Yarra Capital Management Australian Equities

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To achieve medium to long term capital growth through exposure to companies listed on the ASX. In doing so, the aim is to outperform the S&P/ASX 200 Accumulation Index over rolling three-year periods.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Australian Shares
Suggested Investment timeframe	7 years
Relative risk rating	6 / High
Investment style	Core
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	97.0
Futures	0	1.4
Cash	0	1.6

Sector Allocation	%
Communication Services	7.71
Consumer Discretionary	5.19
Consumer Staples	--
Energy	9.76
Financials	28.94
Health Care	3.85
Industrials	15.65
Information Technology	1.60
Materials	15.94
Real Estate	4.90
Utilities	3.43

Top Holdings	%
Westpac Banking Corporation	9.22
Commonwealth Bank of Australia	8.92
Australia and New Zealand Banking Group	7.64
BHP Group	5.01
Origin Energy	4.55
Transurban Group	4.32
Atlas Arteria	4.28
James Hardie Industries	4.14
APA Group	3.43
Scentre Group	3.28

Portfolio Summary
The portfolio outperformed its benchmark during the quarter as Construction Materials and Metals & Mining positioning drove excess returns.

Investment Option Commentary
Construction Materials contributed to the portfolio's return largely due to overweight James Hardie (JHX, +32.9%), which delivered a 1Q20 result ahead of expectations on higher volumes and moderating input costs. Additionally, US housing data showed improvement during the period. In Metals & Mining, Independence Group (IGO, +38.1%) outperformed after Indonesia brought forward its nickel ore export ban to early 2020, while underweights BHP Group (BHP -8.0%) and Rio Tinto (RIO, -7.6%) declined alongside a falling iron ore price (-21%).

Elsewhere, strong stock selection within Communication Services (-3.2%), Consumer Discretionary (+8.2%) and Energy (+0.5%) also contributed to excess return.

Conversely, underweight Consumer Staples (no holdings) and Bank positioning were the largest detractors. In the former, underweights Woolworths (WOW, +13.9%) Coles (COL +18.4%) saw supermarket earnings accelerate, while underweight Treasury Wine Estate (TWE, +25.8%) delivered better-than-expected cash conversion in its FY19 result. In Banking, underweight National Australia Bank (NAB, +11.1%) outperformed in response to the new CEO announcement and its underweight to Retail banking versus peers.

Market Commentary
Australian equities generated a solid return in the September quarter, overcoming a soft August reporting season and slowing domestic and global economic growth.

The S&P/ASX 200 Accumulation Index returned 2.4% for the three months to 30 September 2019, taking its 12-month return to 12.5%. In comparison, the MSCI World Index returned 1.7% in the quarter and 3.5% over the year.

Australia's August reporting season was soft, both for FY19 earnings and FY20 outlook commentary. Out of the companies which provided guidance, 39% saw consensus expectations downgraded versus only 18% resulting in upgrades. That being said, early signs of stabilisation emerged in select consumer stocks and residential developers, indicating fiscal stimulus and monetary easing may be starting to have an effect.

Equities rose globally in response to more accommodative monetary policy. Australia cut its interest rate to 0.75% subsequent to period end and the US reduced its federal funds rate to a range of 1.75-2.00%, with both federal banks citing slower global growth. Markets were volatile, though, as the US-China trade war intensified: President Trump announced he would impose a 10% tariff on $300bn worth of Chinese goods, with China retaliating by allowing its currency to fall and suspending purchases of US agricultural products.

Outlook
The manager believes fundamentals including employment and population growth point to a stable Australian economy, tempered by soft business and consumer confidence. Tentative signs of stabilisation have emerged and the outlook for company earnings appears solid, supported by select Resources and Industrials.

Australian equities are priced in line with long-term averages based on forward earnings estimates, though valuations remain attractive relative to alternatives such as fixed interest. The S&P/ASX 200 Index yields 4.2% on a 12-month forward basis (before franking) versus 1.0% from the Australian 10-year government bond yield. Global macroeconomic risks persist, though, and require careful monitoring. The manager remains alert to economic and geopolitical risks, including an escalation in the US-China trade war, slowing global economic growth and the potential re-emergence of quantitative easing.

The manager sees significant value in certain sectors but believe others to be overvalued based on earnings and cash flow expectations. The manager is most overweight stocks within the Industrials, Communication Services and Energy sectors, and is underweight Health Care, Consumer Staples and Metals & Mining.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0766AU
AMP Flexible Super - Retirement account	AMP1341AU
AMP Flexible Super - Super account	AMP1470AU
CustomSuper	AMP0766AU
Flexible Lifetime - Allocated Pension	AMP0625AU
Flexible Lifetime - Term Pension	AMP0918AU
Flexible Lifetime Investment	AMP0833AU
Flexible Lifetime Investment (Series 2)	AMP1406AU
SignatureSuper	AMP0791AU
SignatureSuper Allocated Pension	AMP1145AU

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