Yarra Capital Management Australian Equities

Quarterly Investment Option Update

31 December 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	98.3
Futures	0	1.1
Cash	0	0.6

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 the benchmark during the quarter as the Energy, Consumer Discretionary and Construction Materials sectors supported excess returns.

Investment Option Commentary

In Energy, overweights Worley (WOR, +17.7%), Origin Energy (ORG, +6.0%) and Santos (STO, +5.8%) benefited from higher oil prices, with Brent Crude rising 8.3% to $US66 per barrel. The top contributors within Consumer Discretionary were Kathmandu (KMD, +20.6%) after announcing its takeover of Rip Curl, and Star Entertainment (SGR, +5.5%) following the release of a stronger-than-expected trading update at its AGM. Construction Materials' main contributor was overweight James Hardie (JHX, +12.7%), which delivered a better-than-expected 2Q20 result and benefited from improving US housing indicators.

Conversely, Health Care detracted the most from the portfolio's excess return, largely due to underweight CSL (CSL, +18.0%. The biotechnology company reiterated FY20 earnings guidance at its AGM and industry participants noted demand was exceeding supply in the immunoglobulin market, suggesting higher prices for CSL's IG products. The other main detractor during the quarter was banking. Overweights ANZ Bank (ANZ, -10.9%) and Westpac Bank (WBC, -15.8%) declined amid soft FY19 results and allegations from AUSTRAC that Westpac breached anti-money laundering (AML) regulations, resulting in the resignation of its chief executive and early retirement of its chairman.

Market Commentary

Australian equities rose modestly in the December quarter as strong returns from Health Care were offset by weakness across Banking and Consumer Staples.

The S&P/ASX 200 Accumulation Index increased by 0.7% in the quarter. Local shares significantly underperformed overseas indices, with the MSCI World Index and S&P 500 returning 7.6% and 9.1% respectively on the back of increased optimism around a China-US trade deal. For the full year, the S&P/ASX 200 Index returned 23.4%, lagging the S&P 500's 31.5% return.

The banking sector (-9.4%) declined in response to FY19 results and, moreover, allegations from AUSTRAC that Westpac (WBC, -15.8%) breached anti-money laundering (AML) regulations, resulting in the resignation of the chief executive and early retirement of the chairman. In Consumer Staples (-2.7%), Woolworths (WOW, -3.0%) and Coles (COL, -3.6%) retraced outperformance from the prior quarter as valuation concerns outweighed better-than-expected 1Q20 sales growth. Treasury Wine Estate (TWE, -12.5%) fell after announcing its chief executive would depart in the second half of 2020.

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 4.1% on a 12-month forward basis (before franking) versus 1.4% 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 Financials.
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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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