

# DNR Capital Australian Equities High Conviction

Quarterly Investment Option Update

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

## Investment Option Overview

<b>Investment Category</b>	Australian Shares
<b>Suggested Investment timeframe</b>	5 years
<b>Relative risk rating</b>	6 / High
<b>Investment style</b>	Specialist - Quality
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	97.49
Cash	0	2.51

Sector Allocation	%
Communication Services	11.22
Consumer Discretionary	13.76
Consumer Staples	3.15
Energy	3.85
Financials	21.70
Health Care	0.00
Industrials	10.23
Information Technology	7.42
Materials	18.80
Real Estate	7.36
Utilities	0.00
Cash	2.51

Top Holdings	%
BHP Group	10.02
National Australia Bank	7.99
Macquarie Group	6.18
Tabcorp Holdings	4.93
Lendlease	4.47
Woodside Petroleum	3.85
Aristocrat Leisure	3.80
Seek	3.54
Qube Holdings	3.41
Telstra Corporation	3.40

## Investment Option Commentary

Over the past quarter the team have undertaken a range of moves aimed at building further portfolio resilience. DNR Capital had 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 Positions over the quarter:

- **ANZ Banking Group (ANZ):** DNR Capital have initiated a position in ANZ following the improved outlook for the banking industry. Whilst they believe that the industry still faces some headwinds, the outlook for margins, loan growth and bad debts appears better than feared, especially given the economic downturn suffered as a result of the pandemic. With the government stimulus supporting the economy throughout the pandemic period, they think that there is a risk of increasing bond rates, which could help arrest the previously negative net interest margin trends.
- **QBE Insurance (QBE):** The recent pull-back in share price resulting from higher bond yields, provides an attractive entry point. They purchased TCL due to its combination of resilient earnings, underpinning a ~4% dividend yield, which is expected to grow at ~10% pa over the next three years and backed by free cash flow.
- **South32 (S32):** They see S32 as offering a diversified exposure to a number of commodities which, at current prices, generate strong cash flows with upside exposure to a rebound in global growth.
- **Transurban (TCL):** The recent pull-back in share price resulting from higher bond yields, provides an attractive entry point. They purchased TCL due to its combination of resilient earnings, underpinning a ~4% dividend yield, which is expected to grow at ~10% pa over the next three years and backed by free cash flow.

### Positions exited over the quarter:

- **Cochlear (COH):** Having recovered strongly from March lows, they believe COH's valuation now represents recovered earnings on an elevated multiple. Despite offering high quality exposure to Health Care, given a stretched valuation and more attractively priced opportunities elsewhere in the market, they have exited the position.
- **Ramsay Healthcare (RHC):** The position in RHC was exited after a relatively short holding period. The stock was initially acquired during the period of heightened concerns around the impact of COVID-19 on hospital volumes and they participated in the successful capital raising. While they are still optimistic on the return of elective surgery volumes, the stock has rallied to a level where the risk / return trade off was more balanced and they decided to exit the position.
- **Treasury Wine Estates (TWE):** Following an interim ruling from The Ministry of Commerce of the People's Republic of China (MOFCOM) to apply tariffs of 107-212% to Australian wine imported to China, they have exited their position in TWE. The tariff for TWE is ~169% and at the high end of suggested ranges and their expectations. As a result, China has become a more difficult export market and the reallocation of the China volume is likely to have a detrimental impact to Group Margins. The industry structure has deteriorated and the outlook for earnings is unclear.

## Outlook

2020 is a year that will be analysed and dissected for decades to come. The economic and social chaos left in COVID-19's wake will no doubt fill more volumes of history and economic textbooks than any period in recent history. This year DNR Capital find it more insightful to focus on the investment dynamics likely to define 2021, rather than review the volatility and unpredictability of the year that was.

As investors, they believe three key themes will drive 2021, all inextricably linked:

1. The rollout, uptake and efficacy of COVID-19 vaccines
2. The quantum and pace of global fiscal stimulus
3. Global inflation and central bank appetite for asset purchases, influencing the outlook for interest rates.

As key inputs to an ongoing and overarching debate around growth versus value, these will frame how best to position portfolios for a year potentially defined by the recovery and reopening of the global economy.

## Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1515AU
AMP Flexible Super - Retirement	AMP1386AU
CustomSuper	AMP1199AU
Flexible Lifetime - Super	AMP1199AU
Flexible Lifetime - Allocated Pension	AMP1203AU
Flexible Lifetime - Term Pension	AMP1235AU
Flexible Lifetime - Investments (Series 1)	AMP1207AU**
Flexible Lifetime - Investments (Series 2)	AMP1441AU**
SignatureSuper	AMP1213AU
SignatureSuper - Allocated Pension	AMP1222AU

\*\*Closed to new and existing investors

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