Yarra Capital Management Australian Equities

Quarterly Investment Option Update

31 March 2019

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

Investment Option Overview

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

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	98.7
Cash	0	1.3

Sector Allocation	%
Communication Services	9.17
Consumer Discretionary	4.76
Consumer Staples	- --
Energy	10.17
Financials	30.08
Health Care	5.27
Industrials	17.40
Information Technology	1.76
Materials	17.79
Real Estate	--
Utilities	2.28

Top Holdings (Absolute)	%
Commonwealth Bank of Australia	9.85
Westpac Banking Corporation	8.71
Australia and New Zealand Banking Group	7.81
Transurban Group	4.48
Atlas Arteria	4.45
Origin Energy	4.08
BHP Group	4.05
James Hardie	3.63
Seek Limited	3.39
Sydney Airport	3.23

Portfolio Summary

The portfolio underperformed the benchmark during the quarter as consumer exposures, Financials and the underweight to iron ore weighed on returns.

Investment Option Commentary

At a sector level, the largest detractors from excess return were Financials and Consumer Discretionary. In the former, overweight Eclipx (ECX, -73.7%) issued weak earnings updates and its suitor, McMillan Shakespeare (MMS), walked away from a merger deal. In addition, the banks (+3.3%) underperformed due to concerns over the NIM outlook and lower credit growth, despite a less negative Financial Services Royal Commission Final Report than expected. In the latter, retail overweights and Star Entertainment (SGR, -6.2%) underperformed as lower house prices weighed on consumer sentiment.

Elsewhere, the portfolio's underweight to iron ore detracted significantly as a tailings dam failure in Brazil caused supply disruption. Rio Tinto (RIO, +32.8%), Fortescue Metals (FMG, +78.1%) and BHP (BHP, +19.8%) were among the top contributors to the index's return.

Conversely, Energy and Consumer Staples contributed to the portfolio's return in the quarter. In the former, overweights Santos (STO, +26.2%), Origin Energy (ORG, +12.8%) and WorleyParsons (WOR, +25.1%) outperformed amid the higher oil price (+23.8%). In Consumer Staples, where the portfolio doesn't hold any positions, top contributors were Woolworths (WOW, +5.0%), Coles (COL, +0.9%) and Costa Group (CGC, -30.1%).

Market Commentary

The S&P/ASX 200 Accumulation Index rose 10.9% in the three months to 31 March 2019, taking its 12-month return to 12.1%. The local index underperformed global indices during the quarter, with the MSCI World Index and S&P500 returning 12.8% and 13.6% respectively.

In aggregate February reporting season was largely in line with subdued expectations, though upward revisions from Resources offset downgrades elsewhere. The market's strong return largely came from earnings multiple expansion, with the S&P/ASX 200 12-month forward P/E rising from 14.2 to 15.5 times. Globally, equities rose in response to more dovish outlooks from central banks as global growth slows.

Outlook

The Fund Manager believes fundamentals including employment and population growth point to a robust Australian economy, tempered by moderating growth, falling house prices and soft consumer confidence. Nevertheless, the outlook for company earnings appears solid, supported by select Resources and 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 4.6% on a 12-month forward basis (before franking) versus 1.8% from the Australian 10-year government bond yield.

Global macroeconomic risks persist, though, and require careful monitoring. The Fund Manager remains alert to economic and geopolitical risks, including 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 portfolio is most overweight stocks within the Industrials, Communication Services and Energy sectors, but is underweight Real Estate, Consumer Staples and Health Care.

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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