Ironbark Karara Australian Share

Quarterly Investment Option Update

31 December 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/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	98.47
Cash	0	1.53

Sector Allocation	%
Communication Services	7.45
Consumer Discretionary	14.36
Consumer Staples	2.35
Energy	6.19
Financial Ex Property Trusts	21.75
Health Care	4.64
Industrials	17.45
Information Technology	1.29
Materials Ex Metals & Mining	3.20
Metals & Mining	19.23
Real Estate	--
Utilities	0.57

Top Holdings	%
BHP Group Ltd	9.53
Telstra Corporation Limited	5.69
Qantas Airways Limited	5.28
Rio Tinto Limited	4.62
National Australia Bank Limited	4.37
Aristocrat Leisure Limited	3.67
QBE Insurance Group Limited	3.61
Brambles Limited	3.54
Downer EDI Limited	3.51
Commonwealth Bank of Australia	3.33

Investment Option Commentary

Although the timing has been uncertain, the Fund has been positioned for the pandemic re-opening trade. This reflected the view on the likelihood of improvement and, by any historical measure, the extreme valuations differentials. This was a major factor supporting fund performance over the quarter.

Health care, which the fund is significantly underweight, was the second worst performing sector (down 4.7%). This added 0.91%, predominantly through CSL which fell 1.3%. The sector was pressured by the strong currency, uncertainty around short term earnings from COVID 19 (both up and down), as well as rotation as investors covered bank shorts, jumped into tech and a few other niche sectors which seem to have stolen its thematic mantle. More broadly this could be characterised as broadening market earnings growth conflicting with high expectations and higher valuations.

Qantas (up 19.8%), along with Star Entertainment (up 20.3%) and Sydney Airport (up 9.4%) saw belated appreciation that domestic travel will rebound strongly. Positions in each of these were trimmed in November following strong gains. These lost steam in December with renews border closures. At below $5 a share, Qantas is pricing little for future international profitability, lowered costs and enlarged domestic market share. The investment manager expects Star can be re-rated for strong cost and cash performance not to mention its governance edge over Crown, which may create opportunities down the track.

These gains were partly offset by the continuing gains in tech and disruptive thematic plays, which are adding billions of dollar of market capitalisation seemingly by the month. Afterpay (up 47.5%) alone detracted 0.34% and Xero (up 45.7%) another 0.31%. As a generalisation these stocks are being judged on short term metrics without context to the implied terminal market size, share and profitability. This leaves them highly vulnerable to any rise in interest rates, tightening in liquidity conditions or stock specific setback.

The Fund added to overweight positions in NAB, Telstra and Transurban.

Market Commentary

At a high level everything went right. Benchmark heavy sectors such as miners and banks reacted strongly to the recovery narrative in Australia and in China. The digital disruption thematic continued to explode technology sector valuations higher, supported by the pandemic demand boost and a range of central bank reinforcements that global liquidity creation will be ongoing. COVID 19 impacted sectors bounced sharply following the fast fade of the Victorian outbreak and then the vaccine trial success shortly after. Finally, markets globally were enthused by the US election result which signals more predictable and rational policy and continuing stimulus. This triggered inflows into risk assets, notably emerging markets, NASDAQ and technology, crypto currencies, and away from the US dollar, longer duration fixed income, gold and cash.

Outlook

While the backdrop is supportive of equities, particularly relative to bonds, the sharp recovery in equity markets is feeding increased and broadening speculation. In the investment manager’s assessment, this has resulted in prices that are far beyond any likely improvement in fundamentals for most of the current market favourites. Further, aggregate industrial company valuations are at heights that have been seen very rarely, and from which extended bear markets have always followed.

For many companies that have far surpassed pre-COVID 19 highs, global markets anticipate the step-change in digital migration will be sustained and extended. In some instances, this may turn out to be warranted. But locally there are few plays that have the sustainable competitive advantage that has enabled the FAANG (Facebook, Amazon, Apple, Netflix, Google) phenomenon seen in the US.

The Fund remains positioned for normalisation of activity globally and holds a range of companies that have yet to price a proper recovery despite strong performance through the shutdowns, lowered costs and stronger balance sheets. Included in this category are a range of COVID 19 impacted stocks that provide a levered play on value. The investment manager has also been increasing positions in a range of defensive stocks not exposed to digital disruption, but with what they perceive as large fundamental mispricing.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1472AU*
AMP Flexible Super - Retirement	AMP1343AU*
CustomSuper	AMP0056AU*
Flexible Lifetime - Super	AMP0056AU*
Flexible Lifetime - Allocated Pension	AMP0588AU*
Flexible Lifetime - Term Pension	AMP0887AU*
Flexible Lifetime - Investments (Series 1)	AMP0832AU**
Flexible Lifetime - Investments (Series 2)	AMP1407AU**
SignatureSuper	AMP0736AU*
SignatureSuper - Allocated Pension	AMP1125AU*

*Closed to new investors
**Closed to new and existing investors

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