

# DNR Capital Australian Equities High Conviction

Quarterly Investment Option Update

31 March 2021

## 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	96.61
Cash	0	3.39

Sector Allocation	%
Communication Services	10.55%
Consumer Discretionary	14.06%
Consumer Staples	2.37%
Energy	4.15%
Financials	25.56%
Health Care	0.00%
Industrials	8.68%
Information Technology	5.32%
Materials	19.13%
Real Estate	7.72%
Utilities	0.00%
Cash	2.46%

Top Holdings	%
BHP Group Ltd	10.38%
National Australia Bank Limited	8.58%
Macquarie Group Limited	6.59%
Tabcorp Holdings Limited	5.38%
Telstra Corporation Limited	5.14%
Lendlease Group	4.66%
Aristocrat Leisure Limited	4.48%
Woodside Petroleum Ltd	3.98%
Computershare Limited	3.84%
ALS Ltd.	3.64%

## Portfolio Summary

Over the past quarter there have been a number of changes to the Portfolio and the current positioning is as follows:

- Trimming quality franchise stocks that benefited during COVID-19 – Xero (XRO), Domino's Pizza Enterprises (DMP).
- Adding stocks that will benefit from a COVID-19 reopening – South32 (S32).
- Adding stocks the fund believes offer compelling upside not captured in the market – QBE Insurance Group (QBE).
- Adding to existing stocks where the fund has become more bullish regarding the long-term growth opportunity – ALS (ALQ), Macquarie Group (MQG), Aristocrat Leisure (ALL).

## Investment Option Commentary

Over the past quarter the team have undertaken a range of moves aimed at building further portfolio resilience. The fund has 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.

### Positions exited over the quarter:

- **Transurban Group (TCL):** The fund has sold TCL after a short hold period. The original thesis was that TCL would perform well as inflation rose (due to inflation hedges in its contracts) with central banks containing interest rates. However, considering market moves in bond yields the fund became concerned the market would anticipate TCL's debt burden in a higher interest rate environment. Furthermore, the fund has seen significant opportunities emerge during reporting season and were interested in freeing up capital to deploy into companies that delivered good results, like Computershare (CPU) and QBE Insurance Group (QBE).
- **Xero Limited (XRO):** The fund has recently exited XRO. While the fund continues to think XRO is a strong company, it has re-rated substantially over the past year and trades on 18x sales. However, the fund saw opportunities to add to a range of companies which have seen weakness over the past few months including SEEK (SEK) and ALS (ALQ).

## Market Commentary

The March quarter saw markets continue their ascent, as the COVID-19 recovery gathers momentum. The S&P/ASX 200 Accumulation Index returned 4.26% during the period, with vaccination programs rolling out globally and post-pandemic fiscal stimulus responses being drawn up to support the recovery. The strength of the rebound and outlook for the economy have surprised markets, with bond rates surging during the period. The move in rates and outlook for growth has led to a strong rotation out of longer duration growth stocks, in to more cyclical names.

Financials (+11.3%) was the best performing sector, as the primary recipient of the value rotation. The banks were the key contributors to the performance of the sector, with ANZ (ANZ +24.1%), NAB (NAB +15.1%) and Westpac (WBC +26.0%) outperforming the more expensive Commonwealth Bank (CBA +4.9%).

Consumer Discretionary (+7.4%) also outperformed, as household wealth increased strongly during the pandemic period, translating to higher consumption than anticipated by the market. Key to the sector performance were the 're-opening' companies whose businesses had been interrupted by lockdown measures. Gaming names such as Aristocrat (ALL +10.8%) and Tabcorp (TAH +20.0%) were amongst the best performers.

Information Technology (-11.5%) was the worst performing sector, as the increase in bond rates reduced the terminal valuations of companies, shifting investors out of longer-duration growth assets. Previous best performers such as Afterpay (APT -13.8%) and Xero (XRO -13.8%) led the sector lower.

Healthcare (-2.9%) also underperformed, led by a few key names. CSL (CSL -6.5%), which bears the most weight in the sector, was lower during the value rotation due to its longer duration. Fisher & Paykel Healthcare (FPH -5.0%) and ResMed (RMD -7.7%) also suffered, as their perceived exposure to the pandemic response caused them to retrace as confidence improved.

## 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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