

Ironbark Karara Australian Share

Quarterly Investment Option Update

31 March 2020

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

Investment Option Overview

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

Sector Allocation	%
Communication Services	6.80
Consumer Discretionary	12.38
Consumer Staples	3.93
Energy	5.78
Financial Ex Property Trusts	23.34
Health Care	6.78
Industrials	12.24
Information Technology	1.55
Materials Ex Metals & Mining	4.61
Metals & Mining	18.11
Real Estate	1.16

Top Holdings	%
BHP Group Ltd	9.01
Telstra Corporation Limited	5.24
Aristocrat Leisure Limited	4.92
Rio Tinto Limited	4.81
National Australia Bank Limited	4.40
QBE Insurance Group Limited	4.27
Commonwealth Bank of Australia	4.20
Brambles Limited	4.06
Qantas Airways Limited	3.45
Westpac Banking Corporation	3.18

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	97.80
Cash	0	2.20

Investment Option Commentary

At the start of the quarter, the Fund was positioned for a constructive economic environment and was skewed away from the parts of the market where valuations seemed excessive. As a result of this high-level positioning and the flight to “market darlings”, the Fund materially underperformed against the S&P/ASX 300 Accumulation Index for the quarter ending March 2020.

Notable activity included:

- Increased the underweight to domestic banks further expecting a longer recovery including higher bad debts, lower lending growth and longer-term pressure on margins and dividends.
- Initially selling down the Fund's Northern Star (down 6%) position after participating in the equity raise, before buying back the position in March as COVID 19 impacted production providing discounted access to higher long-term gold prices.
- Further reducing the Fund's overweight position in JB Hi-Fi (down 24%) on concerns that discretionary spend will be affected for some time as mortgage stress and unemployment will weigh on consumers.
- The position in AGL (down 14%) was cut to an underweight position. Forward electricity prices have fallen sharply in recent months, contrary to the investment manager's expectations.
- Rebalancing down the Fund's overweight positions in Brambles and BHP after strong outperformance.

Market Commentary

Coles (up 4%) was a standout beneficiary from the shelf emptying buying that occurred as the crisis developed. The Fund participated in the sell-down by Wesfarmers in February after their result showed they were seemingly gaining traction from their execution relative to Woolworths and continued to buy as that block struggled to be digested by the market. The investment manager took advantage of the strong outperformance and reduced the position gradually to fund purchases of stocks where the market was seemingly overreacting in the other direction. Brambles (down 9%), is a second-order beneficiary of the substantial increase in volumes through the supermarket channel globally.

On the flip side, “panic buying” in CSL (up 8%) made it the largest detractor for the quarter contributing 1.6% of the Fund's underperformance. While the result delivered by CSL in February was robust, earnings estimates for the 2021 financial year were broadly unchanged during the quarter, implying a substantial re-rating. CSL now trades at 34 times next twelve months earnings (230% of the median ASX 100 industrial company), yet it is not immune from disruption, with plasma collections likely to be impacted by the shelter-in-place orders across the US.

The sharp decline in the oil price made the Fund's energy positioning a material detractor for the quarter with significant declines in Oil Search (down 67%), Origin (down 47%) and Santos (down 58%). The investment manager reduced the Fund's overweight immediately when OPEC collapsed, however, the sector impact was 1.94% for the quarter. The oil price in the near term is unsustainably low, without coordinated action to reduce supply by OPEC and Russia and will remain at a level that will economically constrain producers for the duration of the sizable reduction in demand markets are observing.

Outlook

Events like COVID19 can change industry structures, creating an excellent opportunity for well-capitalised companies with capable management teams. As this starts to become more apparent valuations could move well ahead of earnings.

As the investment manager has seen in the bull cycle, substantial returns are on offer when companies can transition from fears of declining growth or short-term earnings risk, back to a profile that the market is prepared to construe as sustainable steady growth.

For those investors with a genuine medium to long-term time horizon, the average stock is now providing more attractive value, particularly against alternative asset classes.

The investment manager sees the market's response to near term challenges excessive in some places and opportunities are arising to build positions in quality companies at reasonable prices.

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

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