Macquarie Wholesale Australian Equities

Quarterly Investment Option Update

30 September 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 provides exposure to a diversified portfolio of Australian equities through securities listed, or expected to be listed, on the Australian Securities Exchange. The fund may also provide exposure to equity issued by Australia entities on offshore exchanges, derivatives (including options, futures, warrants and forwards) and cash.

The investment manager aims to build a portfolio of equities that are exposed to a wide range of factors driving share market performance. The process seeks to identify companies which rank highly on the investment manager's quantitative screens and which may exceed market expectations over the medium term

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	7 / Very high
Investment style	Quantitative
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	n/a	98.15
Cash	n/a	1.85

Sector Allocation	%
Energy	4.91
Materials	16.76
Industrials	7.86
Consumer Discretionary	8.84
Consumer Staples	5.29
Health Care	8.47
Financials	29.61
Real Estate	5.47
Information Technology	2.99
Communication Services	7.90
Utilities	0.08

Top Holdings	%
Santos	1.86
Aristocrat Leisure Limited	1.74
Oz Minerals Limited	1.37
IGO Ltd	1.20
Medibank Private Ltd	1.18
Transurban Group	1.08
CSR Limited	1.05
Nine Entertainment Co	0.96
BHP Group	0.93
Uniti Group Ltd	0.90

Investment Option Commentary

The biggest contributors to relative performance for the quarter included overweight positions in IGO Ltd (IGO) and ResMed (RMD), and an underweight position in Rio Tinto (RIO).

Lithium and metals miner IGO Limited (IGO) outperformed at the start of the quarter. Many of IGO's key production assets are benefitting from strong price growth due to the shift to clean energy, such as lithium, cobalt and nickel. On 30 June 2021 IGO finalised its joint venture deal with Chinese Lithium giant Tianqi Lithium Corporation, which will see IGO take 25% ownership of Tianqi's Greenbushes lithium mine in WA and 49% of the nearby Kwinana processing plant.

The main detractors from relative performance included overweight positions in BHP Group (BHP) and Sydney Airport (SYD), and an underweight position in WiseTech Global (WTC).

WiseTech Global (WTC) performed strongly following the release of a stellar full year result as part of the August earnings season. The logistics solutions platform provider delivered revenue and EBITDA that significantly beat expectations. Company management cited that market penetration has gained pace with six new global rollouts secured in FY21 and the signing of FedEx post 30 June 2021.

As 30 September 2021, the largest overweight positions in the Fund were Santos (STO), Aristocrat Leisure (ALL), and Oz Minerals (OZL).

Market Commentary

The Australian market continued its strong run, with the S&P/ASX 200 Accumulation Index and the S&P/ASX 300 Accumulation Index ending the quarter up 1.71% and 1.79% respectively. This takes the 12 month returns to 30.56% and 30.86%, respectively.

It was a strong start to the quarter, with both July and August posting positive returns, driven by the continued relative success of the global vaccine roll-out. A general reopening theme was observed in much of the developed world, while lockdowns were extended across the Australian eastern seaboard. September saw a pullback across markets globally, driven by concerns about Chinese property giant Evergrande's debt crisis, and a more hawkish tone from the US Federal Reserve which lifted bond yields. Iron ore had a weak quarter, falling materially after hitting multi-year highs earlier this year. Inflation remains front of mind for investors. Supply chain constraints are being felt across the global economy and it remains to be seen if the recent uptick in prices observed is indeed 'transitory.'

Reporting season was the focus for many domestic investors in August. Across the market, only 31% of companies missed expectations, with consensus FY22 earnings downgraded by a modest 1.5%, largely due to downgrades in COVID 'losers'. Globally exposed companies were the standout, performing strongly as re-opening activity continued offshore. Capital management was another highlight of reporting season, with many dividend 'beats' across the board. This suggests many companies believe their balance sheets are in good health and are instead choosing to return excess cash to shareholders in the form of dividends and buybacks. While companies are taking COVID impacts into consideration when providing guidance, it seems they have more certainty around the extent of disruption of COVID on their specific operations.

In sector news, Energy (+9.4%) and Industrials (+6.6%) were the top performers. The outperformance of Energy was driven by large increases in oil and gas prices, which in turn were driven by observed shortages in multiple regional markets. Materials (-9.9%) and Consumer Discretionary (2.6%) lagged.

The focus on the commodities front was iron ore. The price of iron ore fell a staggering 49% as regulatory tightening and a decarbonisation push in China softens crude steel demand.

Bond yields drifted throughout the quarter although finished broadly flat. The US 10 year government bond yield increased 7 basis points to 1.52%, while the Australian 10 year government bond yield fell by a modest 3 basis points to 1.49%. US Fed Chair Powell's comments at the annual Jackson Hole Conference in August suggested a taper announcement is likely to occur soon, while more recent commentary in September has also had a hawkish tone.

The AUD was depreciated against the USD, ending 2.7c weaker, at US$0.723. In the domestic economy, the RBA maintained the cash rate at 0.15%.

Outlook

With New South Wales and Victoria edging towards reopening in October, the focus will be on how the national economy reacts given the level of pent-up demand in the two largest states. Previous re-openings have seen a strong and immediate snapback in activity. The uncertainty this time is whether higher levels of COVID circulating through the community, albeit offset by high vaccination rates, will affect the strength of the recovery.

The local market is entering 'AGM season' and initial earning updates have generally been positive, following a broadly positive reporting season in August. Solid earnings growth, accompanied by accommodative monetary and fiscal policy is likely to remain supportive for equities.

Availability

Product name	APIR
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* Close to new members

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