Schroder Australian Equities

Quarterly Investment Option Update

30 June 2019

Aim and Strategy

To outperform the S&P/ASX 200 Accumulation Index after fees over the medium to long term by investing in a broad range of companies from Australia and New Zealand. With an established pedigree of investing in Australian equities for over 50 years, the Schroder Australian Equity option is an actively managed core Australian equity portfolio with a focus on investing in quality stocks predominantly in Australia characterised by strong returns on capital with a sustainable competitive advantage. The option draws on Schroders' deep research capabilities, with a long term focus on investing, it is suitable as a core portfolio holding over the medium term to long term.

Sector Allocation	%
Energy	4.95
Materials	25.58
Industrials	8.99
Consumer Discretionary	4.92
Consumer Staples	6.25
Health Care	1.59
Information Technology	0.31
Communication Services	6.16
Utilities	2.09
REITs	2.65
Financial (ex Property Trusts)	33.29
CASH	3.22

Top Holdings	%
Commonwealth Bank of	5.90
BHP Group Ltd	5.19
Australia and New Zealand	4.53
Westpac Banking Corporation	4.09
Woolworths Group Ltd	4.02
Rio Tinto Limited	3.66
National Australia Bank	3.50
Telstra Corporation Limited	2.75
Brambles Limited	2.55
Aurizon Holdings Ltd.	5.90

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	3 - 5 years
Relative risk rating	6 / High
Investment style	Core
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Equities	95%-100%	96.8%
Cash	0%-5%	3.2%

Portfolio Summary

On a sector basis, the underweight positions to the Financials (ex-REITs), Health Care, Industrials and Energy sectors were all positive contributors to relative performance. Conversely, the underweight positions in Consumer Staples, Information Technology and REITs were the main detractors from relative performance.

On a stock level, positive contributors to relative performance included the overweight positions in Rio Tinto, Santos, Cleanaway Waste Management and Iluka Resources, as well as the underweight in CSL. Detractors to relative performance included the nil holdings in Fortescue Metals and Goodman Group alongside the overweight positions in Crown Resorts, Nufarm and Bingo Industries

Market Commentary

The past financial year, particularly in Australia, has been dominated by interest rates as 10-year bond yields collapsed 150 basis points between October and June. As interest rates approach zero in much of the western world, it appears the convenient linear relationship which economists expect from their monetary intervention isn't quite going to plan. Rather than igniting animal spirits and spurring spending, the expectation of ever declining rates is creating insatiable demand and stratospheric prices for safe haven assets whilst doing nothing for the velocity of money and economic activity. Private sector credit across the western world is not growing to any significant extent in response to lower rates.

Contributors

Bingo Industries (o/w, +47.7%) Having endured a significant collapse in value after Bingo downgraded its earnings earlier this year, the reality of what we believe is a well-run, well positioned business has driven significant recovery. Given the business is now far more in control of its destiny, given operations across collection, recycling and landfill, we are strong believers in its long term value. Given the obvious economic value in improving recycling performance as waste becomes a greater issue, innovative providers should have significant growth prospects.

Detractors

Link Administration (o/w, -32.3%) Although only a small portfolio position, the value of the Link business has been savaged on the back of downgraded earnings, primarily from the UK business acquired from Capita. While Brexit and weak UK capital market activity have impacted to a degree, there is little doubt the quality of technology and systems in the acquired business was less than ideal, meaning the claimed cost synergies may morph into cost reinvestment to avoid market share loss. These challenges also impact the superannuation administration business domestically and merely reflect the reality of all technology businesses. Technology ages and competitors invariably enter the market with newer, superior systems pressuring incumbents. This is particularly the case when the technology comprises multiple platforms delivered through numerous acquisitions. The same issues will invariably afflict a number of current market darlings in the future.

Outlook

It is tough to profess a focus on sustainability within the economy without questioning the sustainability of the financial system which supports it. Whilst we expected Australia would follow the path of monetary accommodation/manipulation that has pervaded the world, we have been surprised as to the pace and extent of interest rate evaporation, not to mention the rapidity with which this has been reflected in equity market valuations. Particularly in perceived defensive assets, an ever lower yield means the margin of safety continues to evaporate should the unthinkable happen and interest rates move in a direction other than that to which investors have become accustomed, or inflation find its way into the real economy rather than asset prices.

The vast majority of businesses in which we find valuation attraction remain outside the barbell which has formed around the passive/perceived stable asset category and the epicentre of speculation in which words and acronyms like disruption, first mover advantage, fin-tech, TAM and SAAS (total addressable market and software as a service for those not fluent in tech jargon) allow vast amounts of market capitalisation to be added without commensurate earnings. As the share prices of the bulk of the real economy between these two barbells continues to deliver far less exciting returns without much sign that sustainable revenues and profits are shifting with them, we believe the future returns must eventually normalise.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0465AU
AMP Flexible Super - Retirement account	AMP1375AU
AMP Flexible Super - Super account	AMP1504AU
CustomSuper	AMP0465AU
Flexible Lifetime - Allocated Pension	AMP0636AU
Flexible Lifetime - Term Pension	AMP0944AU
Flexible Lifetime Investment	AMP0995AU
Flexible Lifetime Investment (Series 2)	AMP1438AU
SignatureSuper	AMP0813AU
SignatureSuper Allocated Pension	AMP1177AU
SignatureSuper Select	AMP0813AU

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