Ironbark Karara Australian Share

Quarterly Investment Option Update

30 September 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:
www.amp.com.au/performance

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	98.72
Cash	0	1.28

Sector Allocation	%
Communication Services	7.49
Consumer Discretionary	14.88
Consumer Staples	3.04
Energy	5.40
Financial Ex Property Trusts	18.98
Health Care	5.86
Industrials	17.77
Information Technology	1.45
Materials Ex Metals & Mining	4.13
Metals & Mining	19.07
Real Estate	0.00
Utilities	0.65

Top Holdings	%
BHP Group Ltd	8.98
Telstra Corporation Limited	5.41
Qantas Airways Limited	4.86
Rio Tinto Limited	4.34
National Australia Bank Limited	4.07
Aristocrat Leisure Limited	4.02
QBE Insurance Group Limited	3.99
Brambles Limited	3.48
Downer EDI Limited	3.26
Commonwealth Bank of Australia	3.25

Investment Option Commentary

Aristocrat (up 18%) is observing a rapid recovery in its US gaming operations as casinos reopen and gaming spend recovers rapidly despite reduced capacity. The recovery has been faster than anticipated, and Aristocrat remains well placed for further market share gains at the expense of weakened competitors given strong outperformance by their machines. Additionally, momentum in digital gaming remains strong, and indications continue to be they are continuing to take share.

The strategy benefitted from a recovery in other COVID 19 impacted companies such as, Qantas (up 4%), Star Entertainment (up 8%) and Sydney Airport (up 6%), despite the Victorian lockdowns delaying a recovery in domestic travel. Star and Qantas disclosed that they are now operating cashflow positive despite drastically curtailed operations. Star has taken the opportunity to remove 20-25% of its fixed costs permanently. The effective grounding of Qantas has allowed it to target $1 billion of savings through a reset in a range of functions that would otherwise be impossible due to potential disruption to its flying operations. Both will be significantly leaner when pent up demand is eventually released, and the investment manager believes their respective industries will be careful with spending additional capital for a long time. Both remain deeply discounted relative to the investment manager's assessment of normalised profits and value.

James Hardie (up 20%) continued to benefit as the recovery in the US housing sector continued to show a rapid recovery from the lows in April. Strong orders and robust starts suggest strong momentum as low mortgage rates, pent-up demand from pre-COVID 19, and some switching to single-family housing all aiding the growth.

The strategy was caught wrong-footed by the market's reaction to Telstra's (down 9%) result and outlook with the company stepping back from its 2022 return on invested capital targets. The negative market reaction reflected pre-result positioning, reduced confidence in short term mobile pricing scenarios, no immediate catalyst for an infrastructure spin-off, and residual distrust of management ability and willingness to execute efficiently. These all have some validity, however, the investment manager sees the path of industry returns as rising given lower capital expenditure, industry consolidation and low returns of the smaller players. The investment manager added more to the strategy's Telstra position following the declines. TPG Telecom (down 18%) also came under pressure from the concerns that the industry dynamics and profitability outlook was weakening.

Market Commentary

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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