# Macquarie Wholesale Australian Equities

Quarterly Investment Option Update

31 March 2021

## Aim and Strategy

The Fund aims to outperform the S&P/ASX 300 Accumulation Index over the medium term (before fees). It aims to provide capital growth and some income.

The fund follows a quantitative strategy which utilises a risk-controlled approach to identify mis-priced securities. To achieve this, the Fund will utilise a set of systematic and event driven strategies. The systematic strategies aim to capture Quality, Momentum, and Value characteristics that have historically generated reliable excess returns in the Australian market.

## 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** | 3-5 years |
| **Relative risk rating** | 6 / High |
| **Investment style** | Quantitative |
| **Manager style** | Single Manager |

| Asset Allocation | Benchmark (%) | Actual (%) |
|---|---|---|
| Australian Shares | 100 | 98.76 |
| Cash | 0 | 1.24 |

| Sector Allocation | % |
|---|---|
| Energy | 3.10 |
| Materials | 18.72 |
| Industrials | 6.73 |
| Consumer Discretionary | 9.80 |
| Consumer Staples | 5.06 |
| Health Care | 10.09 |
| Financials | 29.73 |
| Real Estate | 6.89 |
| Information Technology | 2.49 |
| Telecom Services | 6.14 |
| Utilities | 0.01 |
| Cash | 1.24 |

| Top Holdings | % |
|---|---|
| Aristocrat Leisure Limited | 1.55 |
| James Hardie Industries | 1.28 |
| Woolworths | 1.12 |
| Beach Energy Limited | 1.11 |
| Seven Group Holdings | 1.10 |
| Oz Minerals Limited | 1.06 |
| BHP Billiton | 0.98 |
| Spark New Zealand Ltd | 0.94 |
| Transurban Group | 0.93 |
| Scentre Group Ltd | 0.93 |

## Portfolio Summary

The Fund underperformed the benchmark over the first quarter of 2021.

## Investment Option Commentary

The biggest contributors to relative performance for the quarter included overweight positions in Uniti Group (UWL) and OZ Minerals (OZL), and an underweight in Xero (XRO).

Telecom business Uniti Group (UWL) outperformed after reporting strong revenue growth for 1H FY21. Uniti's revenue was up 148% on the previous corresponding period, and the update also showed that the integration of Uniti's three recent accretive acquisitions during the period were progressing on or ahead of schedule.

Business and accounting platform provider Xero (XRO) and data centre operator Nextdc (NXT) were both impacted by the general rotation of investors selling technology shares in favour of value and cyclical stocks.

Detractors from relative performance included overweight positions in Northern Star Resources (NST), Evolution Mining (EVN), and Charter Hall Group (CHC).

Diversified Real Estate business Charter Hall Group (CHC) underperformed after reporting earnings for 1H FY21 which were slightly below expectations. Regardless, the company reported a 14% increase in funds under management and a total property investment return of 10.9% for the period. A sharp rise in bond yields, generally used to price real estate assets, was also a performance headwind for the property group during the quarter.

As 31 March 2021, the largest overweight positions in the Fund were Aristocrat Leisure (ALL), Scentre Group (SCG), and Spark New Zealand (SPK).

## Market Commentary

The Australian market continued its push higher in the first quarter of the year, with the S&P/ASX 200 Accumulation Index and the S&P/ASX 300 Accumulation Index ending the quarter 4.26% and 4.15% respectively. This takes the 12-month returns to 37.47% and 38.34% respectively for the S&P/ASX 200 Accumulation Index and the S&P/ASX 300 Accumulation Index.

Markets continue to be driven by COVID related news and vaccine progress. Inflation was a key theme observed throughout the quarter as investors start to look past the pandemic and think about the inflationary impacts of improved economic growth forecasts. This had a significant effect on bond yields, which rose sharply in February, before tapering off slightly in March. With global COVID cases falling and vaccination programs progressing, another key theme in the Australian market was a rotation back to COVID "losers". That is, the companies that had been most negatively impacted by COVID found investor support, as they now offer positive exposure to an improving outlook. On a more unusual note, stories of short squeezes grabbed headlines in January, stemming from the collective actions of US retail investors, connected via internet chat forums. These investors executed vicious short squeezes, forcing numerous institutional hedge funds to liquidate their short positions.

In COVID news, Australia has mostly enjoyed periods of little to no cases of community transmission. However, a 3-day snap lockdown was announced on 31st March for Greater Brisbane after ten new cases were recorded (four from community transmission). This triggered event cancellations and the re-imposition of some border closures, however the outbreak in Queensland was contained quickly.

In sector news, the best performing sectors for the quarter were Financials (+12.2%) and Communication Services (+8.8%). Banks in particularly have performed well, posting strong returns following the spike in bond yields (resulting in improved interest rate margins), and earnings upgrades which were driven mostly by lower bad debts. The worse performing sectors for the quarter were Information Technology (-11.3%) and Healthcare (-2.3%). As a traditional 'growth' sector, Information Technology struggled on concerns of rising bond yields.

A highlight of the quarter was the February reporting season, which saw most listed Australian companies report earnings for 1H2021. This results season was generally positive, with 51% of companies beating earnings expectations. Importantly, banks reported improving operating momentum and reduced provisioning for bad debts. Resources were also strong, buoyed by rising commodity prices with much of the additional cash directed to shareholders via dividends. COVID beneficiaries such as Bapcor (BAP), JB-Hi-Fi (JBH) and Wesfarmers (WES) reported strong results, however some profit taking was evident as investors questioned the longevity of the elevated demand as the COVID recovery progresses.

Global commodity prices were mixed. The Brent oil price was up 23% for the quarter to US$63.54/bbl driven by increased demand expectations with further progress on the vaccine distribution being made and a surprise Saudi oil supply cut. Iron ore was up 4.10% for the quarter on recovery sentiment, however gold was down 10.06%, driven by the spike in bond yields.

The AUD was relatively unchanged over the quarter, depreciating 1c to US$0.76. In the domestic economy, the RBA cash rate continues to sit at a record-low 0.15%. Bond yields increased substantially during the quarter on inflation concerns. The US 10 year government bond yield rose 83 basis points to 1.74%, whilst the Australian 10 year government bond yields increased 82 basis points to 1.79%.

## Outlook

The COVID recovery in Australia continues to progress, with the vaccine rollout slowly gaining momentum and a trans-Tasman travel bubble with New Zealand announced. Looking ahead, key factors driving market sentiment will include movements in bond yields, the global effectiveness of the various vaccines, and the impact of the unwind of domestic stimulus measures on the local economy.

## Availability

| Product Name | APIR Code |
|---|---|
| SignatureSuper | AMP0957AU* |

*Closed to new investors


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