

# Ironbark Karara Australian Share

## Quarterly Investment Option Update

30 June 2020

### Aim and Strategy

To outperform the S&P/ASX 300 Accumulation Index over rolling four-year periods. Karara Capital is an active investment manager whose approach to Australian equities is built on the belief that original, forward-looking research can identify underappreciated companies. Karara Capital's approach emphasises the development of insights into a company's longer-term prospects. They look to consider all factors that they believe are relevant and carefully assess whether this view is reflected in the market place. Portfolios are built from a diverse range of insights and close attention is paid to understanding the interplay between the holdings. The strategy will primarily invest in 25-35 companies included in the S&P/ASX 100 Index plus an allocation to smaller companies. The allocation to smaller companies is generally between 0-20% of the portfolio, however this can vary over time. Investments of the strategy may also include derivatives such as index futures, which would be used for risk management purposes or as substitutes for physical securities.

### Investment Option Performance

To view the latest investment performances for each product please visit [amp.com.au](http://amp.com.au)

### Investment Option Overview

<b>Investment Category</b>	Australian Shares
<b>Suggested Investment timeframe</b>	7 years
<b>Relative risk rating</b>	6 / High
<b>Investment style</b>	Core
<b>Manager style</b>	Single Manager

<b>Sector Allocation</b>	<b>%</b>
Communication Services	7.33
Consumer Discretionary	12.76
Consumer Staples	3.00
Energy	6.69
Financial Ex Property Trusts	20.63
Health Care	5.98
Industrials	15.73
Information Technology	1.81
Materials Ex Metals & Mining	3.75
Metals & Mining	18.67
Real Estate	0.00

<b>Top Holdings</b>	<b>%</b>
BHP Group Ltd	9.05
Commonwealth Bank of Australia	5.21
National Australia Bank Limited	4.51
Origin Energy Limited	4.50
QBE Insurance Group Limited	4.27
Qantas Airways Limited	3.55
Rio Tinto Limited	3.51
Aristocrat Leisure Limited	3.50
Westpac Banking Corporation	3.45
Brambles Limited	3.27

<b>Asset Allocation</b>	<b>Benchmark (%)</b>	<b>Actual (%)</b>
Australian Shares	100	97.08
Cash	0	2.92

## Investment Option Commentary

The Ironbark Karara Australian Share option outperformed the S&P/ASX 300 Accumulation Index return for the quarter.

Shutdown stocks rebounded strongly with Downer (up 47%), Star Entertainment (up 32%), Scentre Group (up 39%) and Tabcorp (up 34%) all contributing strongly to the Investment Option's performance. Given the substantial gains in Scentre and tough outlook for retail real estate, the Investment Option exited its position.

Responding to relative price moves and new opportunities, the Investment Option exited underweight positions in Suncorp, JB Hi-Fi and AGL. All these stocks had performed reasonably well thanks to good near-term earnings visibility. With hindsight, the Investment Option exited its position in JB Hi-Fi too early with the stock responding strongly to outstanding sales growth and associated strong margin outcomes. The investment manager was somewhat surprised by the strength in the consumer as they substituted away from constrained services to durable goods to "upgrade" their home environment.

The investment manager increased the Investment Option's positions in gold and a few lagging defensives (Telstra, Tabcorp, Brambles, Sonic Healthcare), which they think have improving outlooks that are being overlooked. The investment manager also expects that iron ore miners will continue to fare well for as long as China remains concerned about the robustness of its recovery. This was partly funded by reducing exposure to domestic cyclical exposures on concerns of softening demand once Jobkeeper and other stimulus fades.

## Market Commentary

The scope and depth of the economic shock from the global pandemic came into sharp focus during the quarter. Despite this, financial markets regained their composure after the panic in mid-March as markets embraced the "whatever it takes" attitude of policymakers. Later in the quarter, economic data affirmed the trough of economic activity had passed and that in many instances, the rebound of activity was occurring quicker than many had expected with global economic surprise indicators hitting record highs.

Global equities rebounded 19% and now stands only 8% below the level on 23 January 2020, the day immediately before the Wuhan lockdown. A number of global indices hit new highs despite much greater public health impacts and economic disruption than Australia, not to mention far larger levels of starting indebtedness.

Australian markets, as measured by the S&P/ASX 300 Accumulation Index, slightly underperformed with a total return of 16.8% as defensive stocks lagged. The resurgent Australian dollar has been one impediment on local currency returns, given the high reliance on overseas earnings.

Bond yields remained low as central banks remained firmly on the bid, albeit the yield curve steepened, and the US dollar weakened as the market began to wrestle with longer-term consequences. Lower real interest rates and uncertainty contributed to an increase in the gold price, albeit in Australian dollar terms it was largely flat. Credit spreads fell sharply with liquidity spilling into that market, enabling a substantial level of bond issuance and refinancing activities.

## Outlook

Policy support will come with a price. Interest rates will remain suppressed and longer-term upward pressure on the price level, rather than austerity, is most likely how debt burdens are eventually reduced. Global supply chains will be re-examined with increasing diversification and self-reliance. Companies will carry more inventory and less debt. This may add to inflationary pressures, impact margins and slow potential growth as economies reflate.

Australia is better positioned than most to bear this cost, given its relatively low levels of public debt. In the US, monetary policy is increasingly resembling helicopter money, with US dollar weakness likely. This eventually bodes well for gold and hard assets relative to financial assets, and shorter duration assets (value) relative to longer ones (growth).

In the short run, as the market saw when policy eased in early 2019, the risk is that even lower cost of debt and liquidity support could continue to drive "structural growth" companies further into the stratosphere.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0056AU
AMP Flexible Super - Retirement account	AMP1343AU
AMP Flexible Super - Super account	AMP1472AU
CustomSuper	AMP0056AU
Flexible Lifetime - Allocated Pension	AMP0588AU
Flexible Lifetime - Term Pension	AMP0887AU
Flexible Lifetime Investment	AMP0832AU
Flexible Lifetime Investment (Series 2)	AMP1407AU
SignatureSuper	AMP0736AU
SignatureSuper Allocated Pension	AMP1125AU

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