

# Yarra Capital Management Australian Equities

Quarterly Investment Option Update

31 December 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	96.9
Cash	0	3.1

Sector Allocation	%
Communication Services	9.32
Consumer Discretionary	7.86
Consumer Staples	
Energy	9.50
Financials	34.01
Health Care	4.83
Industrials	17.46
Information Technology	1.67
Materials	12.29
Real Estate	
Utilities	
[Cash]	3.07

Top Holdings (Absolute)	%
Commonwealth Bank of Australia	11.65
Westpac Banking Corporation	8.59
Australia and New Zealand Banking Group	8.02
Atlas Arteria	4.86
Transurban Group Ltd.	4.08
Origin Energy Limited	3.91
Seek Limited	3.70
James Hardie Industries	3.53
Star Entertainment Group Limited	3.38
Suncorp Group Limited	3.36

## Investment Option Commentary

At a sector level, the largest detractors from excess return were Metals & Mining (-2.5%) and Energy (-21.3%). In the former, underweights to Gold (+20.2%) and BHP Billiton (BHP, -1.2%) and Rio Tinto (RIO, -0.4%) were largely responsible. Energy's detractors were overweights WorleyParsons (WOR, -41.1%), Origin Energy (ORG, -21.7%) and Santos (STO, -24.5%) as the oil price declined 34%.

Elsewhere, the underweight to REITs (-1.9%) and the overweight to Communication Services (-14.7%) also detracted from returns. REITs outperformed as investors increased allocations to defensive equities, while Communication Services declined after the ACCC expressed concerns about the proposed merger between TPG Telecom (TPM, -24.4%) and Vodafone, and as weakness in the Australian advertising market impacted the Media (-31.4%) industry.

Conversely, Information Technology (-13.9%) added to alpha due to overweight MYOB (MYO, +19.5%), which was subject to a takeover offer, and overweight Computershare (CPU, -3.0%) continued to benefit from improving margin income. Both positions were exited during the period. Meanwhile, Health Care (-8.1%) was another contributor as overweight ResMed (RMD, +0.7%) made a series of acquisitions.

## Market Commentary

The S&P/ASX 200 Accumulation Index declined 8.2% in the three months to 31 December 2018, taking its total return for the year to -2.8%. Australian shares outperformed global indices, with the MSCI World Index and the S&P 500 dropping by 13.0% and 13.5% respectively in the quarter.

The VIX "fear index" more than doubled during the quarter to 25.4 points as concerns rose that higher interest rates, trade tariffs and growing cost inflation were harming global economic growth. The US Federal Reserve nevertheless raised interest rates by 0.25% to a target range of 2.25-2.5% in December and gave a less dovish outlook than expected. In Australia, third-quarter GDP was below expectations, rising 2.8% y/y versus the RBA's forecast of 3.5% growth.

## Outlook

The Fund Manager believes fundamentals including employment, population and GDP growth point to a robust Australian economy. The outlook for company earnings appears strong, supported by Resources and select Industrials.

Australian equities are priced in line with long-term averages based on forward earnings estimates, though valuations remain attractive relative to alternatives such as fixed interest. The S&P/ASX 200 Index yields 5.1% on a 12-month forward basis (before franking) versus 2.3% from the Australian 10-year government bond yield.

Macroeconomic risks persist, however, and require careful monitoring. The Fund Manager remains alert to economic and geopolitical risks, including lower house prices domestically, rising interest rates in the US, slowing global economic growth, the impact of tariffs 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. The Fund is most overweight stocks within the Industrials, Communication Services and Energy sectors, but is 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
stomSuper	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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