Yarra Capital Management Australian Equities

Quarterly Investment Option Update

30 September 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: 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	98.5
Cash	0	1.5

Sector Allocation	%
Communication Services	10.13
Consumer Discretionary	10.00
Consumer Staples	2.35
Energy	6.85
Financials	21.43
Health Care	10.95
Industrials	9.87
Information Technology	3.58
Materials	19.67
Real Estate	--
Utilities	3.70

Top Holdings	%
BHP Group Ltd	10.13
Westpac Banking Corporation	6.37
Australia and New Zealand Banking Group	5.96
Commonwealth Bank of Australia	5.85
Aristocrat Leisure Limited	4.21
James Hardie Industries	4.01
Atlas Arteria	3.89
APA Group	3.70
Sonic Healthcare Limited	3.32
Transurban Group Ltd.	2.98

Investment Option Commentary

The strategy outperformed during the September quarter as Consumer Services (+12%), Media & Entertainment (+7%) and Construction Materials (+18%) supported excess returns, with “out-and-about” positions benefiting from easing restrictions and better economic data. Conversely, underweight sectors Real Estate (+6%) and Information Technology (+13%) and overweight sector Energy (-14%) were the largest detractors.

At a stock level, key contributors included overweights James Hardie (JHX, +20%), Aristocrat Leisure (+18%) and Nine Entertainment (NEC, +28%). Key detractors included overweights Origin Energy (ORG, -25%) and TPG Telecom (TPG, -18%) and underweight Fortescue Metals (FMG, +24%).

Market Commentary

Australian equities ended flat during a volatile September 2020 quarter, during which earnings results met downbeat expectations and, globally, concerns rose around a second wave of COVID-19 cases and fading fiscal stimulus.

The S&P/ASX 200 Accumulation Index declined by 0.4%, taking its 12-month return to -10.2%. The benchmark sharply underperformed global indices, with the MSCI World Index (+6.8%) and the S&P500 (+8.9%) supported by their larger exposure to the Information Technology sector.

FY20 results largely met consensus forecasts, which were cut dramatically from March onwards as the COVID-related disruption became apparent. Earnings for the period declined 15%, led by Financials and Industrials but offset by Resources amid strong commodity prices. The outlook for FY21 remains highly uncertain, with more than a 50% reduction in companies providing guidance.

Outlook

The Australian economy contracted sharply in the June quarter, confirming the largest recession since the Great Depression, albeit the 7%qoq contraction was in line with forecast and the higher frequency economic data has continued to surprise expectations.

By the end of the September quarter the Australian economy has responded significantly to the 2nd largest fiscal stimulus in the developed world stimulus, supplemented by $32bn in voluntary withdrawals, accommodative financial conditions and strong commodity prices. The investment manager expects the raft of growth initiatives unveiled in the federal government budget will continue to support the recovery. Although declines in consumption contributed the vast majority of the contraction in economic activity in the June quarter, the declines were heavily concentrated in-service sectors impacted by the COVID restrictions, especially tourism, entertainment, restaurants and personal services. In contrast, nominal retail sales have expanded dramatically, with sales of recreational goods, Liquor, electrical goods, hardware and furniture leading the expansion. Despite the strength in retail sales, the household saving rate jumped to 18% in the June quarter – the highest since the early 1970s – suggesting that the consumer has ample capacity to continue to drive the economic recovery in 2020-21. Indeed, more resilient household wealth outcomes and a recovering labour market suggests their long-held forecast for a small “v-shaped” recovery through 2020-21 was playing out slightly faster than they expected.

Nevertheless, the Victorian outbreak and tighter lockdown measures have provided a more cautious near-term outlook, even if the recovery in the remaining 75% of the national economy continues with the economic recovery. The investment manager has lowered their expectations for 3Q for economic growth as the ramifications from the extension of the Victorian lockdown and stringent criteria to exit the lockdown become more evident. In addition, they have lifted their expectations for the A$ to finish 2020 at 75c to 80c which will weigh on 2021 economic growth. They now expect that the Australian economy will decline by 6% in 2020 (their prior forecast was -5%) and expand by 5% in calendar 2021 (compared with +6% previously).

They see significant value in certain sectors but believe others to be overvalued based on their earnings and cash flow expectations. They are most overweight stocks within the Communication Services, Energy and Consumer Discretionary sectors, and underweight Real Estate, Financials and Consumer Staples.

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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