

# DNR Capital Australian Equities High Conviction

Quarterly Investment Option Update

30 June 2021

## Aim and Strategy

To invest in a high conviction portfolio of Australian shares that aims to outperform the S&P/ASX 200 Accumulation Index benchmark by 4% p.a. (before fees) over a rolling three-year period. DNR Capital seeks to identify good quality businesses that are mispriced by overlaying DNR Capital's quality filter with a strong valuation discipline.

DNR Capital's security selection process has a strong bottom up discipline and focuses on buying quality businesses at reasonable prices. The portfolio construction process is influenced by a top-down economic appraisal and also considers the risk characteristics of the portfolio such as security and sector correlations. The investment strategy results in a high conviction portfolio of 15 to 30 securities that is invested for the medium term.

## Investment Option Performance

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

## Investment Option Overview

|                                       |                      |
|---------------------------------------|----------------------|
| <b>Investment Category</b>            | Australian Shares    |
| <b>Suggested Investment timeframe</b> | 5 years              |
| <b>Relative risk rating</b>           | 6 / High             |
| <b>Investment style</b>               | Specialist - Quality |
| <b>Manager style</b>                  | Single Manager       |

| Asset Allocation  | Benchmark (%) | Actual (%) |
|-------------------|---------------|------------|
| Australian Shares | 95-100%       | 96.78%     |
| Cash              | 0-5%          | 3.22%      |

| Sector Allocation      | %      |
|------------------------|--------|
| Communication Services | 10.54% |
| Consumer Discretionary | 14.56% |
| Consumer Staples       | 2.91%  |
| Energy                 | 3.82%  |
| Financials             | 24.75% |
| Health Care            | 1.63%  |
| Industrials            | 7.95%  |
| Information Technology | 6.04%  |
| Materials              | 17.87% |
| Real Estate            | 6.92%  |
| Utilities              | 0.00%  |
| Cash                   | 3.01%  |

| Top Holdings                    | %      |
|---------------------------------|--------|
| BHP Group Ltd                   | 10.06% |
| National Australia Bank Limited | 7.85%  |
| Macquarie Group Limited         | 6.34%  |
| Tabcorp Holdings Limited        | 5.26%  |
| Telstra Corporation Limited     | 5.20%  |
| Aristocrat Leisure Limited      | 4.93%  |
| Lendlease Group                 | 4.05%  |
| Computershare Limited           | 3.95%  |
| Woodside Petroleum Limited      | 3.88%  |
| Seek Limited                    | 3.62%  |

## Portfolio Summary

Over the past quarter there have been a number of changes to the portfolio and the current positioning is as follows:

- Reopening beneficiaries: SKYCITY Entertainment Group (SKC).
- Beneficiaries of infrastructure/green new-deal spending: ALS (ALQ), QUBE Holdings (QUB).
- Improving quality: Computershare (CPU).
- Strong franchise companies: James Hardie Industries (JHX), SEEK (SEK), Aristocrat Leisure (ALL).
- Resilient/defensive companies: Tabcorp Holdings (TAH).

## Investment Option Commentary

Over the past quarter the team have undertaken a range of moves aimed at building further portfolio resilience. The fund has cut a number of more volatile names and increased the quality of the portfolio, adding to areas of the market generating strong returns with improving industry structures.

### Positions initiated over the quarter:

- **CSL Limited (CSL):** CSL offers defensive earnings growth and the recent underperformance, driven by concerns over near-term collection volumes, provides an opportunity to start building a position. CSL is currently trading on a multiple of 33x FY23, which is reasonable given the medium-term outlook for double-digit earnings growth and the defensive nature of earnings.
- **Commonwealth Bank of Australia (CBA):** CBA offers modest but robust earnings growth and a sound dividend yield. The fund sees the position as more defensive relative to ANZ, which tends to have more volatile earnings.

## Market Commentary

The market continued to rally in the June quarter, with the S&P/ASX 200 Accumulation Index returning 8.29% during the period. The vaccination drive continues across Europe and North America, where economies and borders are reopening. The progress in Asia, South America and the Pacific has been much slower, with vaccine hesitancy and lack of supply causing delayed reopenings and scattered lockdowns. The rotation to value and cyclical stocks was halted and reversed during the period, with the markets unconvinced by the longer-term outlook for economic growth and inflation, causing bond rates to fall.

Information Technology (+12.1%) was the top performer during the period. The reversal of bond rates favoured growth stocks, with the sector recovering strongly from the value rotation late in 2020. Afterpay (APT +16.4%) was the top contributor to performance, followed by Xero (XRO +8.3%) and Computershare (CPU +12.4%).

Consumer Discretionary (+11.1%) also outperformed, as a number of higher-growth retailers rallied. Wesfarmers (WES +12.2%) was the key contributor, while Aristocrat (ALL +25.4%) and Dominos (DMP +25.2%) directly benefitted from the strong reopening and consumer spending seen across Europe and the Americas.

Utilities (-5.8%) were the worst performing sector, despite falling bond rates, as a number of stock-specific issues caused the sector to fall. Both AGL (AGL -15.0%) and APA Group (APA -11.2%) have been suffering from increased scrutiny on their exposure to fossil fuels and the global move towards renewables. The shift in energy sources is seen as a risk to the terminal values of the assets, resulting in deep discounts.

Similarly, Energy (-2.9%) also underperformed, despite an increasing oil price. Environmental compliance concerns and stranded asset risks continue to weigh on the sector, with structural challenges proving difficult to value. Key contributors to the underperformance were Woodside (WPL -7.5%) and Oil Search (OSH -7.1%).

## Outlook

### Outlook for interest rates

Significant attention has been placed on June's Federal Open Market Committee (FOMC) commentary. Chairman Jerome Powell acknowledged that the committee had begun "talking about talking about" raising interest rates, contrasting last June's insistence that they were not even "thinking about thinking about" raising rates. Notably, the median expectation for rates to increase moved forward from 2024 to 2023. The market's response saw a sharp rise in the US dollar and a general flattening of the yield curve. The implied level of future inflation, which had been steadily rising since the beginning of the year, also declined.

The reaction surprised many investors, given the implied negative impact on equity valuations from rising interest rates. Support among investors for the Federal Reserve's transitory inflation view has grown however, and the pull forward of rate hikes suggests a willingness to contain any breakout. Subsequent economic data has further galvanised the case for a not too hot nor too cold 'Goldilocks' economic recovery. While still broadly debated, questions around pace of growth and permanence of inflation will begin to be answered.

### Outlook for inflation

With the economic data pointing to synchronised global GDP growth, the recovery has exceeded the expectations of economists and the International Monetary Fund (IMF), leading many to question whether the global economy is running too hot. As such, the key debate in financial markets is firmly around inflation. While there is general agreement that prices will rise in the near term, many central banks view it as transitory and are pushing back strongly on the idea that interest rates need to rise to contain excess pricing pressures.

The fund's favoured barometer of consumer price expectations is breakeven inflation, which measures the difference between inflation-linked, and non-inflation-linked, government bonds. This indicator is at near decade highs, although for now well within ranges tolerable to central banks.

This dynamic is creating a range of opportunities. Since positive news of vaccine efficacy late in 2020, the sharp rise in bond yields has seen some sustained derating of higher growth and longer duration stocks. This remains volatile, however, and subject to unpredictable macroeconomic factors.

## Availability

| Product name                              | APIR      |
|---|-----------|
| AMP Flexible Lifetime Super               | AMP1199AU |
| AMP Flexible Super - Retirement account   | AMP1386AU |
| AMP Flexible Super - Super account        | AMP1515AU |
| CustomSuper                               | AMP1199AU |
| Flexible Lifetime - Allocated Pension     | AMP1203AU |
| Flexible Lifetime - Term Pension          | AMP1235AU |
| Flexible Lifetime Investment**            | AMP1207AU |
| Flexible Lifetime Investment (Series 2)** | AMP1441AU |
| SignatureSuper                            | AMP1213AU |
| SignatureSuper Allocated Pension          | AMP1222AU |

\*\*Closed to new and existing investors

## Contact Details

Web: [www.amp.com.au](http://www.amp.com.au)  
Email: [askamp@amp.com.au](mailto:askamp@amp.com.au)  
Phone: 131 267



### What you need to know

This publication has been prepared by AWM Services Pty Limited ABN 15 139 353 496, AFSL No. 366121 (AWM Services). The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying investment manager only and not necessarily the views of AMP Limited ABN 49 079 354 519 (AMP Group). No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information.

The investment option referred to in this publication is available through products issued by N.M. Superannuation Proprietary Ltd ABN 31 008 428 322, AFSL 234654 (NM Super), AMP Capital Funds Management Limited ABN 15 159 557 721, AFSL 426455 (AMPCFM) and/or ipac asset management limited ABN 22 003 257 225, AFSL 234655 (ipac). Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement (PDS) for the relevant product, available from the issuer or your financial planner.

Any advice in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner. In providing any general advice, AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in. The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither NM Super, AMPCFM, ipac, AWM Services, any other company in the AMP Group nor the underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document, unless expressly stated in the PDS. Past performance is not a reliable indicator of future performance. Any slight asset allocation deviations from 100% may be caused by rounding, asset categorisation and/or hedging.