

DNR Capital Australian Equities High Conviction

Quarterly Investment Option Update

30 June 2019

Aim and Strategy

To invest in a high conviction portfolio of Australian shares that aims to outperform the S&P/ASX 200 Accumulation Index benchmark by 4% p.a. (before fees) over a rolling three-year period. DNR Capital seeks to identify good quality businesses that are mispriced by overlaying DNR Capital's quality filter with a strong valuation discipline.

DNR Capital's security selection process has a strong bottom up discipline and focuses on buying quality businesses at reasonable prices. The portfolio construction process is influenced by a top-down economic appraisal and also considers the risk characteristics of the portfolio such as security and sector correlations. The investment strategy results in a high conviction portfolio of 15 to 30 securities that is invested for the medium term.

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	5 years
Relative risk rating	6 / High
Investment style	Specialist - Quality
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	95-100%	95.77%
Cash	0-5%	4.23%

Sector Allocation	%
Communication Services	4.57
Consumer Discretionary	11.37
Consumer Staples	4.96
Energy	5.49
Financials	26.08
Health Care	0.00
Industrials	15.18
Information Technology	5.95
Materials	17.00
Real Estate	5.17
Utilities	0.00
Cash	4.23

Top Holdings	%
National Australia Bank	8.37
BHP Group	8.31
Macquarie Group	5.70
Commonwealth Bank of Australia	5.61
SEEK	5.28
Lendlease	4.85
James Hardie Industries	4.81
Treasury Wine Estates	4.71
Brambles	4.50
RES Group	3.82

Portfolio Summary

The current portfolio positioning is as follows:

- Overweight a basket of quality companies that have durable growth—SEEK (SEK), REA Group (REA), IRESS (IRE), Treasury Wine Estates (TWE), Xero (XRO).
- Overweight a basket of companies that have reasonable growth at reasonable prices—Brambles (BXB), Wesfarmers (WES), Lendlease (LLC), Aurizon Holdings (AZJ).
- Overweight companies which have improving profiles and continue to trade at a discount—WorleyParsons (WOR), James Hardie Industries (JHX).
- Underweight bond proxies like A-REITs and utilities, which have already capitalised low bond yields and have little valuation upside.
- Underweight domestic banks and consumer-exposed stocks, which face headwinds an already heavily gearing consumer.

Investment Option Commentary

The investment manager have been wrong in their thinking that inflation would drive a push towards a more value-focused market and this positioning has dragged on relative performance. Low bond rates do have an impact on valuation, however the current bond rally has pushed through all previous highs and DNR Capital are concerned that the ability of low rates to continue to drive valuations higher is limited. The investment manager do not believe that this is the right point in the cycle to be adopting the aggressive valuation methodologies needed to justify chasing these stocks.

DNR Capital continue to position the portfolios in these businesses, where DNR Capital see fundamental valuation support and expect them to attract more investor interest, as the market broadens from its current singular focus on bond proxies. By taking on slightly more risk, they can find high-quality industrial businesses like Aurizon Holdings (AZJ), Wesfarmers (WES), Brambles (BXB) and Tabcorp Holdings (TAH). All these companies are paying yields above 4% that are growing into the medium term.

Aurizon Holdings (AZJ) is a good of example of how patient investing reaps rewards. Less than 18 months ago the market penalised the stock harshly for a poor regulatory outcome. Management has since resolved this issue, negotiating directly with the miners and reaching an outcome on better terms that also provides certainty and longevity for investors. This has improved investor sentiment towards the stock. DNR Capital continue to see upside from higher coal volumes, new contracts (both above-rail and below-rail) and cost-out and capital management.

Market Commentary

Australian equities have continued their rise from the beginning of the year due to a number of macro factors, including the aforementioned US monetary policy. Domestically, a weak economy has resulted in an easing stance from the RBA, which, coupled with a re-election of the Coalition Government, has provided confidence in the markets. Concerns still remain around housing despite some positivity post-election, though the most prominent threat to markets is the ongoing trade dispute between the US and China.

Outlook

DNR believe it is time for some caution. Market optimism means many businesses have been re-rated higher and some of these will not deserve the market darling status that they currently enjoy. Further, higher bond yields can place pressure on these extended valuations, given a significant level of value is in the terminal year. In some cases, the opportunities are difficult to ignore and a business that creates a large global presence will be interesting regardless of where bond yields land. DNR are a little more bullish in this regard following reporting season, which highlighted the level of earnings growth and long-term potential in many businesses. DNR remain invested in a range of quality businesses, with large opportunities and conservative debt levels, but continue to remain vigilant on valuations. This means DNR have a basket of growth companies but are managing the risk based on the size of the active positions and overall allocation to these types of opportunities.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1199AU
AMP Flexible Super - Retirement account	AMP1386AU
AMP Flexible Super - Super account	AMP1515AU
CustomSuper	AMP1199AU
Flexible Lifetime - Allocated Pension	AMP1203AU
Flexible Lifetime - Term Pension	AMP1235AU
Flexible Lifetime Investment	AMP1207AU
Flexible Lifetime Investment (Series 2)	AMP1441AU
SignatureSuper	AMP1213AU
SignatureSuper Allocated Pension	AMP1222AU

Contact Details

Web: www.amp.com.au

Email:

askamp@amp.com.au

Phone: 131 267

Fax: 1300 301 267

Mail: Customer Service

PO Box 300

Parramatta NSW 2124



What you need to know

This publication has been prepared by AMP Life Limited ABN 84 079 300 379, AFSL No. 233671 (AMP Life). The information contained in this publication has been derived from sources believe to accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying Investment Manager only and not necessarily the views of the AMP Group. No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information. AMP Life is part of the AMP Group. In providing the general advice, AMP Life and AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

The information in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

The investment option referred to in this publication is available through products issued by AMP Superannuation Limited ABN 31 008 414 104, AFSL No. 233060 (ASL) and/or AMP Life. Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement for the relevant product, available from ASL, AMP Life or your financial planner.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in (underlying fund). The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither AMP Life, ASL, any other company in the AMP Group nor underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance.