

# Specialist Geared Australian Share

Quarterly Investment Option Update

30 September 2019

## Aim and Strategy

To provide high returns over the long term through geared exposure to securities listed on the Australian Securities Exchange. The aim is to manage gearing to a level that is supported by expected income. Therefore an investor can gain greater exposure to the Australian share market than an investor with a non-geared exposure. The objective of the investment portfolio before gearing is applied is to provide a total return (income and capital growth) after costs and before tax, above the S&P/ASX 200 Accumulation Index on a rolling three-year basis. The strategy invests in a diversified portfolio of equities listed on the Australian Securities Exchange (ASX). The investment portfolio is geared, which allows it the ability to borrow in order to increase the amount that can be invested. The aim of gearing is to contribute more capital and to provide greater exposure to the Australian share market. Underlying managers are also permitted to purchase up to 5% in international listed securities, where those securities are also listed on the ASX. The strategy may also invest up to 10% in cash. However, in certain market conditions the strategy may hold higher levels of cash and short selling may also be used. Any currency exposure will be hedged back to Australian dollars using derivatives, and they may also be used to gain equity market exposure.

## 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>	Very High
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Australian Shares	100
Cash	0

<b>Actual Allocation</b>	<b>%</b>
International Shares	1.67
Australian Shares	92.63
Listed Property and Infrastructure	3.01
Cash	2.69

<b>Sector Allocation</b>	<b>%</b>
Financials	23.07
Unclassified	15.16
Materials	14.91
Industrials	9.24
Consumer Discretionary	7.98
Real Estate	6.13
Consumer Staples	4.97
Health Care	4.34
Energy	3.65
Information Technology	3.64
Cash	3.27
Communication Services	3.06
Utilities	0.57

Top Holdings	%
SPDR S&P/ASX 200 Fund	15.16
BHP Group Ltd	5.80
National Australia Bank Ltd	5.39
Commonwealth Bank of Australia	4.75
Westpac Banking Corp	3.61
Macquarie Group Ltd	3.08
Australia & New Zealand Banking Group Ltd	2.68
CSL Ltd	2.44
James Hardie Industries PLC	2.35
LendLease Group	2.30

## Fund Performance

The Fund posted a positive absolute return and strongly outperformed its benchmark over the September quarter. All of the Fund's three underlying managers posted positive returns and DNR Capital outperformed the benchmark. The Fund also continues to outperform its benchmark over the longer term, including over 1, 2, 3 and 5 years, and since inception (annualised). (All returns are before fees).

In buoyed market conditions, gearing was the key driver of the Fund's outperformance over the quarter. Stock selection also contributed positively to relative returns, while sector allocation detracted modestly.

Regarding sector allocation, the main detractor from relative returns was an underweight allocation to health care, while the main positive contributor was an overweight allocation to consumer discretionary.

Regarding stock selection, the main positive contributors to relative returns were positions in real estate, materials, consumer staples and communication services, while the main detractors were positions in information technology.

The largest individual contributors to relative returns were overweight positions in Lendlease, James Hardie Industries and Treasury Wine Estates. Diversified property group, Lendlease surged (+37.5%) after announcing its intention to sell its challenged engineering division, while confirming a healthy pipeline of development projects should be well supported by access to capital. Building 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. Meanwhile, wine maker and distributor Treasury Wine Estates climbed (+25.8%) after reporting strong full-year 2019 earnings results, including the highest organic growth rate in the company's history.

The largest individual detractors from relative returns were overweight positions in CYBG and Brambles and an underweight position in CSL. 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. Logistics giant Brambles tumbled (-10.3%) after reporting below-expectations full-year 2019 earnings results and warning that the ongoing uncertainty caused by Brexit and US-China trade tensions could constrain its outlook. Meanwhile, biotechnology company CSL climbed (+9.4%) after reporting solid full-year 2019 earnings results and continued strong growth in 2020.

## 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	AMP0820AU
AMP Flexible Super - Retirement account	AMP1352AU
AMP Flexible Super - Super account	AMP1481AU
CustomSuper	AMP0820AU
Flexible Lifetime - Allocated Pension	AMP0819AU
Flexible Lifetime - Investments (Series 1)	AMP0850AU*
Flexible Lifetime - Investments (Series 2)	AMP1416AU
Flexible Lifetime - Term Pension	AMP0924AU
SignatureSuper	AMP0823AU
SignatureSuper - Allocated Pension	AMP1154AU

\*Closed to new investors

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