

Yarra Capital Management Australian Equities

Quarterly Investment Option Update

31 December 2020

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/performance

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 | 98.2 |
| Cash | 0 | 1.8 |

| Sector Allocation | % |
|------------------------|-------|
| Communication Services | 9.98 |
| Consumer Discretionary | 9.16 |
| Consumer Staples | 2.22 |
| Energy | 6.29 |
| Financials | 22.89 |
| Health Care | 7.50 |
| Industrials | 8.63 |
| Information Technology | 4.20 |
| Materials | 21.23 |
| Real Estate | 3.05 |
| Utilities | 3.06 |

| Top Holdings | % |
|-----------------------------------|-------|
| BHP Group Ltd | 10.17 |
| ANZ Bank | 6.95 |
| Commonwealth Bank of Australia | 6.69 |
| Westpac Banking Corporation | 6.49 |
| Aristocrat Leisure Limited | 3.85 |
| Atlas Arteria | 3.54 |
| Link Administration Holdings Ltd. | 3.17 |
| APA Group | 3.06 |
| James Hardie Industries | 3.00 |
| Origin Energy Limited | 2.58 |

Investment Option Commentary

The portfolio modestly underperformed its benchmark during the December quarter. Its underweight to more defensive sectors and stocks, including Gold (-14%), Health Care (-1%) and Consumer Staples (-4%), supported excess returns. However, this was more than offset by positioning in Financials (+23%), the underweight to Retailing (+13%) and the overweight to Utilities (-5%). At a stock level the top contributors were underweight CSL (-1%) and overweights Link Group (+49%) and ANZ Bank +34%), while the top detractors were overweight APA Group (-4%) and underweights National Australia Bank (+29%) and Fortescue Metals Group (+44%).

Market Commentary

Australian equities rose alongside global markets in the December 2020 quarter, driven by positive vaccine news, higher commodity prices and a decisive US election outcome.

The S&P/ASX 200 Accumulation Index returned 13.7% for the quarter, taking its 2020 return to +1.4%. The return was ahead of global equities, with the MSCI World Index and S&P500 returning +12.5% and +12.1% respectively. Markets surged globally after three major COVID-19 vaccine candidates were announced as highly effective in extensive trials, and after Joe Biden was declared the winner of the US Presidential Election.

Sectors which were hit hardest by COVID-19 rallied sharply. Energy (+26.3%) was the strongest performer as Brent Crude lifted 29% to \$US52 per barrel, led by Worley (WOR, +20.3%), Santos (STO, +28.5%), Woodside Petroleum (WPL, +29.4%) and Oil Search (OSH, +40.5%).

Elsewhere, iron ore majors BHP Group (BHP, +19.2%), Rio Tinto (RIO, +20.7%) and Fortescue Metals Group (FMG, +43.7%) supported the market as the iron ore price increased to >\$150 per tonne over supply disruptions and greater demand from China.

Other strong performers included the Banks (+28.0%), Retail REITs (+23.8%) and Media & Entertainment (+24.8%). Consumer Discretionary (+11.1%) also rallied, though it faded late in the quarter as border restrictions were reimposed across Australia in response to new COVID clusters.

Conversely, sectors which had proved resilient during the downturn – Gold (-14.0%), Utilities (-5.4%), Consumer Staples (+6.4%) and Health Care (-1.1%) – underperformed. At a stock level, the worst performers included Newcrest Mining (NCM, -17.5%), A2 Milk (A2M, -18.5%), AGL Energy (AGL, -12.3%) and Mesoblast (MSB, -55.7%). Information Technology (+22.8%) was the exception, driven by Afterpay (APT, +47.5%) as the Buy-Now, Pay-Later market leader entered the S&P/ASX 20 Index.

Outlook

The recovery phase for the Australian economy is now well underway. Despite the concerning trends for new COVID-19 cases in the US and Western Europe as a new more contagious variant spreads, global economic data has continued to show solid improvement through Q3 and into Q4 2020. While it is reasonable to expect this positive data momentum will moderate as renewed lockdowns commence through Europe, Australia remains in a much stronger position despite recent clusters emerging from hotel quarantine failures. Economic recovery is occurring even faster than the Manager's relatively optimistic forecasts and economic growth now looks set to contract by less than 3% in 2020 before expanding by a forecast 5.5% in 2021.

The driving force of the recovery into 2021 will be consumption growth. The combination of the highest household saving ratio since the mid-1970s, in concert with resilient asset prices, declining unemployment, rising hours worked and improving consumer confidence is expected to underpin a 7.0% rise in consumption growth in 2021. Although concerns have persisted over fiscal fade via lapsing fiscal stimulus measures, their analysis has long suggested that the extension of some fiscal programs, the pull forward of income tax cuts and the recovery in labour income as furloughed workers return to work is sufficient to avoid a bout of fiscal fade weighing in household income growth.

The Manager sees significant value in certain sectors but believe others to be overvalued based on their earnings and cash flow expectations. They are most overweight stocks within the Communication Services, Energy and Consumer Discretionary sectors, and underweight Financials, Real Estate and Consumer Staples.

Availability

| Product Name | APIR Code |
|--|-------------|
| AMP Flexible Super - Super | AMP1470AU* |
| AMP Flexible Super - Retirement | AMP1341AU* |
| CustomSuper | AMP0766AU* |
| Flexible Lifetime - Super | AMP0766AU* |
| Flexible Lifetime - Allocated Pension | AMP0625AU* |
| Flexible Lifetime - Term Pension | AMP0918AU* |
| Flexible Lifetime - Investments (Series 1) | AMP0833AU** |
| Flexible Lifetime - Investments (Series 2) | AMP1406AU** |
| SignatureSuper | AMP0791AU* |
| SignatureSuper - Allocated Pension | AMP1145AU* |

*Closed to new investors

**Closed to new and existing investors

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