Yarra Capital Management Australian Equities

Quarterly Investment Option Update

30 June 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	N/A
Cash	0	N/A

Sector Allocation	%
Communication Services	9.93
Consumer Discretionary	9.72
Consumer Staples	2.39
Energy	7.89
Financials	23.35
Health Care	9.58
Industrials	9.01
Information Technology	3.01
Materials	18.58
Real Estate	2.15
Utilities	3.55

Top Holdings	%
BHP Group	10.00
Westpac Banking Corporation	6.90
Australia and New Zealand Banking Group	6.51
Commonwealth Bank of Australia	6.46
Atlas Arteria	4.28
Origin Energy Limited	3.97
James Hardie Industries PLC Chess Units of Foreign Securities	3.79
Aristocrat Leisure Limited	3.62
APA Group	3.55
QBE Insurance Group Limited	3.25

Portfolio Summary
The portfolio outperformed the benchmark during the June quarter (gross of fees).

Investment Option Commentary
Key contributors
CSL (CSL, underweight) – the biotechnology company underperformed following the release of successful phase 3 trial results of an alternative product to immunoglobulin (IG) for the treatment of Myasthenia Gravis (MG), a disease which causes weakness in the skeletal muscles. While the treatment of MG only makes up 5-8% of CSL's IG sales, there is a risk that Efgartigimod could be used for other diseases following future trial results. Secondly, competitor results for the period highlighted increasing cost pressures and potential disruption from plasma collection due to COVID-19. The Fund Manager remain underweight CSL based on its forward valuation (37.8 times P/E and 26.4 times EV/EBITDA on a 12-month forward basis), which they believe appropriately captures the current earnings outlook at this time. The growth outlook for CSL's key plasma products remains robust, with the company continuing to strengthen its relative market position through long-term investment in capacity, product innovation and collection centres

Key detractors
Incitec Pivot (IPL, overweight) – the fertiliser and explosives maker underperformed during the period after announcing a $675mn capital raising. While the Fund Manager believe the raising was conservative given the minimal COVID-19 impact to the business to date, it does remove any risk to the balance sheet (net debt/EBITDA falls from 2.8 to 1.9-times) in case COVID-19 worsens trading conditions and/or commodity pricing. They remain overweight IPL based on our positive long-term view. The Fund Manager continue to believe that prices for its key commodities (urea and DAP) will revert to mid-cycle levels and that other factors which had weighed on performance in FY19 – weather-related issues and plant outages – are now largely behind the company. Lead indicators suggest higher demand for commodities, while the explosives business is experiencing more stable pricing as mining demand normalises. At 14.6 times forward earnings, IPL trades well below the wider Industrials sector and at a discount to key competitor Orica (ORI) (17.7 times).

Market Commentary
Australian equities delivered their best quarterly return in more than a decade, led by Information Technology, Consumer Discretionary, Gold and Energy stocks. The S&P/ASX 200 Accumulation Index increased by 16.5% for the June quarter, taking its 12-month return to -7.7%. Globally, equities rose alongside the easing of COVID-19 lockdown measures and confidence arising from central bank liquidity measures and government stimulus, with the MSCI World Index and S&P500 returning +18.6% and 20.5% for the quarter respectively.

Outlook
The Fund Manager's expectation that the peak infections for COVID-19 in Australia would occur in April was realised, until Victoria's recent outbreak. While their view that restrictions would gradually be lifted from mid-June appears slightly conservative for the rest of the country, with the Government easing some restrictions in May and further easing scheduled for July, the Victorian outbreak brings significant uncertainty. Nevertheless, their national forecasts see a recovery in activity as the cogs of the services sector turn again. The future will be constrained by the businesses closed that may never return, increased debt loads and fiscal drag acting as a headwind over the next decade. They see significant value in certain sectors but believe others to be overvalued based on their earnings and cash flow expectations.

Smaller companies have been particularly impacted by the Government directed restrictions. The challenges of 1H20 of operational survival, liquidity and capital management have given way to which companies will be capable of capturing the operational leverage through the recovery phase and which companies have pricing power to withstand the disinflationary threats of global excess capacity. Within the small companies' sphere, the risks vs reward within such a macro backdrop is somewhat binary. Active management has perhaps never been more important in navigating the minefield..

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

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