DNR Capital Australian Equities High Conviction

Quarterly Investment Option Update

31 December 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

Investment Option Overview

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

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	95-100%	97.05%
Cash	0-5%	2.95%

Sector Allocation	%
Communication Services	9.55%
Consumer Discretionary	11.85%
Consumer Staples	3.54%
Energy	4.04%
Financials	24.63%
Health Care	6.40%
Industrials	6.12%
Information Technology	6.94%
Materials	16.40%
Real Estate	7.57%
Utilities	0.00%
Cash	2.95%

Top Holdings	%
National Australia Bank Limited	8.33%
BHP Group Ltd	8.01%
Macquarie Group Limited	7.63%
CSL Limited	6.85%
Telstra Corporation Limited	5.03%
Tabcorp Holdings Limited	4.70%
Aristocrat Leisure Limited	4.40%
Woodside Petroleum Ltd	4.03%
Lendlease Group	3.85%
Scentre Group	3.78%

Portfolio Summary

Over the past quarter we have made a number of changes to the Portfolio and our current positioning is as follows:

1. Inflation hedges. Exposure to a number of stocks that benefit from rising inflation such as Computershare and QBE
2. Defensives with bottom up drivers. We have increased our exposure to defensives given the Chinese / stagflation risks.
3. Quality market leaders. Quality stocks with pricing power can protect earnings during an inflationary period. Stocks such as Seek, James Hardie and Xero retain strong pricing power.
4. Opening up laggards. While the cyclical recovery might slow if the supply chain constraints accelerate, the economies will continue to open which will present opportunities for those stocks which have been impacted by lockdowns.

Investment Option Commentary

Over the past quarter the team have undertaken a range of moves aimed at building further portfolio resilience. The fund has increased the quality of the portfolio, adding to areas of the market generating strong returns with improving industry structures. There were however, no major portfolio moves over the quarter.

Market Commentary

The market moved higher in the December quarter, with the S&P/ASX 200 Accumulation Index returning 2.09% during the period. The rally into the end of the year was strong but not broad, with value significantly outperforming growth in the last weeks of the quarter.

Materials (+12.4%) was the best performing sector during the period. Resource prices across the board saw strong moves higher as demand for goods remains robust and China showed signs of easing monetary policy. Iron ore was a key beneficiary with market giants BHP (BHP +10.3%) and Fortescue (FMG +28.4%) recovering, while gold also rallied as increasing inflation makes a case for the safehaven commodity (NCM +8.1%, NST +10.7%).

Utilities (+10.0%) also outperformed with energy prices continuing to rise. Energy wholesalers AGL (AGL +6.2%) and Origin (ORG +10.8%) were the main beneficiaries while pipeline and gas player APA (APA +15.4%) was the best performer in the sector as wholesale gas prices surge globally.

Energy (-8.8%) was the worst performing sector during the period. Despite soaring energy prices, the Australian oil and gas companies failed to perform, ceding further ground to overseas peers. Company-specific factors are partly to blame as substantial consolidation in the sector sees potential stock headwinds for majors Woodside (WPL -8.2%) and Santos (STO -12.0%).

Information Technology (-6.1%) also underperformed, albeit largely down to the performance of a few. The value rotation has been violent in parts of the US markets, specifically for non-profitable technology that has attracted extreme valuations. Key for the Australian markets was the performance of Block (formerly Square) who acquired Afterpay (APT -31.6%) earlier in the year and hence, determines the value of Afterpay on the ASX.

Outlook

Key 2022 Opportunities & Threats

Threats

The benchmark US 10-year bond yield resumed its upward trajectory, reflecting anxiety around inflation and the withdrawal of quantitative easing. With the market now fully pricing three rate rises in CY2022, risks are emerging over equity valuations, as the relative attractiveness of bonds increases. Whilst many unknowable variables influence this trend, pressure on growth and longer duration equities is likely to grow alongside a steeping yield curve. Despite a healthy consumer and robust earnings growth being observed in many sectors, the impact of rapidly rising interest rates could hamstring the global recovery and foreshadow a recession.

Supply Chains continue to be impacted following waves of COVID-19 related restrictions and supply constraints, concurrent with record demand. The inability to secure inputs and inventory has the potential to derail many industries, further stoke inflation and impact margins.

The Chinese property market continues to be volatile with the PBOC attempting to balance a crackdown on excessive speculation and leverage while not damaging this important component of the Chinese economy. Australia in specifically remains heavily exposed to Chinese domestic production to support the housing market.

Opportunities

Volatility in equities has at times spiked during the year, but generally remained subdued. Whilst an obvious risk to equity markets, as active managers we are primed to take advantage of opportunities to buy durable, high quality franchises during periods of market dislocation.

Decarbonisation - following the COP26 UN Climate Change Conference (Glasgow), momentum continues to build for reducing carbon across the economy. Long-term opportunities exist for a range of companies exposed to this trend, requiring substantial levels of commodities, labour and capital to facilitate the goal.

Digitisation is a well-established thematic that is still evolving. Alongside the explosion in new technology businesses, traditional companies are seeking to reduce costs by investing in digitisation and automating. Successfully deploying technology solutions to replace manual operations both supports margins and provides competitive advantages. Investments in flexible and automated platforms can lead to market share gains while saving on staffing costs. Many companies are succeeding in porting their products and services online and digital can leverage existing IP from traditional use cases to new online opportunities.

Availability

Product name	APIR
Flexible Lifetime Investment	AMP1207AU**
Flexible Lifetime Investment (Series 2)	AMP1441AU**
SignatureSuper	AMP1213AU*
SignatureSuper Allocated Pension	AMP1222AU*
SignatureSuper Term Pension	AMP1222AU*

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

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267

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