

# Ironbark Karara Australian Share

Quarterly Investment Option Update

31 December 2019

## Aim and Strategy

To outperform the S&P/ASX 300 Accumulation Index over rolling four-year periods. Karara Capital is an active investment manager whose approach to Australian equities is built on the belief that original, forward-looking research can identify underappreciated companies. Karara Capital's approach emphasises the development of insights into a company's longer-term prospects. They look to consider all factors that they believe are relevant and carefully assess whether this view is reflected in the market place. Portfolios are built from a diverse range of insights and close attention is paid to understanding the interplay between the holdings. The strategy will primarily invest in 25-35 companies included in the S&P/ASX 100 Index plus an allocation to smaller companies. The allocation to smaller companies is generally between 0-20% of the portfolio, however this can vary over time. Investments of the strategy may also include derivatives such as index futures, which would be used for risk management purposes or as substitutes for physical securities.

## Investment Option Performance

To view the latest investment performances for each product please visit [amp.com.au](http://amp.com.au)

## Investment Option Overview

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

<b>Sector Allocation</b>	<b>%</b>
Communication Services	4.09
Consumer Discretionary	11.31
Consumer Staples	2.15
Energy	10.28
Financial Ex Property Trusts	25.60
Health Care	6.32
Industrials	12.36
Information Technology	1.63
Materials Ex Metals & Mining	5.63
Metals & Mining	14.65
Real Estate	0.24

<b>Top Holdings</b>	<b>%</b>
BHP Group Ltd	7.84
Commonwealth Bank of Australia	4.67
National Australia Bank Limited	4.54
Origin Energy Limited	4.06
QBE Insurance Group Limited	3.98
Qantas Airways Limited	3.98
Rio Tinto Limited	3.97
Aristocrat Leisure Limited	3.72
Westpac Banking Corporation	3.68
Brambles Limited	3.67

<b>Asset Allocation</b>	<b>Benchmark (%)</b>	<b>Actual (%)</b>
Australian Shares	100	97.93
Cash	0	2.07

## Investment Option Commentary

Despite market dynamics that were still generally unfriendly to positioning (albeit less when compared to the first half of 2019), improved stock selection contributed to the Fund's reasonable outperformance.

The Fund saw a range of stocks earn a modest re-rating even as their performance remained fairly stable, and some closing of risks discounted. A number delivered stable or slightly improved operating performance, others saw some better awareness of their free cashflow outlook, several progressed with substantial capital management programs and a couple of others benefitted from diminishing global macro risks.

Virgin UK (formerly CYBG) was the best performing stock in the S&P/ASX 100 by some margin, rising 68% during the quarter. It delivered an improved second quarter result that showed stabilisation in the net interest margin and expressed confidence the miss-selling provision will be sufficient to meet the final claims. The Tory election victory in the UK general election further supported sterling assets. However, negotiations around the future trading relationship between the European Union and the UK will be difficult to resolve ahead before the transition deadline on 31 December 2020, so uncertainty will remain.

## Market Commentary

During the quarter improving incoming data combined with progress on key political uncertainties produced a sharp improvement in the "consensus" economic outlook, with the risk of weakness in the manufacturing sector spreading to other parts of the economy largely removed for the time being. Cancellation of tariff increases and a 'phase one' agreement between the US and China enabled global trade to expand in December after seven months of consecutive declines.

The Reserve Bank of Australia responded to the ongoing weak domestic demand by lowering the cash rate to 0.75% at the start of October. The outlook for further rate cuts is now largely dependent upon developments in the labour market. The current unemployment rate and leading employment indicators suggest stable to higher unemployment over the next 12 months, which is supportive of at least one further rate cut in 2020. The Reserve Bank of Australia expressed what many have forgotten, that is, monetary policy is not the answer for long-term growth. The potential for regulators to improve the current low levels of growth remains solely in the hands of the government by maintaining stable policies that are critical to attracting investment and pursuing structural reforms that can further enhance the productivity of the existing labour and capital stock. In an era of "populist politics," there appears little confidence of either with the policy debacle in both the electricity sector and climate change as one case and point.

## Outlook

Despite the strong market performance in 2019, skepticism remains high with investor positioning still largely discounting a global economy at risk of deteriorating. As the return to cash has collapsed, savers have merged in highly-priced safe assets. For evidence of this, you need to look no further than the bond markets, which now offers 'return-less risk' rather than riskless return.

As has been intermittently seen, a change in the market sentiment will not require a wholesale trade resolution, however only confidence that the ceasefire will hold. As this occurs, a sustained reversal in market leadership is likely. September's rotation is a reminder of how quickly well-established trends can unwind when extreme views have become commonly held, and valuations are still very extended.

A shortage of genuine growth stocks within a narrow benchmark has meant 'champions' remain considerably more expensive in Australia than any other major market. Easy global liquidity and recurrent investor concerns on global growth increase the risk that these valuation differentials continue to widen. But history strongly suggests that earnings delivery by many, if not most, will eventually fail to meet market expectations.

Due to diminishing opportunities elsewhere, the Fund has increasingly positioned itself in the value end of the market, seeking reasonably priced stocks that can deliver reliable earnings given a subdued but still constructive economic backdrop.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0056AU
AMP Flexible Super - Retirement account	AMP1343AU
AMP Flexible Super - Super account	AMP1472AU
CustomSuper	AMP0056AU
Flexible Lifetime - Allocated Pension	AMP0588AU
Flexible Lifetime - Term Pension	AMP0887AU
Flexible Lifetime Investment	AMP0832AU
Flexible Lifetime Investment (Series 2)	AMP1407AU
SignatureSuper	AMP0736AU
SignatureSuper Allocated Pension	AMP1125AU

## Contact Details

Web: [www.amp.com.au](http://www.amp.com.au)  
Email: [askamp@amp.com.au](mailto: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.