ANZ Equity Income Portfolio - Tax Free

Investment strategy and approach

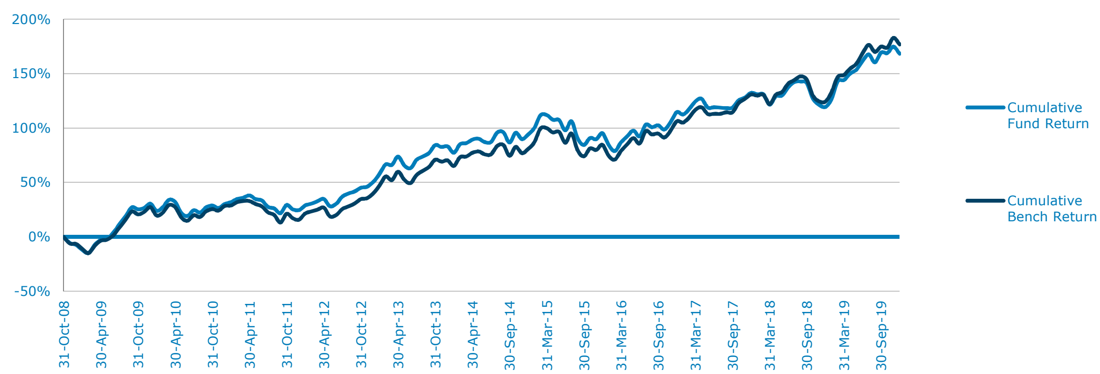
The Australian Equity Income Portfolio ('the Portfolio') focuses on identifying and investing in Australian companies with reliable and growing dividend streams with the aim of generating high dividend income and a total return which has lower volatility when compared to the levels experienced by the S&P/ASX 200 Accumulation Index over rolling three year periods.
- To achieve this, the ANZ Investment Management team combines a passive exposure to the 20 companies that comprise the S&P/ASX 20 Index with an actively managed portfolio of 20-30 stocks with the aim of identifying companies that provide a relatively high dividend yield and total return.
- The holdings of the Portfolio are generally comprised of between 40 – 50 securities, predominantly from the 200 ASX listed securities. However, the Investment Manager may invest outside the top 200 companies if it is considered appropriate.
- The Portfolio is invested with a predominant focus on larger capitalised stocks and is structured to have defensive characteristics which preserve capital throughout the complete investment cycle. Such a strategy means that the Portfolio will not capture the performance of the more speculative part of the market, particularly when risk appetite is high as typically experienced in a strongly rising market.
- Likewise our income orientation seeks out consistent and reliable income streams from high quality shares and avoids seeking high yielding companies which may not deliver sustainable yields.

Portfolio performance (before fees and taxes)

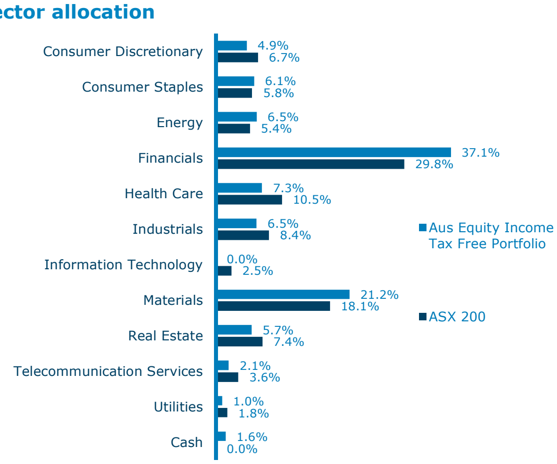
	1mth	3 mths	1 yr	3 yrs (p.a.)	5 yrs (p.a.)	Since inception (p.a.)[2]
Total return	-2.4%	-0.4%	22.2%	7.7%	6.7%	9.2%
Benchmark return[1]	-2.2%	0.7%	23.4%	10.3%	8.9%	9.6%
Total return relative to benchmark	-0.3%	-1.1%	-1.1%	-2.6%	-2.2%	-0.3%

1. Before 10 July 2017, benchmark refers to S&P/ASX 100 Accumulation Index. After 14 July 2017, benchmark refers to S&P/ASX 200 Accumulation Index.
2. Inception date is 1 November 2008.
3. Figures may not add up due to rounding.

Portfolio performance since inception



Sector allocation



Top 10 holdings

1	BHP Group Ltd	7.5%
2	Commonwealth Bank of Australia	7.2%
3	Westpac Banking Corporation	7.1%
4	Australia and New Zealand Bankinç	6.8%
5	National Australia Bank Limited	6.6%
6	CSL Limited	6.1%
7	Rio Tinto Limited	4.8%
8	Woodside Petroleum Ltd	3.0%
9	Suncorp Group Limited	2.8%
10	Coles Group Ltd.	2.8%
Total		54.7%

The above performance is based upon the Model Portfolio. Individual Portfolios may differ from this due to factors that include timing of implementation, cash flows and corporate actions.

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Market commentary

While global equity markets recorded broadly positive returns during the month, Australian equities posted a negative return — the S&P/ASX 200 Accumulation Index returning -2.2%. Emerging markets outperformed developed markets. In major global developed markets, the S&P 500 was up 3.0%, the UK's FTSE 100 was up 2.8% and Japan's Nikkei 225 was up 1.7%. The DJ Euro Stoxx 50 was the laggard, up 1.2%.

The Reserve Bank of Australia (RBA) left the cash rate unchanged at the record low of 0.75% at the December meeting. The RBA reiterated that they would ease monetary policy further if needed "to support sustainable growth in the economy, full employment and the achievement of the inflation target over time".

Domestic economic data releases were mixed in December. The Australian economy grew by 0.4% over Q3 2019, with the annual rate edging up to 1.7%. Employment rose by 39,900 positions in November (mostly in part-time positions) which was well above expectations. The unemployment rate edged lower from 5.3% to 5.2%. The NAB Survey of Business Conditions was unchanged in November at +4 index points and business confidence fell 2 points to 0, unwinding the increase of last month. October retail sales were flat, missing market expectations of a 0.3% gain. National CoreLogic dwelling prices continued to post gains, rising 1.1% in December.

In company specific news, Lendlease (-8.9%) disappointed the market after announcing only a partial sale of its engineering business, not a full sale that the market was anticipating. Whitehaven Coal (-16.2%) also disappointed the market after lowering FY20 production guidance due to manning issues at Maules Creek, Whitehaven's largest operation and also impacts from dust events relating to the severe drought conditions in north west NSW.

Portfolio commentary

The portfolio fell -2.4% in December, underperforming its benchmark by 0.3%.

The avoidance of Information Technology — which fell more than 4% during December — along with an overweight to Materials, one of only two sectors in the index to post gains during the month, aided returns. .

From a stock perspective overweight positions in Nufarm Limited (NUF, +17.0%), Rio Tinto Limited (RIO, +3.6%) and Virgin Money UK (VUK, +4.2%) all aided relative returns.

NUF outperformed in December as the market digested the downgrade from the previous month and confidence in the growth potential from Omega 3 and other seed projects increased. Longer term, portfolio manager Nikko Asset Management (Nikko) continue to be attracted to earnings growth back towards mid-cycle, the potential for further portfolio rationalisation and growth optionality associated with the seed business.

RIO outperformed as commodity prices broadly rallied during December on stronger than expected economic data out of China and the reaching of a Phase 1 trade deal between the US and China. This drove the mining sector to outperform the equity market during the month.

Virgin Money continued to increase on the back of the election and the increased certainty around Brexit — an issue which had weighed on the share price for the last few months. The share price also continued to firm after the release of the second half results in late November. The result showed the company is on track to deliver earnings growth and also showed that no further capital is required.

Positions to detract included overweight holdings in Viva Energy Group (VEA, -15.4%), Boral Limited (BLD, -12.8%) and Coles Group (COL, -8.7%).

VEA detracted from performance during the month following the release of preliminary estimates for FY19 profit. The guidance was a disappointment to the market, with a shortfall versus expectations in the Retail segment. It appears that VEA has had to invest more in price to restore volumes than was previously anticipated.

BLD underperformed in December post another earnings downgrade. This was largely associated with fraud in the US Windows business which resulted in group earnings moving around 5% lower. This may have also proved to be a catalyst for more operational earnings downgrades. Longer term while some of the themes have not played out as expected, Nikko believe BLD offers good earnings leverage to Australian infrastructure and US housing at reasonable value.

Key portfolio changes

Nikko trimmed their position in Downer Group in recognition of the run in the share price towards their valuation target and redirected the funds into BHP Group, which is expected to have strong free cash flow and heightened prospect for a capital return.

Launch date

1 November 2008

Fund currency

Australian dollar

Underlying managers:

ANZ Chief Investment Office

Fees

Please refer to the relevant PDS and the Investment Menu/Managed Account Profile for more information.