

# Specialist Australian Small Companies

Quarterly Investment Option Update

31 March 2019

## Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the performance benchmark, the S&P/ASX Small Ordinaries Accumulation Index, on a rolling three-year basis. The portfolio invests in small companies listed on the Australian Securities Exchange (ASX). For this portfolio small companies are considered to be those outside the top 100 listed companies (by market value). Up to 20% of the portfolio may be invested in unlisted companies that the investment manager believes are likely to be listed in the next 12 months, or in companies between the top 50 and 100 listed on the ASX.

Actual Allocation	%
Australian shares	77.73
Listed property & infrastructure	5.40
Cash	7.66
International shares	9.21
Others	0.00

## Investment Option Performance

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## Investment Option Overview

Investment category	Australian Shares
Suggested investment timeframe	7 years
Relative risk rating	Very High
Investment style	Multi-Manager

Asset Allocation	Benchmark (%)
Australian shares	100
Cash	0

Sector Allocation	%
Materials	19.97
Consumer discretionary	17.33
Industrials	13.08
Financials	7.75
Energy	4.25
Information technology	10.39
Cash	7.68
Health care	6.06
Real estate	5.22
Consumer staples	2.62
Utilities	1.89
Telecommunication services	3.76

## What Happened Last Period

- The Fund posted a positive return and underperformed its benchmark (before fees) in the March quarter.
- All three underlying managers underperformed the benchmark in a period which was dominated by a return to a 'risk-on' tone.
- While the Fund has underperformed over the past 12 months, it has delivered significant outperformance relative to the benchmark since inception, with all underlying managers contributing.

## Fund Performance

The Fund posted a positive return and underperformed its benchmark (before fees) over the March quarter. Amid a dominant return to a 'risk-on' tone which returned to equity markets, all underlying managers delivered positive absolute returns, although each underperformed the benchmark, with Eley Griffiths Group and UBS struggling around the middle of the period whereas Perennial Value Management significantly lagged throughout. Despite this, the Fund has delivered significant outperformance relative to the benchmark over the long-term, particularly since inception, with all underlying managers contributing. Sector allocation detracted from relative returns over the quarter, as did stock selection. Regarding sector allocation, the largest contributors to relative returns were an underweight position in the consumer staples sector and being overweight in the industrials sector. The largest detractors from relative performance were the underweight positions in the energy and information technology sectors. Cash held in the Fund was also a significant detractor from relative returns.

From an individual stock perspective, the largest positive contributor to relative returns was an underweight position in fresh produce company Costa Group Holdings (-31%). The company came under pressure following its announcement to the market early in the period of lower earnings guidance on the back of subdued demand and lower profit margins. Other contributors include an overweight position in gold and copper producer Doray Minerals (+52%) and an underweight exposure to health supplements company Blackmores (-22%). The largest detractor from relative returns was an overweight position in alternatives investment manager Navigator Global Investments (-23%), which fell after issuing a disappointing earnings downgrade during the period, owing to earlier than anticipated outflows from recently-acquired Mesirow and timing of costs out. Other detractors included an overweight position in automotive coating products manufacturer SRG Global (-37%) and a nil holding in specialist software company Altium (+49%).

## Market Review

In line with broader global equities, Australian shares posted very strong gains in the March quarter, after significant falls in late 2018. The S&P/ASX200 total return index finished up by 10.89% for the period. The bulk of the quarter's gains came in January and February, as both the banking Royal Commission and domestic reporting season proved to be largely free of any negative surprises, allowing global bullish sentiment to remain the prime driver of the domestic market. Despite the strong performance, uncertainty remains around the upcoming Federal Election and the Labor opposition's proposed tax changes, which include the removal of franking credits for individuals who do not pay tax or receive a tax refund, mainly impacting self-funded retirees who largely own shares for income purposes. Speculation of an interest rate cut from the Reserve Bank (RBA) has also increased, which is also positive for Australian equities, though balancing this, fears of a pull-back in global growth remain, particularly in the US and parts of Europe.

## Outlook

Australian shares remain exposed to a global slowdown, particularly in the resources segment. Banking profitability is also likely to be constrained by increased macro-prudential regulation, capital-holding requirements and a shifting banking structural landscape. Credit will likely continue to be subdued as banks tighten lending standards and business confidence pulls back. Economic uncertainty could also amplify market volatility as we approach the general election in 2019 and the parties stake-out their economic plans for the future. In the current environment, investors should benefit by being highly selective and focussing on companies with strong business fundamentals.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0863AU
AMP Flexible Super - Retirement account	AMP1347AU
AMP Flexible Super - Super account	AMP1476AU
CustomSuper	AMP0863AU
Flexible Lifetime - Allocated Pension	AMP0879AU
Flexible Lifetime - Term Pension	AMP0933AU
Flexible Lifetime - Investments (Series 1)	AMP1005AU
Flexible Lifetime - Investments (Series 2)	AMP1411AU
SignatureSuper	AMP0951AU
SignatureSuper - Allocated Pension	AMP1147AU
SignatureSuper Select	AMP0951AU

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