

# Specialist 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. The portfolio primarily invests in shares listed on the Australian Securities Exchange (ASX). The portfolio may also hold up to 5% in international shares, 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 portfolio may use derivatives such as options, futures or swaps to protect against risks or enhance returns. The portfolio may also short sell securities.

## Investment Option Performance

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

## Investment Option Overview

<b>Investment category</b>	Australian Shares
<b>Suggested minimum investment timeframe</b>	7 years
<b>Relative risk rating</b>	High
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
International Shares	1.03
Australian Shares	93.47
Listed Property and Infrastructure	1.85
Others	0.05
Cash	3.59

Sector Allocation	%
Financials	30.51
Materials	20.44
Industrials	9.92
Health Care	6.70
Energy	5.90
Consumer Discretionary	5.75
Consumer Staples	4.74
Communication Services	4.36
Real Estate	4.33
Cash	3.60
Information Technology	2.07
Utilities	1.25
Others	0.43

Top Holdings	%
BHP Group Ltd	7.00
Commonwealth Bank of Australia	6.80
Australia & New Zealand Banking Group Ltd	4.85
Westpac Banking Corp	4.69
CSL Ltd	4.12
National Australia Bank Ltd	3.59
Macquarie Group Ltd	3.19
Rio Tinto Ltd	2.98
Suncorp Group Ltd	2.64
Telstra Corp Ltd	2.35

## Fund Performance

In buoyed market conditions, the Fund posted a positive absolute return and outperformed its benchmark over the September quarter (before fees). All of the Fund's five underlying managers posted positive returns and Ironbark-Karara Capital and Schroders outperformed the benchmark, driving relative returns. Stock selection contributed positively to relative returns, while sector allocation detracted from relative returns.

In terms of sector allocation, the main detractors from relative returns were an overweight position in materials and underweight positions in health care and consumer staples. The only positive contribution came from an underweight allocation to utilities.

In terms of stock selection, the main positive contributors to relative returns were positions in energy, materials, consumer staples and consumer discretionary, while the main detractors were positions in financials and healthcare.

The largest individual contributors to relative returns were overweight positions in WiseTech Global, Independence Group and James Hardie Industries. Logistics software company WiseTech Global rose sharply (+25.4%) after reporting stronger than expected earnings over the 2018-19 financial year and its founder claimed the company is poised to benefit from ongoing US-China trade tensions and Brexit as its technology can navigate the increasingly complex global trade landscape. Gold and nickel mining company Independence Group soared (+38.1%) after announcing that it was seeking a nickel sulphide discovery to complement its high-performing Nova mine to meet the worldwide supply deficit due to increasing demand for batteries. Meanwhile, buildings products group James Hardie Industries climbed (+32.9%) after reporting solid 1Q 2020 earnings results, especially from its North American business due to lower operating costs, management changes and lower input costs.

The largest individual detractors from relative returns were overweight positions in CYBG, Iluka Resources and Rio Tinto. UK-based banking group CYBG fell sharply (-39.2%) as it experienced renewed margin pressure in UK mortgages and heightened concerns about greater than expected costs of compensation due to the industry-wide mis-selling of payment protection insurance. Resources company Iluka Resources fell sharply (-25.3%) despite delivering a net profit increase of 8.8% over 1H 2019, as it warned about higher costs and difficult market conditions for Zircon in coming months. Meanwhile, iron ore miner Rio Tinto declined (-7.6%), despite reporting solid 1H 2019 earnings results as recovering Brazilian supply and ongoing US-China trade tensions could cause iron-ore prices to fall from their current high levels.

## 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. 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
AMP Flexible Lifetime Super	AMP0655AU
AMP Flexible Super - Retirement account	AMP1346AU
AMP Flexible Super - Super account	AMP1475AU
CustomSuper	AMP0655AU
Flexible Lifetime - Allocated Pension	AMP0600AU
Flexible Lifetime - Investments (Series 1)	AMP0854AU*
Flexible Lifetime - Investments (Series 2)	AMP1410AU
Flexible Lifetime - Term Pension	AMP0921AU
SignatureSuper	AMP0797AU
SignatureSuper - Allocated Pension	AMP1150AU
SignatureSuper Select	AMP0797AU

\*Closed to new investors

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