AMP Sustainable Future Australian Share

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the S&P/ASX 300 Accumulation Index on a rolling three year basis. This investment option primarily invests in shares listed on the ASX. Managers are also permitted to purchase up to 5% in international listed securities, where those securities are also listed on the ASX. In normal circumstances, the portfolio's international investments are fully hedged back to Australian dollars. The investment option may use derivatives such as options, futures or swaps to protect against risks or enhance returns and may short sell securities.

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Australian Shares
Suggested minimum investment timeframe	5 years
Relative risk rating	High
Investment style	Active
Manager style	Single

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
International Shares	1.77
Australian Shares	85.45
Listed Property and Infrastructure	11.42
Cash	1.36

Sector Allocation	%
Financials	26.89
Health Care	14.70
Materials	12.12
Real Estate	11.68
Industrials	10.14
Communication Services	6.42
Energy	5.34
Consumer Discretionary	4.27
Information Technology	4.17
Consumer Staples	1.77
Cash	1.36
Utilities	1.13

Top Holdings	%
CSL Ltd	7.33
BHP Group Ltd	5.93
Westpac Banking Corp	5.59
National Australia Bank Ltd	4.70
Australia & New Zealand Banking Group Ltd	4.53
Telstra Corp Ltd	3.77
Woodside Petroleum Ltd	3.20
Insurance Australia Group Ltd	2.53
Brambles Ltd	2.52
Wesfarmers Ltd	2.48

Fund Performance

The Fund underperformed the benchmark for the September quarter. This was driven primarily by the negative impact of the ethical exclusions and stock selection within the industrials and financials sectors. This was partially offset by an overweight exposure to the health care sector which performed well, particularly early in the quarter.
Avoidance of South32, the Commonwealth Bank and Amcor added to relative performance as did overweight exposure to healthcare companies CSL and ResMed. Detractors from relative performance included avoidance of Woolworths as well as positions in Woodside Petroleum and Brambles.
The portfolio's bias towards better performing ESG companies and underweight allocations towards poorer ESG companies, will continue to drive strategic tilts towards listed property and health care, and a structural underweight or nil-exposure to segments of the market leveraged to negative social impacts, including gaming, food & beverage (given exposure to gambling, tobacco and alcohol) and fossil fuels. While the Fund is overweight listed property, it is under-weight to other interest rate-sensitive sectors, such as infrastructure and utilities (through underweighting the major greenhouse gas-emitting utilities).
The portfolio also remains structurally underweight gold (due to generally poor ESG and sustainability characteristics within this sector) and underweight the mining sector, except for some exposure to large diversified miners with proven and demonstrable track records of appropriately managing ESG and sustainability risks.

Portfolio Positioning

The Fund has a substantial underweight exposure to the Consumer Staples sector relative to the benchmark largely as a result of the Fund's ethical screens regarding alcohol, tobacco and gambling. At the sectoral level this underweight position was one of the main detractors from relative performance during the quarter as a number of the companies in this sector that the Fund does not hold - such as Woolworths and Treasury Wine Estates - had quite strong performance. The Fund did however receive a boost due to its avoidance of South32 (excluded due to its involvement in coal) and Amcor (excluded due to it's involvement in tobacco packaging), which both performed poorly during the quarter.

Environmental Social Governance

During the quarter, AMP Capital furthered its work with the Access to Nutrition Index investor group by co-signing letters to a range of food and beverage companies regarding lobbying practices. The letters were sent to 11 companies to share investor-expectations on the topic of corporate lobbying and to request information on how they would ensure their lobbying activities are consistent with the their positions on health and wellness.

AMP Capital also signed-on to a collaborative engagement coordinated by the Access to Medicine Foundation in relation to the United Nations' third Sustainable Development Goal (SDG) – to "ensure healthy lives and promote well-being for all at all ages". The collaborative engagement is a long-term project that will cover the 19 listed companies in the 2018 Access to Medicine Index. The key areas for improvement across the companies include research and development, access planning, equitable pricing, governance, as well as patents and licensing. The collaborative engagement will use the Access to Medicine Index results to encourage the companies to continue their efforts in providing access to medicine in low and middle-income countries.

It was a less busy quarter when it came to proxy voting, however, our meetings with company Chairs and Remuneration Committee Chairs have ramped up over the last few weeks in preparation for the upcoming annual general meeting season. We are expecting that there will be more shareholder resolutions concerning human rights and we will consider these on a case-by-case basis. We would be unlikely to vote against a director in the first year of reporting, however if we determine that there is a blatant disregard for modern slavery risks, we may vote against the chair of the audit and/or risk committee. Shareholder resolutions about climate change risk and scenario testing will also be a key focus this proxy season.

Market Review

Australian shares rose over the September quarter, the S&P/ASX200 total return index closing up by 2.37%, with more record-highs being hit during the period. A Reserve Bank of Australia (RBA) rate cut buoyed Australian markets in July, as did solid rises from the US and other international exchanges. Australian shares subsequently pulled back in August amid a mostly lacklustre corporate reporting season. Unsurprisingly, retail earnings were generally weak, although this was not across the board with some major retailers surprising on the upside.
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Pockets of relative strength were also evident in some of the more niche medium and smaller cap stocks. The market then rose in September, as did broader international markets, as traders became slightly less pessimistic on the now-familiar concerns of US economic growth and China/US trade tensions. Some positive indications from the Melbourne and Sydney property markets, which have undergone a significant correction over the past two years, also helped domestic sentiment, given the Australian economy's very large exposure to the sector. The share market also appeared to largely price-in an early October official interest rate rise, which materialised one day after quarter-end.

Outlook

Australian shares remain exposed to global economic uncertainty and constrained growth in Australia. As a result, further short-term weakness is a high risk. Against this background, the Reserve Bank of Australia has issued accommodating communications.

However, valuations are reasonable, particularly when compared against low bond yields. Global growth indicators are expected to improve by next year and Australian monetary and fiscal policy are supportive, all of which should support decent gains for share markets on a 6-12 month horizon.

In the current environment, investors should benefit by being highly selective and focusing on companies with robust business fundamentals.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP0448AU*

*Closed to new investors

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