

DNR Capital Australian Equities High Conviction

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

To invest in a high conviction portfolio of Australian shares that aims to outperform the S&P/ASX 200 Accumulation Index benchmark by 4% p.a. (before fees) over a rolling three-year period. DNR Capital seeks to identify good quality businesses that are mispriced by overlaying DNR Capital's quality filter with a strong valuation discipline.

DNR Capital's security selection process has a strong bottom up discipline and focuses on buying quality businesses at reasonable prices. The portfolio construction process is influenced by a top-down economic appraisal and also considers the risk characteristics of the portfolio such as security and sector correlations. The investment strategy results in a high conviction portfolio of 15 to 30 securities that is invested for the medium term.

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	5 years
Relative risk rating	6 / High
Investment style	Specialist - Quality
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	95-100%	95.24%
Cash	0-5%	4.76%

Portfolio Summary

The Portfolio is positioned as follows:

Sector Allocation	%
Communication Services	2.83
Consumer Discretionary	14.98
Consumer Staples	5.08
Energy	7.49
Financials	20.13
Health Care	0.00
Industrials	14.90
Information Technology	5.64
Materials	19.43
Real Estate	5.32
Utilities	0.00
Cash	4.19

Top Holdings	%
BHP Group	8.59
National Australia Bank	6.85
Macquarie Group	6.24
Lendlease	5.32
James Hardie Industries	5.12
Treasury Wine Estates	5.08
Tabcorp Holdings	4.69
SEEK	4.47
Westpac Banking Corporation	4.36

Portfolio Summary

The Portfolio is positioned as follows:

- Underweight banks—negatively correlated to lower interest rates. Increased underweight which acts as a counterweight to underweight bond proxies.
- Underweight bond proxies on valuation grounds.
- Underweight a basket of ultra-high PE growth names.
- Overweight a few names with defensive characteristics but the space is generally expensive.
- Overweight a basket of stocks with sustainable earnings growth not appropriately priced.
- Overweight de-rated quality stocks where market has overcooked concerns.
- Overweight companies with improving quality characteristics.

Investment Option Commentary

In bottom-up news a number of stocks enjoyed strong results including James Hardie Industries (JHX), Aristocrat Leisure (ALL), ALS (ALQ), and Virgin Money UK (VUK).

Aristocrat Leisure (ALL)

Aristocrat Leisure's FY19 result came comfortably ahead of expectations, with NPATA of \$894.4m (+23% year on year) compared to consensus of \$870–875m. This was largely driven by beats from Digital and International Class III machines, which more than offset higher than forecast development expense of \$500m and lower than expected EBIT from Australia/New Zealand (largely from a miss on margins).

Market Commentary

Australian equities have continued their rise from the beginning of the year due to a number of macro factors. The US Federal Reserve has decided to keep rates at their low levels due to stalling economic data.

Domestically, a weak economy has resulted in continued easing from the RBA, with talks of preparedness to continue to cut rates and the possibility of initiating quantitative easing if rate cuts continue to have minimal economic effects. Housing continues to recover from its mid-year lows, though the most prominent threat to markets remains to be the ongoing trade dispute between the US and China.

International markets have been tumultuous over the period as investors weigh up the increasing possibility of easier monetary policy against the unforgiving geopolitical landscape.

The end of the period saw global bonds have their largest increase in recent months following the agreement between the US and China on moving to a 'phase one' trade deal which spurred a sell-off in treasuries. However, as inflation in the US remained subdued over majority of the period the Fed were prompted to keep rates lower. The RBA have trodden a similar path, with further cuts and the beginning of the quantitative easing discussion. Australian bond yields remain well below US yields.

Outlook

Lower interest rates support equity valuations and historically the market PE has broadly tracked movements in the official cash rate. Currently, the 12-month forward PE for the Australian market is ~17.4x, its highest level since the start of 2001, while earnings growth expectations for 2020 are just +5%. The ASX 200 Industrials ex-Financials finished the year at 24.3x, close to three standard deviations above its long-term average.

The divergence between high PE sectors and low PE sectors remains at record highs (~22x). Areas that are generally associated with earnings certainty and higher growth, like healthcare and technology, continue to be valued at increasingly higher premiums to the rest of the market. Recently, more cyclical parts of the market have participated in the market rally; including retailing, media and the diversified financials. However, valuations for resources, banks and insurance continue to remain towards the lower end of sector multiples.

Looking forward, two key questions remain. Whether low interest rates can continue to support high valuations, and whether the divergence in valuations across sectors will revert.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1199AU
AMP Flexible Super - Retirement account	AMP1386AU
AMP Flexible Super - Super account	AMP1515AU
CustomSuper	AMP1199AU
Flexible Lifetime - Allocated Pension	AMP1203AU
Flexible Lifetime - Term Pension	AMP1235AU
Flexible Lifetime Investment	AMP1207AU
Flexible Lifetime Investment (Series 2)	AMP1441AU
SignatureSuper	AMP1213AU
SignatureSuper Allocated Pension	AMP1222AU

Contact Details

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267



What you need to know

This publication has been prepared by AMP Life Limited ABN 84 079 300 379, AFSL No. 233671 (AMP Life). The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying Investment Manager only and not necessarily the views of the AMP Group. No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information. AMP Life is part of the AMP Group. In providing the general advice, AMP Life and AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

The information in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

The investment option referred to in this publication is available through products issued by AMP Superannuation Limited ABN 31 008 414 104, AFSL No. 233060 (ASL) and/or AMP Life. Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement for the relevant product, available from ASL, AMP Life or your financial planner.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in (underlying fund). The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither AMP Life, ASL, any other company in the AMP Group nor underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance.