

# Macquarie Wholesale Australian Equities

Quarterly Investment Option Update

31 December 2019

## Aim and Strategy

The Fund aims to outperform the S&P/ASX 300 Accumulation Index over the medium term (before fees). It aims to provide capital growth and some income.

The fund follows a quantitative strategy which utilises a risk-controlled approach to identify mis-priced securities. To achieve this, the Fund will utilise a set of systematic and event driven strategies. The systematic strategies aim to capture Quality, Momentum, and Value characteristics that have historically generated reliable excess returns in the Australian market.

## 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>	3-5 years
<b>Relative risk rating</b>	6/ High
<b>Investment style</b>	Quantitative
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100%	99.64
Cash	0%	0.36

Sector Allocation	%
Energy	3.97
Materials	20.58
Industrials	13.30
Consumer Discretionary	5.16
Consumer Staples	5.92
Health Care	10.56
Financials ex LPTs	27.45
Information Technology	1.80
Telecom Services	4.90
Utilities	0.91
LPTs	4.98

Top Holdings	%
Atlas Arteria Group	2.05
BHP Billiton	1.89
Aristocrat Leisure Limited	1.69
South32	1.45
ResMed Inc	1.28
Transurban Group	1.25
Evolution Mining Limited	1.22
Insurance Australia Group	1.19
Downer EDI Limited	1.18
Spark New Zealand Ltd	1.11

## Portfolio Summary

The portfolio outperformed the benchmark for the quarter.

## Investment Option Commentary

The largest contributors to relative performance for the quarter included an overweight position in Worley (WOR), and underweight positions in National Australia Bank (NAB) and Westpac (WBC).

Westpac (WBC) was down -15.8% for the quarter, driven mostly by the AUSTRAC scandal that engulfed the bank. In November, it emerged that AUSTRAC alleged 23 million breaches of money laundering and terror finance laws over 5 years. APRA has since enforced an additional \$500m capital charge on the bank to reflect its heightened operational risk profile. The scandal subsequently led to the resignation of CEO Brian Hartzer and stepping down of chairman Lindsay Maxsted.

The greatest detractors from relative performance included an overweight position in Evolution Mining (EVN), and underweight positions in Fortescue Metals Group (FMG) and Rio Tinto (RIO).

Mining company Fortescue Metals Group (FMG) posted returns of 21.5% for the quarter. FMG received a boost to both its top and bottom lines as the margin on the discount paid for FMG's lower quality ore versus the higher-grade ore shipped by BHP Group (BHP) and Rio Tinto narrowed considerably. FMG re-rated during the quarter as investors focused on the strong free cash flow generation and the potential for ongoing special dividends.

As at 31 December 2019, the largest overweight positions in the Fund were BHP Group (BHP), Aristocrat Leisure (ALL) and Atlas Arteria (ALX).

## Market Commentary

The Australian equity market had a steady finish to the year, with the S&P/ASX 200 Accumulation Index and the S&P/ASX 300 Accumulation Index posting returns for the quarter of 0.68% and 0.71% respectively. Both indices delivered strong calendar year returns, up 23.4% and 23.8% respectively.

Growth sectors such as Health and Technology took the lead as top performing sectors for the calendar year, benefitting from a sustained decline in long-term interest rates. However there continues to be questions raised globally about stretched valuations in Technology stocks. Notable failed IPOs like WeWork indicated a potential 'turning of the tide' on sentiment in such names. Banks were the worst performing sector for the quarter (-9.3%), with the sector struggling on the back of weak operating trends, capital raisings and governance issues. November saw Westpac fall 10.2% as financial intelligence agency AUSTRAC made allegations of 23 million breaches of money laundering and terror finance laws over 5 years.

On the commodities front, oil prices returned 11.3% for the quarter after OPEC members agreed to cut annual production by 500,000 barrels. Gold was softer this quarter (3.0% vs 9.1% in Q3) as risk appetite increased and safe haven flows receded. Iron ore prices were relatively flat for the quarter (-1.1%).

In domestic economic news, the RBA cut the cash rate from 1.0% to 0.75%. Despite this, the low interest rate environment has failed to boost the retail sector, which continues to disappoint. The turnaround in the housing market pressed ahead, with housing values in Sydney and Melbourne going from strength to strength.

## Outlook

Global economic conditions remain mixed and uncertain, with rising tensions between the US and the Middle East and ongoing trade tensions between the US and China. In Europe all eyes will be on the expected exit of the UK from the European Union and its impact to trade in the region and abroad. In Australia, significant focus will be on helping those in need following the recent bush fires

## Availability

Product name	APIR
SignatureSuper	AMP0957AU*

\* Close to new members

## 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



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