

Specialist Australian Small Companies

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 performance benchmark, the S&P/ASX Small Ordinaries Accumulation Index, on a rolling three-year basis. The portfolio invests in small companies listed on the Australian Securities Exchange (ASX). For this portfolio small companies are considered to be those outside the top 100 listed companies (by market value). Up to 20% of the portfolio may be invested in unlisted companies that the investment manager believes are likely to be listed in the next 12 months, or in companies between the top 50 and 100 listed on the ASX.

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	7 years
Relative risk rating	Very High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
International Shares	9.84
Australian Shares	78.20
Listed Property and Infrastructure	5.68
Others	0.22
Cash	6.06

Sector Allocation	%
Consumer Discretionary	17.86
Industrials	13.53
Materials	12.56
Information Technology	10.22
Financials	8.74
Health Care	8.61
Consumer Staples	6.47
Real Estate	6.40
Cash	6.06
Communication Services	5.86
Energy	3.07
Utilities	0.40
Others	0.22

Top Holdings	%
Bapcor Ltd	2.64
Steadfast Group Ltd	2.26
Ingenia Communities Group	2.10
City Chic Collective Ltd	2.00
Technology One Ltd	1.95
NEXTDC Ltd	1.86
Freedom Foods Group Ltd	1.78
Integral Diagnostics Ltd	1.73
Collins Foods Ltd	1.72
Auckland International Airport	1.64

Fund Performance

In buoyed market conditions, the Fund posted a positive absolute return and strongly outperformed its benchmark over the September quarter. All of the Fund's four underlying managers delivered positive absolute returns and three outperformed the benchmark over the period. Perennial Value was the key driver of outperformance, followed by Eiger Capital and Eley Griffiths. The Fund also continues to significantly outperform its benchmark over the longer term, including over 2, 3 and 5 years, and since inception (annualised). (All returns are before fees.)

Stock selection was the key driver of relative returns and contributed positively, while sector allocation detracted over the period. Regarding sector allocation, the main detractors from relative returns were an overweight position in information technology, and an underweight position in real estate. The main positive contributors were an underweight position in materials and an overweight position in utilities.

Regarding stock selection, the main positive contributors to relative returns were positions in consumer discretionary and information technology, while the main detractors were positions in industrials and materials.

The largest individual contributor to relative performance was an overweight position in specialty fashion group City Chic Collective. The company surged (+43.3%) after posting solid full-year 2019 earnings results, in subdued retail conditions, by taking advantage of the growing 'plus-size' womens' clothing segment. Other positive contributors included an overweight position in energy provider Pacific Energy, which jumped (+40.9%) and an underweight position in artificial intelligence technology company Appen, which tumbled (-24.3%) over the period.

The largest individual detractor from relative performance was an overweight position in satellite communications provider Speedcast International. The company dropped sharply (-64.8%) after providing a market update and subsequently announcing 1H 2019 profits, which were much worse than expected. Other detractors included underweight positions in gold and nickel mining company Independence Group and agricultural chemical company Nufarm, which rallied (+38.1% and +37.6% respectively) over the period.

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	AMP0863AU
AMP Flexible Super - Retirement account	AMP1347AU
AMP Flexible Super - Super account	AMP1476AU
CustomSuper	AMP0863AU
Flexible Lifetime - Allocated Pension	AMP0879AU
Flexible Lifetime - Investments (Series 1)	AMP1005AU*
Flexible Lifetime - Investments (Series 2)	AMP1411AU
Flexible Lifetime - Term Pension	AMP0933AU
SignatureSuper	AMP0951AU
SignatureSuper - Allocated Pension	AMP1147AU
SignatureSuper Select	AMP0951AU

*Closed to new investors

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