Yarra Capital Management Australian Equities

Quarterly Investment Option Update

31 March 2020

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
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	98.1
Futures	0	0.9
Cash	0	1.0

Sector Allocation	%
Communication Services	7.97
Consumer Discretionary	8.24
Consumer Staples	2.37
Energy	6.66
Financials	24.59
Health Care	6.97
Industrials	13.54
Information Technology	1.11
Materials	19.11
Real Estate	3.13
Utilities	4.40

Top Holdings	%
BHP Group Ltd	9.99
Westpac Banking Corporation	7.71
Commonwealth Bank of Australia	7.66
Australia and New Zealand Banking Group	6.49
Atlas Arteria	4.68
APA Group	4.40
James Hardie Industries	4.02
Aristocrat Leisure Limited	3.90
Origin Energy Limited	3.58
Transurban Group Ltd.	3.55

Portfolio Summary

The investment option underperformed during the period as the COVID-19 crisis created extreme dislocation, in particular for companies reliant on social interaction and movement.

Investment Option Commentary

The strategy's consumer positioning underperformed as investors appeared to extrapolate short-term interruptions into assumptions of a much longer-term duration. Broadcap's Discretionary overweights across gaming (-39%) and specialty retail (-39%) underperformed dramatically due to forced closures or a slump in demand. Additionally, the Staples underweight (supermarkets +1%, food products +11%) outperformed due to the short-term spike on consumption (pull-forward in demand as people hoard).

In addition, a number of traditional defensive positions to balance the Broadcap portfolio did not provide protection in the short term. Defensive overweights within Infrastructure (-25%) and Retail REITs (-52%) were adversely impacted by travel restrictions and lockdowns, with the former failing to outperform the market and the latter detracting from excess return. Lastly, Broadcap's overweight to Energy (-48%) detracted as the oil price declined 62% in response to lower expected demand and the oil price war between Saudi Arabia and Russia.

In contrast, the portfolio's overweight positioning in Utilities and strong stock selection in Information Technology contributed to the portfolio's excess return. The portfolio owned gas pipeline operator APA Group (APA, -8%) and data centre owner NEXTDC (NXT, +36%), two companies with defensive earnings in the current downturn.

Market Commentary

Australian equities declined sharply during the March quarter as the COVID-19 pandemic escalated, with the shutdown of non-essential services and strict social distancing measures impacting a large part of the economy. The S&P/ASX 200 Accumulation Index fell -23.1% for the quarter, taking its 12-month return to -14.4%.

Losses were widespread across sectors. Real Estate (-34.8%) and Consumer Discretionary (-29.1%) fell heavily as a raft of industries (retailers, gaming, travel services, hotels, restaurants, etc.) either shut down or saw dramatic falls in customer numbers. Industrials saw significant value lost across Airlines (-53.4%) and Transportation Infrastructure (-25.8%). The Banking sector (-28.0%) weighed on the index in response to lower interest rates, lower credit growth and the prospect of higher bad debts.

Conversely, the best performers were Health Care (+2.1%), Consumer Staples (-3.1%) and Utilities (-9.1%). Within Health Care, CSL (CSL, +8.1%) delivered a better-than-expected 1H20 result, while Fisher & Paykel Healthcare (FPH, +36.7%) benefited from higher demand for its respirator products to combat the COVID-19 pandemic. Within Staples, supermarkets (+1.0%) benefited from a surge in demand for items including toilet paper and packaged food. Utilities companies AusNet (+0.6%), Spark Infrastructure (-3.3%) and APA Group (APA, -7.6%) were seen as having resilient earnings profiles in the current environment.

Outlook

The fund manager expects the unemployment rate to approach 10% by 3Q2020 despite the 10.5% of GDP of emergency fiscal support, a cash rate cut to the effective lower bound and the deployment of a raft of QE programmes. The revenue thresholds for participation make it unlikely that the $130bn JobKeeper scheme will be distributed in full in a six-month period.

The fund manager forecasts a ‘v-shaped’ recovery in activity, with peak infections for COVID-19 in Australia to occur in mid-April and restrictions to be gradually be lifted from mid-year. While business closures, debt loads and fiscal drag will act as a headwind over the next decade, risk aversion will recede as worst-case scenarios fade. Companies positioned to benefit are those that can capture operational leverage through the recovery phase and which have pricing power to withstand the disinflationary threats of global excess capacity.

The fund manager sees significant value in certain sectors but believes others to be overvalued based on earnings and cash flow expectations. The portfolio is overweight stocks within the Industrials, Communication Services and Energy sectors, and underweight Health Care, Consumer Staples and Financials.

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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