

DNR Capital Australian Equities High Conviction

Quarterly Investment Option Update

30 September 2020

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 www.amp.com.au/performance

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%	96.60%
Cash	0-5%	3.40%

Sector Allocation	%
Communication Services	11.40
Consumer Discretionary	15.77
Consumer Staples	7.18
Energy	3.57
Financials	16.92
Health Care	5.71
Industrials	7.16
Information Technology	6.92
Materials	17.30
Real Estate	4.68
Utilities	0.00
Cash	3.40

Top Holdings	%
BHP Group	9.11
National Australia Bank	5.8
Wesfarmers	5.07
James Hardie Industries	4.82
Macquarie Group	4.77
Lendlease	4.66
Tabcorp Holdings	4.58
Seek	4.48
REA	4.24

Portfolio Summary

The Portfolio is positioned as follows:

Strong global franchise stocks: James Hardie Industries (JHX), SEEK (SEK), Cochlear (COH), Aristocrat Leisure (ALL); **Strong domestic franchise stocks:** REA Group (REA), Ramsay Health Care (RHC), Wesfarmers (WES) and Cochlear(COH). **Quality mid-caps:** Domino's Pizza Enterprises (DMP), Iress (IRE), Computershare (CPU) and Qube Holdings (QUB). **Resources:** Overweight Rio Tinto (RIO) and BHP Group (BHP). **Underweight** banks.

Investment Option Commentary

Over the past quarter the team have undertaken a range of moves aimed at building further portfolio resilience. The Fund Manager have cut a number of more volatile names and increased the quality of the portfolio, adding to areas of the market generating strong returns with improving industry structures.

New Names over the quarter:

- Computershare (CPU): CPU has taken the earnings hit on interest rates and corporate actions are at a 10-year low. Despite this it is on a lowish multiple of 12.5x (post downgrade). Given quality characteristics a market multiple of 16x is justified. Longer term upside will be presented by earnings bottoming. While interest rate rises do not look likely anytime soon, that is free upside here. In the meantime, cost out, corporate actions, delinquencies, bankruptcies and new business opportunities with registered agents could present meaningful growth off the FY21 low.
- Coles Group (COL): Coles Group is operating in an improving industry structure, is benefiting from greater entertainment at home, offers defensive earnings growth with upside from an investment program delivering cost savings and margin improvement. Given its cleaner group structure and current discount to Woolworths, it is our preferred supermarket exposure.

Positions exited over the quarter:

- Brambles (BXB), South32 (S32) and Aurizon Holdings (AZJ)—These small positions were cut to concentrate the portfolio in higher quality areas of the market which offered higher returns and greater clarity around long-term earnings.
- Sydney Airport Holdings (SYD)—Our concern regarding the recovery in flights has been reinforced after discussions with corporates. They indicate an increased willingness to reduce travel.

Market Commentary

The June quarter saw a strong recovery from the depths of the COVID-19 selloff in March. The shutdown of the global economy in an effort to contain the virus resulted in GDP contraction, large-scale unemployment and financial stress to business. However, the response from central banks and governments globally to date has been swift and decisive, with fiscal stimulus in particular of record size for a non-war period. The Federal Reserve has cut rates to an effective zero, with quantitative easing resuming in an attempt to keep the markets well-funded in times of stress. Daily cases of COVID-19 have since continued to fall in the majority of countries, encouraging governments to begin reopening their economies. This, as well as gradually improving economic data has buoyed sentiment and encouraged markets. Looking forward, the risks associated with a second wave remain present and the reaction of governments to increasing case numbers will be key to the economic and market impact.

Outlook

Over the quarter the market has enjoyed a strong bounce back from its lows and the economy continues to open up. Concerns linger regarding the strength of the economic recovery amidst a pick-up in COVID-19 cases. The Fund Manager believe it is sensible for investors to look through the short term weakness attached to COVID-19 and price stocks off the likely FY22 and beyond earnings. Clearly, however, there is uncertainty regarding that earnings trajectory. The key bull and bear points impacting the outlook for the market are;

Key Bull Points:

1. The Economy is recovering- through the worst of the COVID-19 crisis.
2. A potential vaccine or treatments to further enable a recovery.
3. Supportive fiscal and monetary stimulus.
4. Equities are better value than most asset classes.
5. Positioning still cautious- the market remains overweight cash and underweight equities.

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

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