

# Schroder Australian Equities

Quarterly Investment Option Update

30 September 2020

## Aim and Strategy

To outperform the S&P/ASX 200 Accumulation Index after fees over the medium to long term by investing in a broad range of companies from Australia and New Zealand. With an established pedigree of investing in Australian equities for over 50 years, the Schroder Australian Equity option is an actively managed core Australian equity portfolio with a focus on investing in quality stocks predominantly in Australia characterised by strong returns on capital with a sustainable competitive advantage. The option draws on Schrodgers' deep research capabilities, with a long term focus on investing, it is suitable as a core portfolio holding over the medium term to long term.

## Investment Option Performance

To view the latest investment performances for each product please visit:

[www.amp.com.au/performance](http://www.amp.com.au/performance)

## 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>	Core
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Equities	95%-100%	97.75
Cash	0%-5%	2.25

Sector Allocation	%
Energy	3.81
Materials	29.34
Industrials	10.70
Consumer Discretionary	2.39
Consumer Staples	6.47
Health Care	5.41
Information Technology	2.35
Communication Services	6.62
Telecommunication Services	0.00
Utilities	1.73
REITs	3.95
Financial-X-Property Trusts	24.97

Top Holdings	%
BHP Group Ltd	7.10
Commonwealth Bank of Australia	4.30
Westpac Banking Corporation	3.90
Telstra Corporation Limited	3.90
South32 Ltd.	3.60
ANZ Banking Group Ltd.	3.60
Woolworths Group Ltd	3.40
Rio Tinto Limited	3.30
Coles Group Ltd.	2.70
James Hardie Industries	2.70

## Portfolio Summary

The strategy underperformed its benchmark for the September 2020 quarter.

## Investment Option Commentary

During this period, the biggest contributors at a sector level were overweight allocation to Consumer Staples and Communication Services. Conversely, major detractors included an underweight allocation to Consumer Discretionary and IT sectors.

### Contributors

#### **ALS Limited** (Overweight) (+40.40%)

ASX listed industrial companies with global platforms and sales growth, and good margins, that traversed through COVID-19 with barely a blip in profitability saw multiples move aggressively through the quarter. ALS has all those attributes and significant profitability and cashflow to boot, attributes far less common among many other better performing industrial company peers through the past quarter. Having spent a decade growing its largely intangible asset base, ALS is now more focused upon realising a return on that asset base, and together with the strength in the gold price giving a fillip to its customers, fundamental and market gains have hence accrued to shareholders.

### Detractors

#### **Afterpay** (Underweight) (+31.75%)

Valued at more than \$24bn prior to any sign of making a cash profit, and having gained more than \$5bn in value over the quarter, Afterpay is the poster child of the easy money environment. There is little doubt the business was a good idea as customers are embracing it wholeheartedly, whilst retailers, through weight of customer demand and fear of losing business are following. Allowing consumers to bring forward the satisfaction of receiving goods before they pay for them and asking retailers to pay fees that were previously shouldered partly by retailers and partly by consumers is hardly revolutionary, however, the near zero cost of funding and the propensity to defer rather than acknowledge bad debts is allowing such models to multiply and creating frenzy around any business involved in the payments system, except of course banks, which remain at its heart. In any normal environment the cost of providing funding to customers desperate to bring forward purchases should require them to pay a higher price for the privilege; without it, the costs of funding and bad debt risks are effectively shouldered by other customers. We could write a long list of potential issues which would seem to threaten its business model and long run sustainability, however, the excitement of increasing subscriber numbers seems all that matters.

## Market Commentary

The change in market values in the past twelve months is a once in a generation event. In percentage terms, it's best represented by the S&P ASX200 index being down a touch; S&P ASX200 Resources, led by the iron ore and gold names, being up a little; and yet MSCI World being up mid teens and S&P500 up 20%, led by technology names as represented by NASDAQ being up 50%. This continues the theme of the past decade; since January 2009, whilst many asset prices have enjoyed great gains – Australian bonds 100%, the ASX200 150%, and the S&P500 more than double the ASX200 – yet again, NASDAQ has dwarfed them all, returning nearly 700%. Real economy indicators have materially lagged asset prices; Australian house prices are up 50%, and wages and CPI up half of the house price gain, and on all measures Australia has done better than the US and EU. Commodity prices are flat over the decade, which is an interesting context for the recent rally in some metals.

## Outlook

Low to no interest rates are causing large dislocations in the price of Australian equities perceived to offer security of income, on the one hand, and growth on the other, with a squeeze in the ugly centre where a downgrade pimple in a flash is priced as a derated mole, no matter the sector. Sustainability of earnings and, more importantly, cashflows, has never been more important, nor securities more harshly dealt with if expected levels of cashflow evaporates. The better opportunities that exist in the current market tend to be idiosyncratic, where cashflows are hit, albeit not by structural factors, and where derated multiples become attractive. Ensuring as best as is possible that such dislocations are transient, rather than structural, remains critical in assessing portfolio holdings and opportunities, as indeed has ever been the case

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0465AU
AMP Flexible Super - Retirement account	AMP1375AU
AMP Flexible Super - Super account	AMP1504AU
CustomSuper	AMP0465AU
Flexible Lifetime - Allocated Pension	AMP0636AU
Flexible Lifetime - Term Pension	AMP0944AU
Flexible Lifetime Investment	AMP0995AU
Flexible Lifetime Investment (Series 2)	AMP1438AU
SignatureSuper	AMP0813AU
SignatureSuper Allocated Pension	AMP1177AU
SignatureSuper Select	AMP0813AU

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