ANZ Equity Capital Portfolio - Taxable

Investment strategy and approach

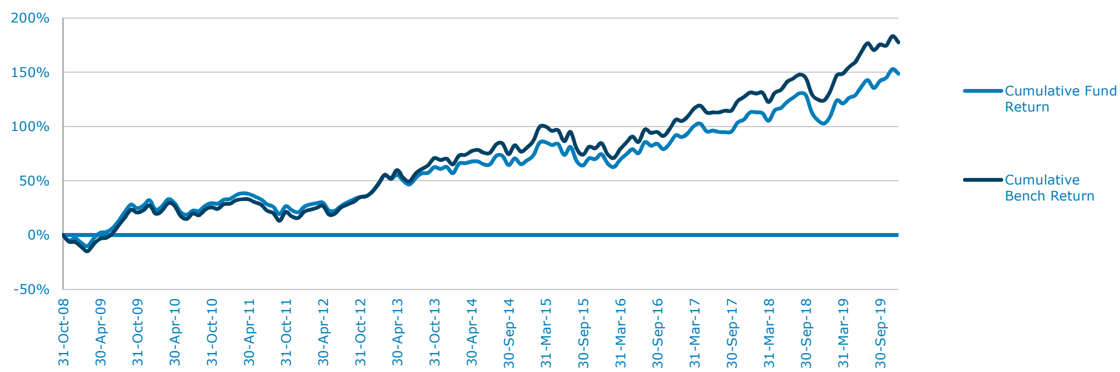
The Australian Equity Capital Portfolio ('the Portfolio') focuses on identifying and investing in Australian companies that will provide capital growth to shareholders with the aim of **outperforming the S&P/ASX 300 Accumulation Index**, over rolling three year periods.
- The Portfolio seeks to combine a passive exposure to the 20 companies that comprise the S&P/ASX 20 Index with two actively managed portfolios of 10-20 stocks each. The holdings in the Portfolio are generally comprised of between 40 and 50 securities, predominantly selected from the top 300 equities in the Australian equities market. However the Investment Manager many invest outside the top 300 companies if it is considered appropriate.
- The **blending** of the actively managed portfolios with the 20 passively held positions aims to **reduce style bias** and provide a **diversified** portfolio of Australian Equities.
- The Portfolio is designed as a core investment offering with a focus on quality companies and long-term investment.

Portfolio performance (before fees and taxes)

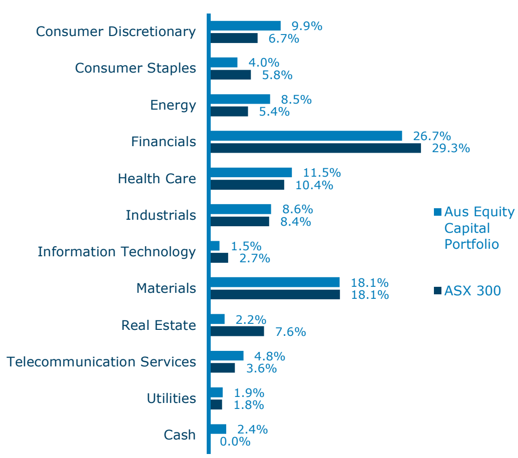
	1mth	3 mths	1 yr	3 yrs (p.a.)	5 yrs (p.a.)	Since inception (p.a.)[2]
Total return	-1.7%	2.7%	22.6%	9.0%	8.0%	8.5%
Benchmark return[1]	-2.0%	0.7%	23.8%	10.4%	9.0%	9.6%
Total return relative to benchmark	0.4%	2.0%	-1.2%	-1.4%	-0.9%	-1.1%

1. Before 14 July 2017, the benchmark refers to S&P/ASX 100 Accumulation Index . After 14 July 2017, benchmark refers to S&P/ ASX 300 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	Commonwealth Bank of Australia	7.0%
2	CSL Limited	6.3%
3	BHP Group Ltd	5.7%
4	Westpac Banking Corporation	4.1%
5	National Australia Bank Limited	3.5%
6	Australia and New Zealand Banking Grou	3.5%
7	Woolworths Group Ltd	2.5%
8	Bluescope Steel Limited	2.5%
9	Wesfarmers Limited	2.3%
10	Atlas Arteria	2.3%
	Total	39.7%

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

Weakness across most sectors dragged Australian equities lower in December, tempering a strong return for the asset class in 2019.

The S&P/ASX 300 Accumulation Index fell 2.0% in the month. Local shares significantly underperformed overseas indices, with the MSCI World Index and S&P 500 returning 2.3% and 3.0% respectively on the back of increased optimism around a China-US trade deal. For the full year the S&P/ASX 300 Index returned 23.8%, lagging the S&P 500's 31.5% return.

Materials (+1.8%) and Utilities (0.8%) were the only sectors to generate positive returns during the month. The former owed its strength to Metals & Mining, with iron ore majors BHP Group (BHP, +1.8%), Rio Tinto (RIO, +3.6%) and Fortescue Metals (FMG, +9.9%) climbing amid a resilient iron ore price. In the latter, gas pipeline company APA Group (APA, +2.9%) and energy company AGL Energy (+0.6%) outperformed.

In contrast, Consumer Staples (-7.8%) was the worst performer. Woolworths (WOW, -9.1%) and Coles (COL, -8.7%) retraced outperformance from prior periods as valuation concerns outweighed better-than-expected 1Q20 sales growth. Treasury Wine Estates (TWE, -13.2%) underperformed as wine industry data indicated the company may have lost market share in the US. There was also further management disruption, with TWE's President of Americas and Head of Global Sales unable to relocate to the US as planned.

Other underperforming sectors included Communication Services (-5.5%) and Real Estate (-4.5%). Telcos weighed on the former, with falls from Telstra (TLS, -8.3%), Vocus Group (VOC, -9.5%) and TPG Telecom (TPM, -4.0%). While most REITs fell during the period, the worst performers included Goodman Group (GMG, -8.8%), GPT Group (GPT, -6.8%) and Stockland (SGP, -5.9%).

Portfolio commentary

The portfolio fell 1.7% in December, but in the process outperformed its benchmark by 0.4%.

From a sector perspective, underweight positions in Real Estate and Consumer Staples, two of the three worst performing sectors in the index during December, aided relative returns. An overweight position in the worst performing sector, Communication Services, pared back some of these gains.

At a stock level, the portfolio's overweight holdings in APA, Ardent Leisure (ALG), Bluescope Steel (BSL) and Atlas Arteria (ALX) — along with the avoidance of TWE — aided relative returns most.

Toll road operator ALX continued to outperform after it struck a deal to simplify the ownership structure of its key asset — the APRR toll road — in the previous month and after announcing its application for toll increases at the Dulles Greenway for the next five years. ASX 300 ex-20 manager Yarra Capital Management (YCM) maintain a high-conviction overweight position in ALX based on the continued strong operational performance of its long-dated assets and its discounted valuation of 11 times EV/EBITDA, which is in part due to its historically complicated ownership structure.

Steel producer BSL outperformed following a well-received investor day late in the prior month and encouraging macro lead indicators, both for global economic growth and Australian housing. YCM continue to see upside from BSL's strong position and expect the company to benefit from a pick-up in building approvals (3-6 month lag for steel demand). More broadly, YCM are positive on BSL's high-quality assets (domestically and internationally), its strong balance sheet, capital management initiatives and supportive valuation (15.1 times forward earnings). While the company's earnings remain subject to volatile commodity prices, its recent cost-reduction programs and shifting business mix provides YCM confidence its earnings are more resilient than in previous cycles. In the long-term, YCM expect BSL will remain soundly profitable and cash-flow positive, even when the cycle troughs.

Countering these gains was overweight exposure to Boral Limited (BLD) and Eclipx Group (ECX) along with the avoidance of FMG.

Boral underperformed in December following 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 ASX 300 ex-20 manager Nikko Asset Management (Nikko) expected, they still believe BLD offers good earnings leverage to Australian infrastructure and US housing at reasonable value.

Fleet management company ECX underperformed in December, as peer McMillan Shakespeare (MMS) released a disappointing trading update as a result of challenging market conditions. YCM believe the implications for ECX are limited given it largely operates in different markets to MMS. Only 5% of its net profit comes from novated leasing (compared to 70% for MMS), and it has no exposure to Retail Financial Services (compared to 10% for MMS). YCM remain overweight the company on the grounds the outlook for its core business (largely fleet management) remains positive; net operating income has stabilised moving into FY20 and they believe it should return to sustainable growth from FY21. YCM continue to believe ECX can take market share in the longer term (with high single-digit volume growth and stable pricing) and has a large cost-out opportunity available following the recent divestment of a number of non-core businesses.

Key portfolio changes

There were no active changes to the portfolio in December.

Launch date	**Fees**
1 November 2008	Please refer to the relevant PDS and the Investment Menu/Managed Account Profile for more information.
Fund currency	
Australian dollar	
Underlying managers:	
ANZ Chief Investment Office	

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