Yarra Capital Management Australian Equities

Quarterly Investment Option Update

30 June 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	8.59
Consumer Discretionary	5.14
Consumer Staples	0.00
Energy	9.59
Financials	29.61
Health Care	4.37
Industrials	17.19
Information Technology	1.68
Materials	15.70
Real Estate	3.75
Utilities	2.96

Top Holdings (Absolute)	%
Commonwealth Bank of Australia	10.15
Westpac Banking Corporation	9.15
Australia and New Zealand Banking Group	7.84
Transurban Group	4.45
Atlas Arteria	4.43
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

Seek (SEK, overweight) – the online recruitment company outperformed after reaffirming FY19 revenue and EBITDA guidance during the quarter. The company also confirmed more aggressive investment plans for its existing earlier stage businesses where it has strong momentum. The investment manager remains positive towards SEK's products following a period of sustained and significant investment. They expect product developments will deliver new revenue opportunities and strengthen the existing businesses, both domestically and internationally. The structural growth of SEK's earlier stage markets should also support international growth, particularly in China. The company's early stage businesses also contain latent value when considering SEK's strong track record and current earnings losses. SEK has a strong balance sheet (FY18 net debt to EBITDA 1.2 times) which can support further accretive acquisitions, including through lower risk increases to existing investments.

South32 (S32, underweight) – the base metals miner underperformed during the quarter in response to a soft 3Q19 production report and lower alumina prices. Production and sales for the period missed consensus estimates, largely due to lower coal and alumina volumes, and drove S32 to cut FY19 production guidance for several key mines. The investment manager maintains a negative medium to longer-term view towards the company. In our view S32's key commodity prices are unsustainable, with the prices of manganese and coking coal – around 50% of S32's earnings – likely to revert lower, based on supply and demand fundamentals. S32 appears devoid of growth opportunities with short mine lives, no active exploration, increased capital intensity and geopolitical risk from its South African operations.

Market Commentary

Australian equities continued their strong run in the June quarter as a more supportive monetary policy backdrop overcame rising global tensions. The S&P/ASX 200 Accumulation Index increased by 8.0% in the three months to 30 June 2019, taking its FY19 return to 11.5%. Australia outperformed global indices, with the MSCI World Index returning 3.8% in the quarter and 7.3% for the financial year. The domestic outlook improved following the surprise reelection of the Coalition government and the RBA cutting the official cash rate from 1.5% to 1.25% in June. And while the outlook for global growth worsened as the US-China trade war escalated, equities were buoyed by the US Fed shifting to a more dovish stance with the market now anticipating US rate cuts later this year

Outlook

The investment manager believes fundamentals including employment and population growth point to a robust Australian economy, tempered by fragile consumer confidence. Tentative signs of stabilisation have emerged and the outlook for company earnings appears solid, supported by select Resources and Industrials. Australian equities are priced modestly above 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 4.4% on a 12-month forward basis (before franking) versus 1.3% from Australia's 10-year government bond yield. Global macroeconomic risks persist, though, and require careful monitoring. The investment manager remains alert to economic and geopolitical risks, including an escalating trade war between the US and China, slowing global economic growth and the potential re-emergence of quantitative easing. They see significant value in certain sectors but believe others to be overvalued based on our earnings and cash flow expectations. They are most overweight stocks within the Industrials, Communication Services and Energy sectors, and underweight Real Estate, Consumer Staples and Metals & Mining.

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

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267 (Mon. to Fri. 8:30am to 7:00pm AEST)

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