

AMP Capital Equity Income Generator

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

To provide annual dividend income (including franking credits) above the dividend income of the performance benchmark, the S&P/ASX 200 Accumulation Index (adjusted to include franking credits). The option also aims to provide a total return (including franking credits) in excess of the performance benchmark on a rolling 5-year basis. The option invests in an actively managed portfolio of Australian securities listed, or about to be listed, on the Australian Securities Exchange. The strategy also aims to provide these returns with a lower volatility than the broader Australian equity market.

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	5.72
Australian Shares	79.30
Listed Property and Infrastructure	13.89
Cash	1.09

Sector Allocation	%
Financials	28.32
Industrials	14.77
Materials	13.59
Utilities	9.42
Energy	9.15
Real Estate	8.73
Communication Services	5.50
Health Care	3.93
Consumer Discretionary	3.14
Consumer Staples	2.36
Cash	1.09

Top Holdings	%
COMMONWEALTH BANK AUST	8.35
BHP Group Ltd	5.79
Virgin Money UK PLC	5.72
Aurizon Holdings Ltd	5.11
Origin Energy Ltd	4.10
Downer EDI Ltd	3.92
AGL Energy Ltd	3.69
APA Group	3.37
QBE Insurance Group Ltd	3.30
Woodside Petroleum Ltd	3.28

Fund Performance

During the December quarter the Fund produced a performance that was close to flat, as broader Australian shares also struggled to make any gains. Australian shares however have posted very strong gains for the calendar year and while growth stocks were favoured in this environment, the Fund also performed very well. Amid some seasonally thin trading and a relative lack of major domestic market news, most sectors were negative heading into year-end. As the wider market pulled back, materials and utilities bucked the trend and made small gains on strong resource prices and some increasing support for defensive sectors. Consumer staples meanwhile was the weakest performing sector for the month.

Portfolio Positioning

The Fund is conservatively positioned for the later stages of a market cycle. We aim to invest in companies that have good balance sheets and strong cash flow that can either grow their dividend over time or provide a highly defensible income stream. This underpins the objective of delivering a stable tax-effective income to investors and ultimately creates a more robust portfolio in uncertain times. One of the challenges of income investing is maintaining adequate diversification. The ASX200 is heavily reliant on a small number of stocks and sectors for its income, the largest being the banking sector. To address this, we set portfolio weights without reference to market capitalisation. This means the Fund's income sources are more diversified and more evenly distributed than the broader market. One of our favoured sectors continues to be utilities, we like AGL Energy, APA Group and Spark Infrastructure. The sector provides a desirable mix of high dividends, good expected dividend growth and defensive characteristics against a worsening economic backdrop. Another sector which provides a similar dividend profile is the energy sector and we like Origin Energy and Woodside Petroleum.

Market Review

Australian shares finished the December quarter slightly higher, returning 0.68% as measured by the S&P/ASX200 index on a total return basis. Stripping the effect of dividends out of the return, the market's performance was effectively flat for the period. Shares were generally flat early in the quarter, before rising in November amid bullish broader global sentiment. Subsequently, the market gave up some of these gains in December on a lack of material company news and some end-of-year profit taking. At a sector level, health care was the standout performer, though energy and information technology stocks were also generally strong. Financials however pulled the market down, as did consumer staples to a lesser degree.

Outlook

Australian shares are likely to continue to be largely driven by global markets, despite constrained growth in Australia. The government is thus likely to introduce accommodative policy changes and the Reserve Bank of Australia (RBA) will likely experience increasing pressure to further reduce the interest rate, particularly as inflation remains below target. The Governor of the RBA has indicated quantitative easing may be considered once the cash rate reaches 0.25%. The consensus is this threshold will likely be reached sometime in 2020 (despite the RBA's optimism) and is thereby supportive for Australian shares.

Despite some expensive-looking pockets, valuations remain reasonable, particularly when compared against low bond yields. Supportive Australian monetary and fiscal policy should support market over the medium term. Investors are likely to continue to benefit by being highly selective and focussing on companies with robust business fundamentals.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP9036AU
AMP Flexible Super - Retirement account	AMP9037AU
AMP Flexible Super - Super account	AMP9035AU
CustomSuper	AMP9036AU
Flexible Lifetime - Allocated Pension	AMP9038AU
Flexible Lifetime - Investments (Series 2)	AMP2044AU
SignatureSuper	AMP9039AU
SignatureSuper - Allocated Pension	AMP9040AU

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