On Friday, November 3, 2023, we executed a modification to the Australian equity segment of your portfolio, which we believe will enhance your investment strategy. Specifically, we have initiated a purchase in the following securities:

- Coles
- JB Hifi

Purchase of Coles (ASX: COL)

Coles is the second largest supermarket chain in Australia with c.28% of the food grocery retailing market. It also has a liquor business that owns the Liquorland, Vintage Cellars and First Choice Liquor brands.

We are attracted to Coles for the following reasons:

- It has a strong market position in a concentrated, stable industry which gives it pricing power and hence an ability to better manage gross margins in this inflationary environment.
- Longer term growth is supported by population expansion including ongoing immigration.
- Supermarkets should prove resilient as households face increasing cost of living pressures given the essential nature of the products sold.
- It delivers strong operating cash flow and operationally the company is performing well with positive earnings momentum.

Coles has three key levers for value creation that we would like to highlight:

- The business continues to invest in new stores and store refurbishments across supermarkets and liquor. Growth in store footprint and modernised stores with improved eCommerce capabilities will help drive organic revenue growth.
- In recent years management has invested significantly in productivity initiatives, their supply chain capabilities, and customer experience through an enhanced eCommerce experience. This has reduced short-term earnings. As these investments complete and start to deliver, we expect to see improved margins and earnings growth.
- The business recently experienced a significant increase in total loss of inventory due to theft. They have since invested in increased store security and smart gates at high-risk stores, we expect this to reduce total loss and earnings to normalize.

We think Coles is suited to the portfolio because resilient earnings and high dividend yield.

We have funded the purchase of Coles with cash that remained from the sale of Origin Energy and reduction in the weighting in the portfolio to Ramsay. This was done due to the tougher operational conditions Ramsay continues to face post COVID and the impact of higher interest rates leading to a reduction in dividends.

Purchase of JB Hi-Fi (ASX: JBH)

JB Hi-Fi is the leading electronics retailer in Australia. It also has a small business in New Zealand and owns The Good Guys which is a household appliances retailing business.

We are attracted to JB Hi-Fi for the following reasons:

- It is the leading electronic retail brand in Australia.
- It is an extremely well managed retail business and has been for a long period of time. We are particularly impressed with their incentive structure for sales staff and the level of proactive engagement with suppliers and their both of these factors contribute materially to the businesses strong performance.
- Lower risk to margins relative to weaker retailers as suppliers wear the cost of discounting or promotional activity.
- Strong balance sheet that is currently in a net cash position

JB Hi-Fi has two key levers for value creation that we would like to highlight:

- Ongoing growth in store numbers and improvements to their omnichannel offering driving sales growth.
- Margin expansion due to good store level cost management and utilization of their scale to ensure good terms with their suppliers.

We think JB Hi-Fi is suited to the portfolio because of its high dividend yield and strong balance sheet.

We have funded the purchase of JB Hi-Fi through the sale of Downer (ASX: DOW). Downer's operations in the last few years have been affected by wet weather, labour costs, and project mismanagement. This has led to Downer having elevated gearing, lowering dividends, and undergoing a business restructuring. Downer is no longer suitable for the portfolio given its lower income yield and elevated risk of adverse earnings outcomes.

This adjustment is in line with our commitment to optimizing your portfolio and achieving your financial goals. We remain dedicated to your financial well-being and are always available to address any questions or concerns you may have.

Should you wish to discuss this change in more detail or have any inquiries regarding your portfolio, please do not hesitate to reach out to us. Your satisfaction and financial success are of utmost importance to us.

Thank you for entrusting us with your financial planning needs.