

# Yarra Capital Management Australian Equities

Quarterly Investment Option Update

30 September 2018

## 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](http://amp.com.au)

## Investment Option Overview

<b>Investment category</b>	Australian Shares
<b>Suggested investment timeframe</b>	7 years
<b>Relative risk rating</b>	6 / High
<b>Investment style</b>	Core

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	97.3
Cash*	0	2.7

\*Includes Futures

Sector Allocation	%
Communication Services	10.74
Consumer Discretionary	9.06
Consumer Staples	-
Energy	8.68
Financials	33.93
Health Care	5.62
Industrials	12.25
Information Technology	2.51
Materials	14.51
Real Estate	-
Utilities	-
Cash	2.70

Top Holdings (Absolute)	%
Commonwealth Bank of Australia	9.90
Westpac Banking Corporation	7.94
Australia and New Zealand Banking Group	7.68
Atlas Arteria	4.62
Seek Limited	3.92
James Hardie Industries	3.81
Santos Limited	3.71
TPG Telecom Limited	3.68
Origin Energy Limited	3.43
ResMed	3.38

## Portfolio Summary

The portfolio outperformed the benchmark in the September quarter as its overweight positions in Communication Services and Consumer Discretionary drove excess return.

## Investment Option Commentary

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Communication Services was the largest contributor to return as telco sector re-rated following the proposed “merger of equals” between overweight TPG Telecom (TPM, +65.2%) and Vodafone. Overweight Vocus Group (VOC, +42.0%) outperformed on earnings stabilisation and positive management team changes.

Elsewhere, Consumer Discretionary added to alpha largely due to overweight in JB Hi-Fi (JBH, +13.9%) and Super Retail Group (SUL, +12.6%) which delivered better-than-expected FY18 results.

Conversely, positioning in Energy and Construction Materials detracted from excess return. In the former, overweight Origin Energy (ORG, -17.6%) was largely responsible following disappointing FY19 guidance released as part of its FY18 result. In the latter, CSR (CSR, -17.9%) fell amid concerns over a housing slowdown and James Hardie (JHX, -7.6%) declined following its 1Q19 update.

## Market Commentary

The S&P/ASX 200 Accumulation Index rose 1.5% in the three months to 30 September 2018, taking its 12-month return to 14.0%. The index underperformed global indices in the quarter but outperformed in the year, with the MSCI World Index returning 5.4% and 12.9% respectively.

In aggregate the Australian reporting season was in line with expectations, with 29% of companies beating expectations and 28% missing<sup>1</sup> across the ASX 200. FY19 earnings were revised 1% lower for companies that reported<sup>2</sup>.

## Outlook

The Fund Manager believes fundamentals point to a strengthening earnings cycle for the Australian equity market. Consensus sees Resources and Industrials ex-Financials driving high single-digit earnings growth, moderated by more modest earnings growth in Financials.

Australian equities are priced modestly above their long-term average based on forward earnings estimates, though valuations remain attractive relative to alternatives such as fixed interest. The S&P/ASX 200 Index yields 4.6% on a 12-month forward basis (before franking) versus 2.7% from the Australian 10-year government bond yield.

At a global level, while an economic recovery outlook is driving valuations to elevated levels, we remain alert to economic and geopolitical risks, including rising interest rates and China's real rate of growth.

The Fund Manager sees significant value in certain sectors but believe others to be overvalued based on earnings and cash flow expectations. Yarra Capital remain overweight the Consumer Discretionary, Industrials and Communication Services sectors, but are underweight Real Estate, Metals & Mining and Consumer Staples.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0766AU
AMP Flexible Super - Retirement account	AMP1341AU
AMP Flexible Super - Super account	AMP1470AU
CustomSuper	AMP0766AU
Flexible Lifetime - Allocated Pension	AMP0625AU
Flexible Lifetime - Term Pension	AMP0918AU
Flexible Lifetime Investment	AMP0833AU
Flexible Lifetime Investment (Series 2)	AMP1406AU
SignatureSuper	AMP0791AU
SignatureSuper Allocated Pension	AMP1145AU

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