bull market. Our quarterly and financial year performance is a good example of this, as we have minimised the drawdown in the June quarter, increasing our strong outperformance for the twelve months.

We will start our company commentary with discussing **Webjet**, which we wrote about in our March quarterly newsletter. Post completing deep research on Webjet's bed bank business, WebBeds (a wholesale hotel bed distributor), we added to our position in the March quarter. The following comment was made in the March quarterly letter, "our research led us to the conclusion that the market was missing the strength and potential growth of Webjet's hotel bed bank business." This was proved correct, and the market is now starting to appreciate the WebBeds business.

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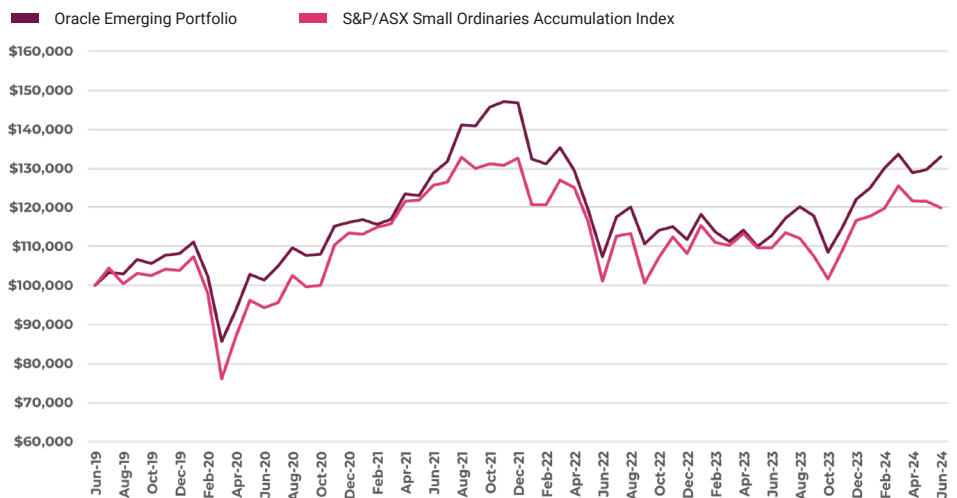
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## Portfolio Performance

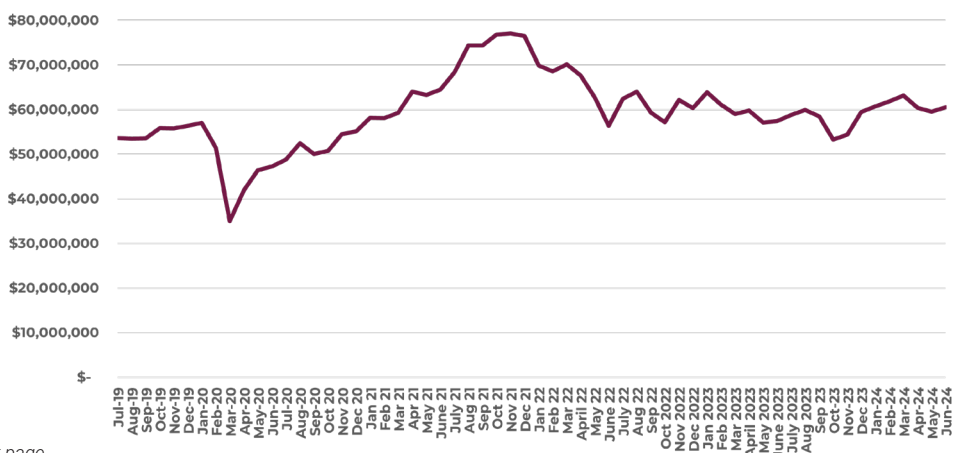
Rolling	Emerging Companies Portfolio	Benchmark (S&P/ASX Small Ordinaries Accumulation Index)	Outperformance
3 month	-0.51%	-4.46%	3.95%
6 month	8.94%	2.75%	6.19%
1 year	17.87%	9.34%	8.53%
2 year p.a	11.29%	8.89%	2.40%
3 year p.a	1.08%	-1.55%	2.63%
Since Inception p.a (1 July 2019)	5.87%	3.70%	2.17%

## Comparative Performance

### Emerging Companies vs S&P/ASX Small Accum Index (since inception)



## Funds Under Management (since inception)



# Oracle Emerging Companies Portfolio Update

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As mentioned, we performed extensive work on the company just prior to the FY24 result release in May so there were no real surprises in the numbers. However, it did come as a surprise that management announced the plan to demerge WebBeds from Webjet and list it as a standalone company on the ASX. It is positive to see management being proactive in unlocking shareholder value and the market appreciated the announcement on the day, pushing the share price up 9%.

With WebBeds currently trading below its peers in terms of valuation, a standalone listing should earn a re-rate of the profit multiple that the business trades on. We look forward to further information on the demerger being released in the second half of 2024.

Another company to report their financial results during May was **SmartPay**. SmartPay provides payment terminals to small and medium businesses. The differentiator to their business model in Australia is the “no-cost” plan for merchants. Unlike the incumbents, which are normally the big banks that charge a monthly fee to the merchant, SmartPay allows the merchant to pass on the surcharge fee to their customers. This is taking the cost of accepting payment cards out of the merchant’s business, which can be significant depending on the turnover of the business. SmartPay continues to grow terminal numbers in Australia.

The biggest news to come out of the SmartPay announcement was that the company is close to launching the above Australian model in New Zealand. Currently, SmartPay has 30,000+ payment terminals in New Zealand, however, they are on a rental model as opposed to the “no-cost” model in Australia. The significance here is that SmartPay can transfer their current customer base from paying a monthly terminal fee to passing the cost on to their customer. With revenues per annum received by SmartPay for the average terminal in Australia 10x higher compared to a New Zealand terminal, the potential revenue growth for the company is significant.

We expect the company to start rolling out the new model in New Zealand at the start of 2025 and should see good uptake amongst their current customer base.

During the quarter we added to our position in radiology provider **Capitol Health** which has already yielded a positive result. After adding to our position at a price of 24 cents, we were very happy with the announcement that Capitol had received a merger offer from Integral Diagnostics for an offer price of 32.64 cents.

This offer played into our thesis, as we believed Capitol was trading too cheaply at 6x EBITDA. With constant reports in the media that private equity firms were circling Australia’s radiology assets, Capitol Health was ripe for the picking, trading at the lowest valuation compared to peers.

After having a tough time during the pandemic, we believe Capitol is at a low in earnings and will ride multiple tailwinds over the next 5-10 years. With a growing and ageing population, Capitol’s radiology services will be in strong demand. Couple this with a step up in Medicare revenue for MRI scans in 2025 and 2027, which will significantly benefit Capitol’s MRI fleet.

We expect further news around the Integral and Capitol merger this quarter. For now, we hold our position in Capitol as there is still upside to the merger price compared to Capitol’s price today.

## BOUGHT

### Helloworld – Add 1%

We increased our position in Helloworld during the month as the company still sees strong demand for their travel agency services. The company updated the market with March quarter trading numbers last week and reiterated its FY24 guidance. Given the company trades at an EV/EBITDA ratio (enterprise value to earnings before interest, taxes, depreciation, and amortization) of less than 5x, with \$80m of cash on hand and no debt, the company is well-positioned to take advantage of any acquisition opportunities that present themselves. Their recent acquisition of Express Travel Group is performing well, and the company is realising the expected synergies they called out when the acquisition was made.

### Capitol Health – Add 1.4%

Discussed above.

## SOLD

### Abacus Group – Full Sell

We bought Abacus Group prior to the group de-stapling Abacus Storage King. Our view at the time of purchase was that post the de-stapling both securities would be trading at significant discounts to their net tangible assets (NTA). While that is still the case for Abacus Group, which is trading at a 43% discount to NTA, we decided to decrease our exposure to property within the portfolio. With rates now expected to remain higher for longer, property valuations are expected to decline further and borrowing costs will remain elevated. Given that Abacus is highly exposed to office property we decided to exit the position.

### Lovisa Holdings – Trim -0.5%

We trimmed Lovisa after the position had become one of our largest in the portfolio. This decision was made to take some risk off the table; however, the company remains one of our top positions given our positive view on their future.

### Seven Group Holdings – Trim -1.4%

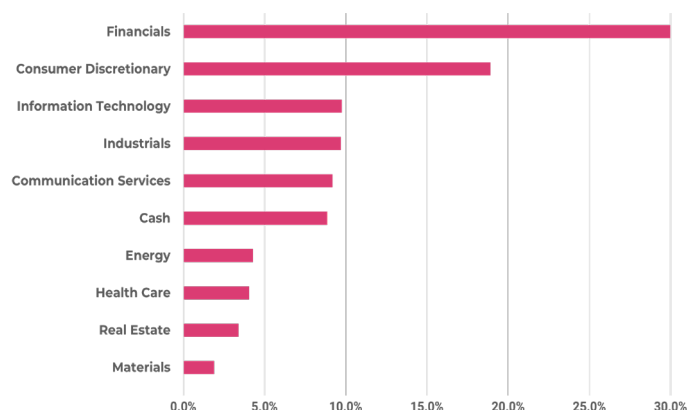
We reduced Seven Group to 4% of the portfolio after it had become one of our larger positions. We remain confident that their businesses of Westrac, Coates and now Boral, will continue to achieve double-digit earnings growth over the medium term.

### Pro Medicus – Transferred to the Australian Equities Portfolio

As Pro Medicus has moved into the ASX 100 we have transferred the position to the Australian Equities Portfolio, so clients will still hold this high-quality business, albeit in a different portfolio.

# Oracle Emerging Companies Portfolio Update

## Sector Breakdown



## Top 10 Performers

Top 10 Performers	Portfolio Position	3 month Performance
Capitol Health	3.08%	28.57%
Yancoal Australia Ltd.	1.93%	26.34%
Navigator Global	2.84%	23.78%
Energy One Limited	0.73%	23.00%
Pinnacle Investment	4.32%	21.93%
Macquarie Technology	4.30%	18.82%
EQT Holdings	3.44%	8.84%
Pacific Current Group	4.06%	8.63%
AUB Group	4.38%	6.56%
Netwealth Group	1.98%	4.97%

## Portfolio Overview

<b>Investment Manager</b>	Oracle Investment Management Pty Ltd
<b>Investment Objective</b>	To provide investors with long-term capital growth and tax effective income. The Portfolio aims to outperform its benchmark over a rolling 3 to 5 year period.
<b>Investment Strategy</b>	To use active stock selection to invest in quality businesses. The businesses are assessed as meeting our investment criteria of high return on equity and earnings growth and as likely to provide attractive returns to investors.
<b>Benchmark</b>	S&P/ASX Small Ordinaries Accumulation Index
<b>Investment Universe</b>	All companies listed on the ASX plus managed funds. The Portfolio will include a range of mid-sized capitalization companies.
<b>Recommended Investment Period</b>	3 - 5 years
<b>Minimum Initial Investment</b>	\$10,000
<b>Inception Date</b>	1 July 2019

## Portfolio Characteristics

Portfolio Characteristics	Portfolio	Index
Historical EPS growth - 3 years	14.0%	10.6%
Forward EPS Growth - 3 years	15.5%	15.4%
Price/Earnings Forward - 1 year	21.9x	18.2x
PEG Ratio	1.56	1.50
Dividend Yield	3.0%	2.1%
Return on Equity (RoE)	13.2%	7.8%
Return on Invested Capital (ROIC)	11.2%	5.4%
Operating Margin	17%	13.7%
Gearing (Debt/EBITDA)	1.7x	1.9x
Beta	0.91	
Number of Holdings	37	200

Please see the Important Information disclaimer on the back page.

# Oracle Fixed Interest Fund Update



**Ashley Cox**  
Portfolio Manager

The Oracle Fixed Interest Fund returned **0.85% for June, and 2.48% for the quarter. For the twelve months ended 30 Jun 2024, the fund produced a most pleasing 10.52% return, well ahead of the benchmark's 6.14%.**

The fund benefitted from a combination of higher rates, and a strong appetite for credit products over the quarter. Whilst bond yields experienced significant trading ranges over the quarter, confirmation that the Reserve Bank of Australia (RBA) board seriously considered a hike at the June meeting, coupled with the stronger than expected May CPI release in late June, saw Australian Government 10 year bond yields end the quarter 0.35% higher, at 4.31%. Equity markets both in Australia and offshore rallied over the quarter also.

This quarter was vastly different to the previous quarter in Bank issued bond markets, particularly the Tier 2 subordinated space, where the fund is heavily involved. As mentioned previously, the March quarter saw record levels of bonds issued, as banks rushed to complete their funding requirements sooner rather than later. This heavy supply saw bonds cheapen, credit spreads increasing 0.17%. However, the June quarter showed a stark contrast. There was very little bank issuance, which helped drive prices of Tier 2 bonds higher. Credit spreads on these bonds – the interest rate they offer above the bank bill swap rate – tightened 0.27% for the quarter, to the tightest level since the rate hike cycle began. With a significant holding in these floating rate bonds, the Fund benefits in this very environment. Readers will recall the fund is heavily positioned in Floating Rate Notes. This means investors benefit as interest rates rise. We have been positioned as such, expecting rates to remain higher for longer, for some time, and remain so.

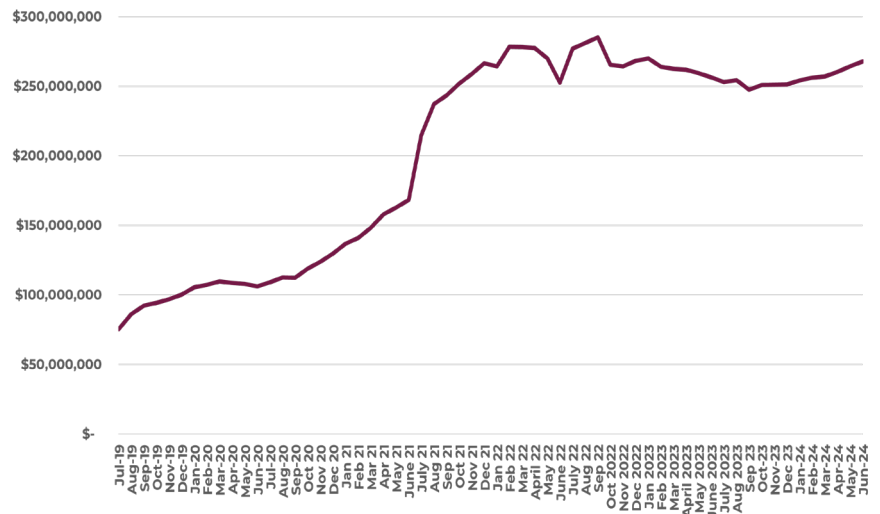
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## Portfolio Performance

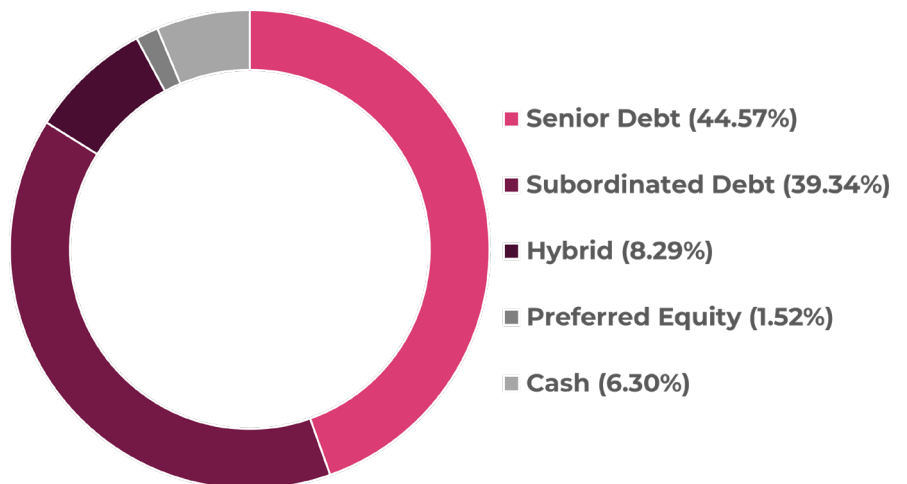
Rolling	Fixed Interest Fund	Benchmark (Bloomberg Ausbond Credit 0+Y Index)	Outperformance
3 month	2.48%	0.23%	2.25%
6 month	5.55%	1.59%	3.96%
1 year	10.52%	6.14%	4.38%
2 year p.a	7.39%	4.72%	2.53%
<b>*Since Inception (1 Dec 2021)</b>	<b>3.63%</b>	<b>0.56%</b>	<b>3.07%</b>

\*The Fixed Interest Fund performance data is from 1 December 2021

## Funds Under Management



## Bond Type by Weight



Please see the Important Information disclaimer on the back page.

# Oracle Fixed Interest Fund Update

## BOUGHT

- ◆ We added to our existing position in **NUFARM FINANCE (NZ) LIMITED**, a junior subordinated perpetual note, offering a coupon of 3.9% above BBSW. At the current price of \$90.50, this is a running yield of just over 9.00%.
- ◆ Bought **MA Financial** 4 year Senior, Unsecured Floating Rate Notes (new issue), with a coupon of 3 month BBSW +4.85%% (currently 9.15%).
- ◆ Bought **Suncorp Capital Notes**, perpetual junior subordinated debt with a call date in Jun 2030. These notes offer a coupon of 3 month BBSW +2.80%, which is expected to be fully franked.
- ◆ We continue to buy **Gryphon Capital Income Trust** (GCI AX), a Listed Investment Trust specialising in residential mortgage backed securities (RMBS) and asset backed securities (ABS), targeting a return of 3.50% over the RBA cash rate. GCI issued new stock at Net Asset Value (\$2.00) when the stock was trading at 2.03. We participated in this placement.
- ◆ NAB issued \$1bn of Tier 1 Hybrid Securities, paying a coupon of 3 month BBSW +2.60% (6.95% at issue). This includes franking. Bookrunners received in excess of \$2.8bn in bids for the deal.
- ◆ We participated in the new issue of bonds by **Peet Ltd**. They issued a 5 year (2 year non call) Senior note, at a fixed rate of 8.50%.
- ◆ We participated in the **Australian Unity MCI** raise at \$72.50. We had sold our position over several months at around \$85. However, the discounted price of \$72.50 equated to a running yield of 6.90% fixed plus franking of 2.96%. We see excellent value here and re-entered the position, albeit in smaller size.
- ◆ We participated in the new **Heartland Bank Australia** Tier 2 subordinated note (BB+), offering an initial coupon of 8.05%

## SOLD

- ◆ We made a small reduction in our holding in MyState hybrids.
- ◆ We made small reductions in Tier 2 bonds issued by ANZ and Bendigo and Adelaide Bank, taking advantage of the abovementioned rally lighten positions.
- ◆ We began selling down our IAG Capital Notes 3, having received a coupon of 1.4657, and a sale price of 101.20. This represents an annualised return in excess of 10% for this bond.

The fund paid a final distribution of 6.662991 cents per unit for the month of June. Accordingly, the price will decrease by the same amount. This will be offset by a 6.662991 cents per unit credit to holders' cash accounts.

Please see the Important Information disclaimer on the back page.

Top 10 Holdings	Weight
Metrics Master Income Trust	5.02%
Latitude Group	4.39%
Ampol Limited 02 Dec 81 FRN (Call 19 Mar 2027)	4.31%
Heartland Australia Group Pty Ltd 13 May 25 FRN Senior	4.21%
Avanti 22 Feb 26 FRN (Call 22 Feb 24) Senior Sec	4.09%
AMP Bank Ltd 07 Oct 32 FRN (Call 07 Oct 27) Sub	3.92%
Gryphon Capital Income Trust	3.88%
HSBC 21 Mar 34 FRN (Call 21 Mar 29) Sub	3.82%
Newcastle Coal Infrastructure Group	3.41%
Centuria Capital 2 Fund 20 Apr 2026	3.23%

# Oracle Fixed Interest Fund Update

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Portfolio Overview	
<b>Investment Manager</b>	Oracle Investment Management Pty Ltd
<b>Issuer</b>	One Managed Investment Funds Limited
<b>ARSN</b>	650 401 004
<b>Investment Objective</b>	To provide a return comprised of a secure and predictable income stream with moderate capital growth. The Portfolio aims to outperform the Bloomberg AusBond Bank Bill Index on an annual basis.
<b>Investment Strategy</b>	To invest in credit securities from companies with strong management, and balance sheets that display characteristics such as sufficient liquidity and low levels of gearing. Diversification is achieved mainly through investment in securities across a range of industries.
<b>Investment Universe</b>	The Portfolio will primarily comprise of Australian Fixed Income including corporate bonds, listed sub-debt, listed hybrids, term deposits and cash. Dependent on market conditions the Portfolio may also invest in international corporate bonds and government bonds.
<b>Recommended Investment Period</b>	3 years
<b>Minimum Initial Investment</b>	\$25,000
<b>Inception Date</b>	1 December 2021

Please see the Important Information disclaimer on the back page.

# Oracle Property Securities Portfolio Update



**Jack Magann**  
Portfolio Manager

For the financial year 2024, the Oracle Property Securities Portfolio returned **23.07%**, in line with the ASX 300 Property Trust Accumulation Index which returned **23.79%**.

The Oracle Property Securities Portfolio returned **-4.61%** for the quarter. This compares to the index which was down **-5.66%**, equating to an outperformance of **1.05%**.

After such a strong 12 months in the property sector, the market took a step back due to the increasing possibility that we enter a "higher for longer" rate environment.

### Interest rates have 2 key impacts on REITs:

1. Higher discount rates should lower asset valuations (which then may threaten debt covenants if gearing becomes excessive)
2. Higher finance costs will lower profits and distributions.

We see the second point as being the big risk for REITs moving forward, as it is the higher for longer rates that will have the most impact on REITs due to higher finance costs. This could see flat or declining income for some REITs.

While the first point also poses a risk, we have already moved through a period of rapid rate rises, which caused valuations to decline. The office sector will likely see further valuation declines due to structural issues, but we believe other sectors have most likely plateaued.

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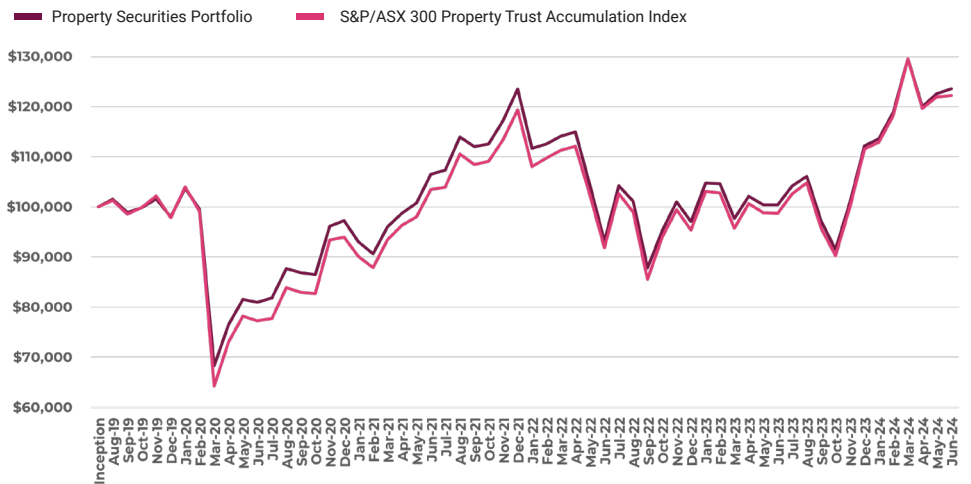
## Portfolio Performance

Rolling	Property Securities Portfolio	Benchmark (S&P/ASX 300 Property Trust Accum Index)	Outperformance
3 month	-4.61%	-5.66%	1.05%
6 month	10.12%	9.58%	0.54%
1 year	23.07%	23.79%	-0.72%
2 year p.a	15.16%	15.36%	-0.20%
3 year p.a	5.08%	5.71%	-0.63%
Since Inception p.a (1 August 2019)	4.40%	4.17%	0.23%

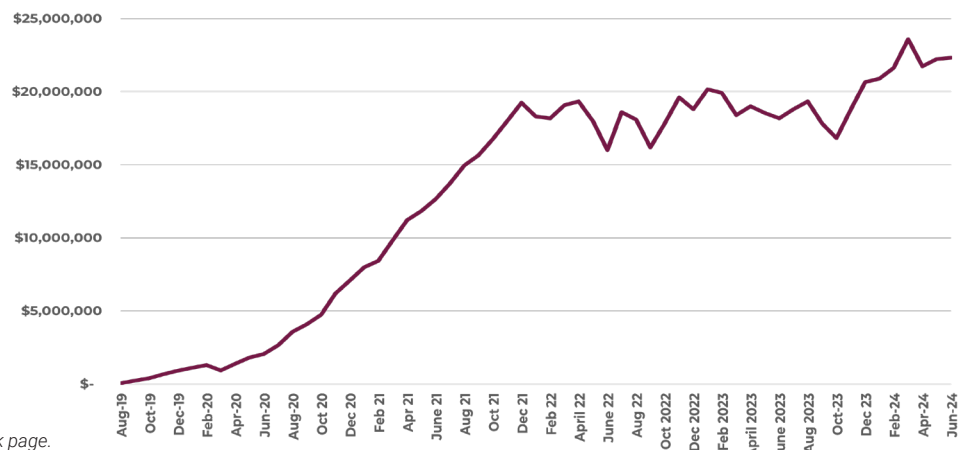
## Comparative Performance

### Property Securities vs S&P/ASX 300 Property Trust Accum Index

(since inception)



## Funds Under Management (since inception)



Please see the Important Information disclaimer on the back page.

# Oracle Property Securities Portfolio Update

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During the quarter, we produced a research report on the correlation between historical earnings growth, known as funds from operation (FFO) in the REIT sector, and historical returns for all listed REITs on the ASX. From the data we compiled, it was clear that those REITs with the highest FFO growth rate over the past 10 years achieved the highest capital return for investors.

Using this data we have completed a repositioning of the portfolio, undertaking numerous trades. This exercise has seen the number of portfolio holdings decrease from 25 to 16. The reason for the more concentrated portfolio is our focus on names that have historically grown FFO, and which we forecast to continue increasing their FFO. We also decided to exit the names that historically have struggled to increase their FFO.

The changes made to the portfolio are noted in the buys and sells section of this update. We note, with points 1 and 2 discussed above in mind, that the gearing of the portfolio now averages 25.9% compared to the index which averages 29.5%. Our forecast average FFO growth is also double that of the index at 6%.

As we know future earnings growth drives returns, so we are pleased that the forecast FFO growth of the portfolio is double that of the index, while taking on less gearing risk.

One company we wish to discuss is **HMC Capital**, a new position added in April. We were fortunate in our timing with an announcement from the company in May upgrading earnings guidance from 33 cents per share to 40 cents per share.

HMC was founded by former investment banker David Di Pilla and listed on the ASX in 2019. The company is a real estate and alternative asset manager with over \$12.5bn of funds under management. HMC manages the two listed REITs, HomeCo Daily Needs (HDN) and HealthCo (HCW), they also have several unlisted funds. They have recently diversified their FUM into other asset classes like private credit and have also launched a high-conviction strategy. We discuss both below.

During the month of May HMC acquired Payton Capital, a commercial real estate debt manager with \$1.5bn of assets under management, and simultaneously launched their private credit platform. HMC has stated that they have an ambition of establishing a \$5bn+ diversified private credit platform. The current environment of high risk-free rates has established a strong period for private credit and the sector is forecast to double over the next 5 years.

The high-conviction strategy fund of HMC has been gaining a lot of media attention lately. This fund is behind the Sigma Healthcare and Chemist Warehouse proposed merger and also has activist roles in Lendlease, Ingenia Communities and Graincorp. We like this strategy and believe it can scale well and become highly profitable. It also differentiates HMC within the portfolio by not having a sole reliance on property management.

Since listing, HMC has built a strong track record of high performance, and we are happy to have a position in this company, placing our capital alongside smart managers.

*Please see the Important Information disclaimer on the back page.*

## BOUGHT

- Goodman Group – Add 2.50%**
- Charter Hall Group – Add 3.93%**
- Arena REIT – Add 5.00%**
- Charter Hall Social Infrastructure REIT – Add 2.43%**
- National Storage REIT – Add 2.85%**
- Scentre Group – Add 0.70%**
- Abacus Storage King – Add 0.71%**
- Hotel Property Investments – Add 3.00%**
- HealthCo Health & Wellness REIT – Add 0.73%**
- HomeCo Daily Needs REIT – Add 2%**
- HMC Capital – Add 2.5%**
- Ingenia – Add 2.38%**
- Lendlease Corporation – Add 0.76%**
- Dexus Industria REIT – Add 1.28%**
- Waypoint REIT – Add 0.89%**

## SOLD

- Abacus Group**
- Charter Hall Long Wale REIT**
- Charter Hall Retail REIT**
- Dexus Convenience REIT**
- Dexus**
- GPT Group**
- Mirvac Group**
- Ram Essential Property REIT**
- Stockland Group**
- Vicinity Centres**

# Oracle Property Securities Portfolio Update

Top 10 Performers	Portfolio Position	3 month Performance
National Storage REIT	4.14%	4.86%
Arena REIT	4.99%	4.65%
HMC Capital	2.68%	4.60%
Goodman Group	42.28%	3.22%
Rural Funds Group	2.33%	-0.51%
Ingenia Group	3.54%	-1.40%
Abacus Storage King REIT	1.87%	-2.39%
Hotel Property Investments Ltd.	2.82%	-2.48%
Dexus Convenience REIT	Sold	-4.03%
Dexus Industria REIT	2.30%	-5.68%

Portfolio Characteristics	Portfolio	Index
Historical FFO growth - 3 years	4.0%	3.0%
Forward EPS Growth - 3 years	3.5%	2.2%
Price/FFO Forward - 1 year	16.1	14.9
Dividend Yield	5.4%	6.1%
Return on Equity (RoE) - 3 year average	11.2%	9.2%
Gearing	25.9%	29.5%
Number of Holdings	16	33

Portfolio Overview	
<b>Investment Manager</b>	Oracle Investment Management Pty Ltd
<b>Investment Objective</b>	To provide investors with long-term capital growth and income. The portfolio aims to outperform its benchmark over a rolling 3 year period.
<b>Investment Strategy</b>	To use active bottom up stock selection, focusing on buying quality companies at reasonable prices. The securities are assessed as meeting our investment criteria of strong earnings growth and as likely to provide attractive returns to investors.
<b>Benchmark</b>	S&P/ASX 300 Property Trust Accumulation Index
<b>Investment Universe</b>	Listed ASX Securities that invest in and or Manage Property Investments. Portfolio may invest in listed ETFs.
<b>Recommended Investment Period</b>	3-5 years
<b>Minimum Initial Investment</b>	\$25,000
<b>Inception Date</b>	1 August 2019

Please see the Important Information disclaimer on the back page.

# Oracle Ethical Balanced Portfolio Update



**Luke Durbin**  
Portfolio Manager

The Ethical Balanced Portfolio produced a return of **-1.16%** for the June quarter, compared to the Morningstar Balanced benchmark's return of **-0.33%**, underperforming by **0.83%**.

The underperformance largely came from 5 main positions, despite some strong performances from a handful of others.

Firstly, to what went against us. The biggest detractor was our position in global payments provider **Adyen (AMS:ADYEN)**, which fell 31% for the quarter. Readers may recall Adyen was one of the biggest contributors last quarter, surging on a strong second half 2023 report. We added on the news, taking the position to 2%. However, the company released a First Quarter 2024 update in April, which reversed the gains seen, taking the share price back to around our investment price, where it has remained. Adyen continues to add new transaction volume and revenue at a rate of knots, but the market was displeased with the falling take rate: volume was up 46% but the revenue Adyen earned on this only increased 21%. The main reason was that most of the growth came from larger customers that pay a lower rate. Adyen is on the record saying they aren't fussed where the revenue comes from, and revenue growth is more important than processed volume growth. Nonetheless, we remain positive on the story and while disappointed to have given up our early gains, we are comfortable with the long-term outlook and it remains one of our key picks in the portfolio.

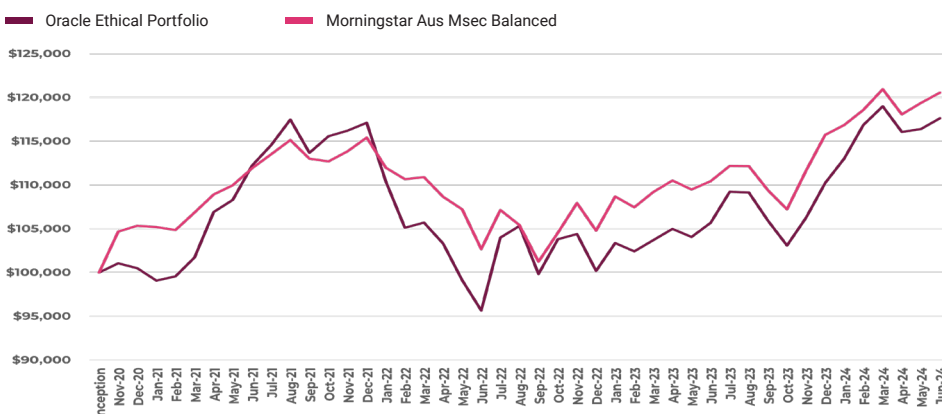
**Lululemon (NAS:LULU)** is a new position for the portfolio and it has not been a strong start, falling 16.8% since our initial purchase in April (see below for a description of the business and investment thesis).

## Portfolio Performance

Rolling	Ethical Balanced Portfolio	Benchmark (Morningstar Balanced)	Comparative Performance
3 month	-1.16%	-0.33%	-0.83%
6 month	6.72%	4.17%	2.55%
1 year	11.29%	9.16%	2.13%
2 year p.a	10.89%	8.36%	2.53%
3 year p.a	1.58%	2.50%	-0.92%
Since Inception p.a (1 November 2020)	4.53%	5.23%	-0.70%

## Comparative Performance

Ethical Balanced VS Morningstar Balanced (since inception)



While very little has changed since our initial purchase and now, it demonstrates just how hard it is to time the market – not that we were trying to. Lululemon had fallen precipitously from its peak of over \$500 in December last year. We have followed the company for some time, believing it to be a quality vertically integrated apparel retailer that was trading above our valuation. After the sell-off in late March we saw our opportunity, believing our patience had been rewarded, buying at what we believed to be an attractive price, only to watch the stock continue falling. Lululemon now trades on its cheapest forward price/earnings multiple since 2017, despite still having a solid long-term earnings growth outlook. We were too early, but remain convinced of its long-term potential.

The final detractor I will discuss is **Airbnb (NAS:ABNB)**. Airbnb was only down 9.8% for the quarter, but was the 4th largest negative impact on performance. This is because it has a higher weighting than most other positions. I mention this because the contribution to return is arguably more important than the absolute performance of the stock. Airbnb reported a strong March quarter in May, but the short-term outlook for the second quarter was less than the market had expected, leading to a share price sell down, (which has since partially recovered). While Airbnb trades slightly above our estimate of fair value, we allow for a margin of error when the quality of the company is as high as Airbnb.

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# Oracle Ethical Balanced Portfolio Update

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With the bad news out of the way, our winners primarily came from moves in our largest holdings: **Alphabet (NAS:GOOG)**, which started the quarter with a 4.2% weighting; and Costco (NAS:COST), which started at 3.7%. After growing by more than 14% each, they are now both well over 4% positions. Alphabet continues to benefit from investor sentiment around generative AI (see this quarter's Market Update), with their Gemini chat bot demonstrating some of the strongest adoption by users, despite having some woke biases in the bot exposed.

**Costco** on the other hand was a story of continued exemplary execution. In its quarterly earnings update it produced revenue and earnings higher than the market was expecting, driven by higher membership fee revenue despite pricing having remained unchanged since 2017. This long-awaited announcement of a fee increase finally arrived in July, with the stock barely budging. We think this is a sign that a lot of the recent price increase was from an increased expectation that the price rise was imminent. Because this additional revenue will drop straight to the bottom line at close to 100% margin, more profits were being priced into the stock for future years, which, until that appears, puts the company on a higher multiple, bidding the stock price up. We are glad to see this uncertainty finally resolved for investors. That is, for at least another five years when we will go around again.

Finally, rounding out the top three, which contributed more than 50 basis points to the portfolio's performance was **Pro Medicus**, which was up a whopping 38% for the quarter. PME was inducted into the S&P/ASX 100 mid-March, and when a company enters a new index there is often excess buying as index funds buy the stock so that their fund matches the index. However, there are actually no funds that track the ASX 100 index. If anything, there would be selling pressure as PME simultaneously exited the ASX Small Ordinaries Index. PME announced five new contracts in May for a minimum total value of \$45 million, expected to be received over the next 5-8 years. However, most of the rally had already occurred, including a big recovery from a sell down at the release of the half year. We think that there is little benefit to understanding short-term moves (up or down) like this one. We are pleased that the company continues to execute well and believe the company has one of the strongest outlooks on the ASX.

## BOUGHT

### Lululemon Athletica (NAS:LULU)

Lululemon is an athletic apparel company, which started in women's yoga apparel and has since expanded to menswear, running, training, and casual. It has a long track record of expanding stores every year and has a visible path forward to continue this in underpenetrated locations such as China and Europe. Further, Lululemon's brand awareness presents an opportunity, as it is far lower than incumbents such as Nike and Adidas. Awareness has been increasing and marketing efforts have seen tangible increases in sales in existing and new locations. We expect both of these factors to be key drivers of growth for the next decade. Lululemon has recently been sold off more than 30% from its December peak and we think it represents very attractive value.

### Aussie Broadband (ASX:ABB)

ABB is a telecommunications provider that has been growing its residential NBN internet, fibre, and mobile market share strongly with a strong emphasis on providing a far superior customer service experience than the incumbents. We took advantage of some share price weakness, which resulted from the company losing a low margin contract to rival Australian telco Superloop (ASX:SLC) and unsuccessfully making a takeover offer for this same rival. This is a high quality telco with aligned management, and we were pleased with the opportunity to add it to the Ethical Portfolio.

### CorPay (NYSE:CPAY)

CPAY is also owned in the Global Portfolio. It is a B2B payments company that helps corporates manage expenses in the categories of fuel, lodging, tolls and other corporate payments. CorPay negotiates rates in bulk with suppliers (such as Shell in fuel, Linkt in tolls, and Travelodge in accommodation), and will manage the authorisation and payment for staff that are travelling. This is a far more efficient system for corporates than company credit cards, prepaid debit cards, or a reimbursement system. CorPay has a strong market position, a diverse product portfolio, and advanced technology that enables seamless payments for those on the road and reconciliations for those in the back office. It also has strong partnerships with the biggest providers of services giving them negotiating power to offer their customers better rates than what is advertised.

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# Oracle Ethical Balanced Portfolio Update

## SOLD

### Franklin Electric (NAS:FELE)

Franklin Electric has been in the portfolio since its inception over 3 years ago, and the portfolio has done well out of it, however, we think it is becoming increasingly difficult for Franklin to add meaningful growth via acquisition, per their strategy of adding small regional distributors to their national network. Growth is still expected to be modest in the medium to long term – both from organic and acquisitive means – but as it grows, the number of acquisitions needed to move the dial increases, which introduces meaningful integration risk. We forecasted growth above what the consensus expected and still found it difficult to see any value in the share price. So between the valuation risk and the low expected earnings we sold the position, as we believe there are higher growth, and more attractive opportunities in the market.

### JPMorgan Chase (NYSE:JPM)

We reduced our holding in JPM after a strong run up in share price. We reduced our weighting in tandem with a similar move in the Global Equities Portfolio. Please see the Global update for more details.

Top 10 Performers	Portfolio Position	3 month Performance
Pro Medicus	1.9%	38.1%
Alphabet	4.9%	17.7%
Costco Wholesale	4.3%	13.4%
Vertex Pharmaceuticals	3.0%	9.5%
Adobe	2.2%	7.5%
REA Group	2.3%	6.0%
Steadfast Group	1.2%	5.1%
Macquarie Group	2.1%	4.6%
Microsoft	2.9%	3.9%
Metrics Master Income Trust	4.6%	2.7%

Selected Investment Holdings	Ethical Theme	Weighting
Lululemon Athletica	Responsibly sourced athletic apparel	2.5%
Euronext	European market infrastructure	1.6%
SolarEdge Technologies	Smart Solar Inverters	0.21%
Vertex Pharmaceuticals	Cystic Fibrosis Treatment	3.1%
Laserbond	Industrial Machinery Refurbishment	1.4%
Airbnb	Accommodation Platform	2.7%
Adyen	Payments Platform	1.4%
Rightmove	Real Estate Portal	1.9%

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# Oracle Ethical Balanced Portfolio Update

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Portfolio Overview	
<b>Investment Manager</b>	Oracle Investment Management Pty Ltd
<b>Investment Objective</b>	To provide investors with long-term growth and to outperform the Consumer Price Index + 3% over the medium term (5 years).
<b>Investment Strategy</b>	To invest across a broad range of investment sectors and to provide a balance between capital growth and capital preservation. Oracle use an active bottom up stock selection process, focusing on buying quality securities at reasonable prices. The securities are assessed as meeting both our investment criteria of strong earnings growth and ethical criteria of positive social, environmental and governance factors.
<b>Investment Universe</b>	Listed ASX Securities, cash, ETF's, corporate bonds, short term money market securities, international securities, listed sub-debt, listed hybrids and listed property investments.
<b>Recommended Investment Period</b>	5 years
<b>Minimum Initial Investment</b>	\$50,000
<b>Inception Date</b>	1 November 2020

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# Diversified Managed: Capital Stable Portfolio

The Capital Stable Portfolio suits investors seeking a diversified portfolio that invests primarily in defensive assets with low volatility, reliable yield and a focus on capital preservation.

Investors in this portfolio are forgoing the potential for higher returns over the long term for relative security.

Asset Class	Neutral
Cash	10%
Fixed Income	60%
Property Securities	5%
Aus Emerging Companies	0%
Aus Equities	15%
Global Equities	10%

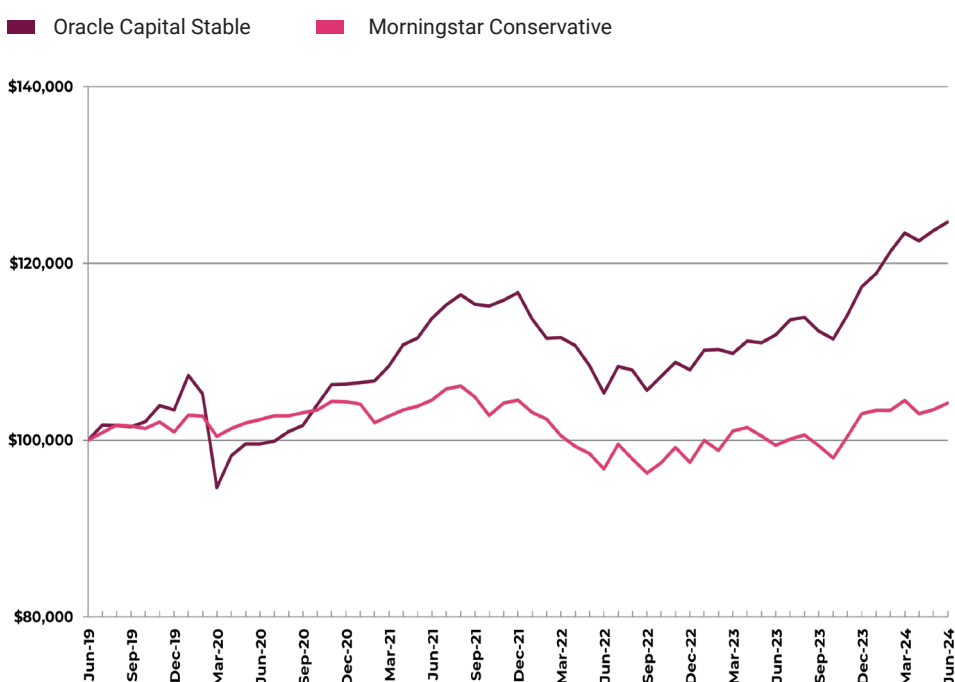
Investment Fee (% per annum)	
Capital Stable Portfolio	0.6%

## Portfolio Performance

Rolling	Oracle Capital Stable	Benchmark (Morningstar Aus Msec Conservative)	Comparative Performance
3 month	1.00%	-0.32%	1.32%
6 month	6.24%	1.17%	5.07%
1 year	11.39%	4.77%	6.62%
2 year p.a	8.80%	3.78%	5.02%
3 year p.a	3.10%	-0.12%	3.22%
Inception p.a. (1 July 2019)	4.51%	0.82%	3.69%

## Comparative Performance

Oracle Capital Stable vs Morningstar Capital Stable (since inception)



# Diversified Managed: Conservative Portfolio

The Conservative Portfolio suits investors seeking a diversified portfolio that invests primarily in defensive assets with low volatility, reliable yield and a focus on capital preservation.

Investors in this portfolio are foregoing the potential for higher returns over the long term.

Asset Class	Neutral
Cash	5%
Fixed Income	50%
Property Securities	5%
Aus Emerging Companies	0%
Aus Equities	25%
Global Equities	15%

Investment Fee (% per annum)	
Conservative Portfolio	0.65%

## Portfolio Performance

Rolling	Oracle Conservative	Benchmark (Morningstar Aus Msec Conservative)	Comparative Performance
3 month	0.72%	-0.32%	1.04%
6 month	7.12%	1.17%	5.95%
1 year	12.77%	4.77%	8.00%
2 year p.a	10.33%	3.78%	6.55%
3 year p.a	3.27%	-0.12%	3.39%
Inception p.a. (1 July 2019)	5.22%	0.82%	4.40%

## Comparative Performance

### Oracle Conservative vs Morningstar Aus Msec Conservative

(since inception)

Oracle Conservative

Morningstar Conservative



# Diversified Managed: Balanced Portfolio

The Balanced Portfolio suits investors who require a balanced portfolio, diversified across all major asset classes, seek capital growth over the medium to long term with a moderate level of income, accept a moderate degree of volatility associated with a relatively higher exposure to growth assets and are prepared to invest for the minimum investment timeframe.

Asset Class	Neutral
Cash	4%
Fixed Income	36%
Property Securities	6%
Aus Emerging Companies	9%
Aus Equities	20%
Global Equities	25%

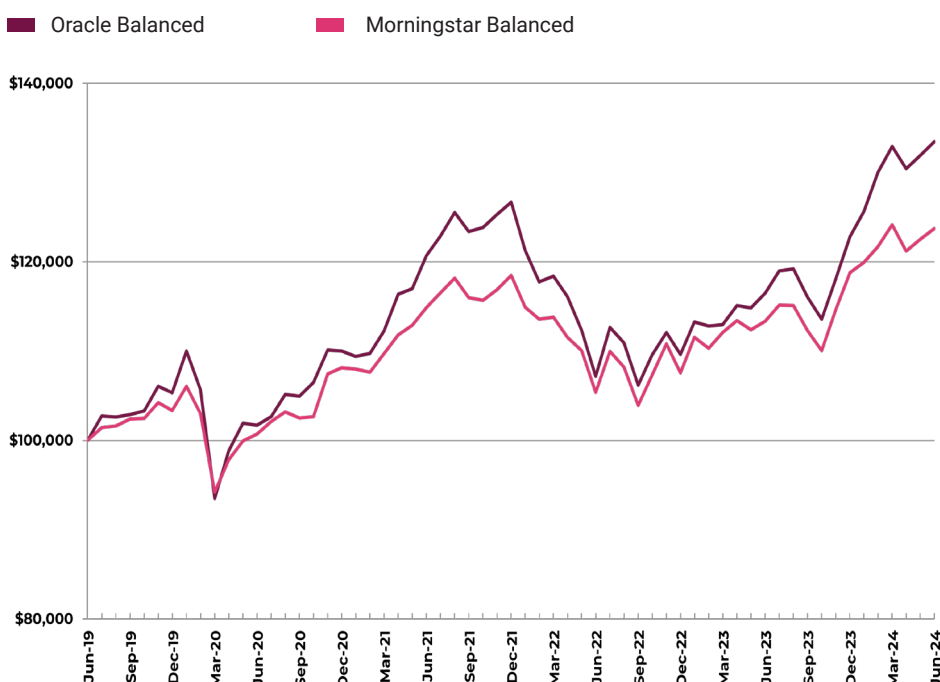
Investment Fee (% per annum)	
Balanced Portfolio	0.7%

## Portfolio Performance

Rolling	Oracle Balanced	Benchmark (Morningstar Aus Msec Balanced)	Comparative Performance
3 month	0.38%	-0.33%	0.71%
6 month	8.67%	4.17%	4.50%
1 year	14.57%	9.16%	5.41%
2 year p.a	11.60%	8.36%	3.24%
3 year p.a	3.40%	2.50%	0.90%
Inception p.a. (1 July 2019)	5.94%	4.35%	1.59%

## Comparative Performance

Oracle Balanced vs Morningstar Balanced (since inception)



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# Diversified Managed: Growth Portfolio

The Growth Portfolio suits investors who seek the potential for a relatively high level of growth and a modest level of income, accept a higher level of short-medium term capital volatility as a trade-off for long-term capital growth and are prepared to invest for the minimum investment timeframe.

Asset Class	Neutral
Cash	2%
Fixed Income	24%
Property Securities	10%
Aus Emerging Companies	11%
Aus Equities	19%
Global Equities	34%

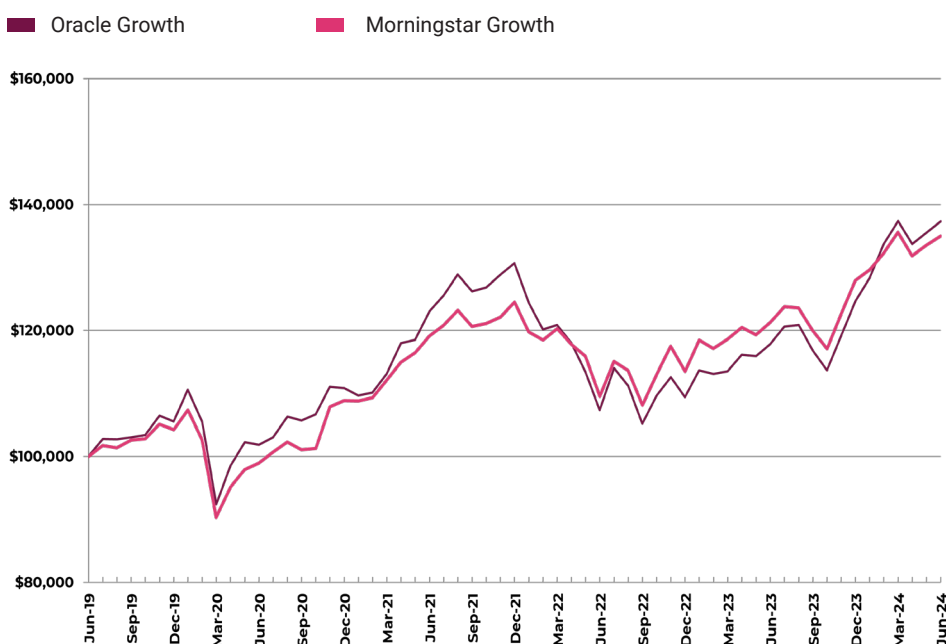
Investment Fee (% per annum)	
Growth Portfolio	0.75%

## Portfolio Performance

Rolling	Oracle Growth	Benchmark (Morningstar Aus Msec Growth)	Comparative Performance
3 month	-0.02%	-0.47%	0.45%
6 month	10.16%	5.48%	4.68%
1 year	16.55%	11.33%	5.22%
2 year p.a	13.12%	11.02%	2.10%
3 year p.a	3.74%	4.26%	-0.52%
Inception p.a. (1 July 2019)	6.55%	6.18%	0.37%

## Comparative Performance

Oracle Growth vs Morningstar Growth (since inception)



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# Diversified Managed: High Growth Portfolio

The High Growth Portfolio suits investors who seek a relatively high level of growth on investment capital, accept a high level of short-medium term capital volatility as a trade-off for long-term capital growth and are prepared to invest for the minimum investment timeframe.

Asset Class	Neutral
Cash	2%
Fixed Income	0%
Property Securities	10%
Aus Emerging Companies	20%
Aus Equities	24%
Global Equities	44%

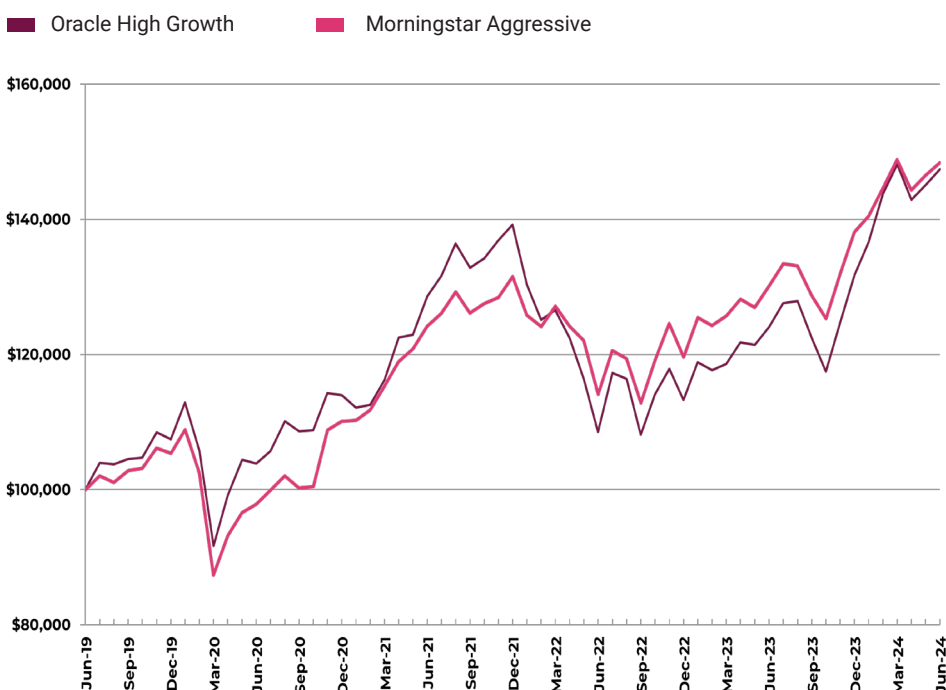
Investment Fee (% per annum)	
High Growth Portfolio	0.85%

## Portfolio Performance

Rolling	Oracle High Growth	Benchmark (Morningstar Aus Msec Aggressive)	Comparative Performance
3 month	-0.50%	-0.31%	-0.19%
6 month	11.89%	7.44%	4.45%
1 year	18.84%	14.06%	4.78%
2 year p.a	16.53%	14.04%	2.49%
3 year p.a	4.65%	6.11%	-1.46%
Inception p.a. (1 July 2019)	8.07%	8.21%	-0.14%

## Comparative Performance

Oracle High Growth vs Morningstar Aggressive (since inception)



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## Responsible Entity – Oracle Fixed Interest Fund

One Managed Investment Funds Limited  
ACN 117 400 987 | AFSL 297042

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## Responsible Entity & Issuer - Oracle Managed Accounts

The Trust Company (RE Services) Limited  
ABN 45 003 278 831 | AFS Licence 235150

## Promoter

Margaret Street Promoter Services Pty Ltd  
ABN 23 153 446 210 | AFS Licence 420274

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