

AMP Sustainable Future Australian Share

Quarterly Investment Option Update

31 December 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	2.25
Australian Shares	83.63
Listed Property and Infrastructure	11.30
Cash	2.83

Sector Allocation	%
Financials	24.21
Health Care	16.42
Materials	12.69
Real Estate	11.54
Industrials	9.69
Communication Services	6.20
Energy	5.57
Consumer Discretionary	4.20
Information Technology	3.93
Cash	2.77
Consumer Staples	1.71
Utilities	1.08

Top Holdings	%
CSL Ltd	8.32
BHP Group Ltd	6.24
Westpac Banking Corp	4.54
Australia & New Zealand Banking Group Ltd	3.89
National Australia Bank Ltd	3.87
Telstra Corp Ltd	3.79
Woodside Petroleum Ltd	3.26
Wesfarmers Ltd	2.56
Brambles Ltd	2.50
INSURANCE AUSTRALIA GRP	2.46

Fund Performance

The Fund outperformed the benchmark over the December quarter. The primary contributor of this relative return was an underweight exposure to consumer staples, which underperformed over the quarter, and an overweight exposure to health care, which outperformed over the period.

Exclusions of Newcrest Mining and Commonwealth Bank added to the relative outperformance. Other significant stock contributors came from CSL Limited and Virgin Money UK PLC. Detractors included our overweight holding in Wisetech Global. The exclusion of Aristocrat Leisure and Amcor Limited also detracted from the Fund's relative performance.

The portfolio's bias towards better performing ESG companies will continue to drive strategic tilts towards listed property and health care. Additionally, the portfolio holds structural underweights (or nil-exposures) to segments of the market leveraged to negative social impacts. Gaming and food & beverage sectors fall in this category given exposure to gambling, tobacco and alcohol. While the Fund is overweight listed property, it is underweight other interest rate-sensitive sectors such as infrastructure and utilities (through underweighting the major greenhouse-emitting utilities).

Due to generally poor ESG characteristics within this sector, the portfolio also remains structurally underweight on gold and the mining sector. An exception to this is some exposure to large diversified miners with proven and demonstrable track records of appropriately managing ESG and sustainability risks.

Portfolio Positioning

The Fund seeks to invest in companies that provide health care services and products, enhancing people's lives and wellbeing. The Fund has a substantial overweight exposure to the Health Care sector relative to the benchmark with the sector expected to benefit from long-term sustainability drivers such as the ageing population, lifestyle changes increasing underlying demand for health care products and services, and population growth. The Fund's overweight exposure to the sector was one of the key sources of outperformance during the quarter and throughout 2019. The outperformance has been driven by strength in the share price of biotechnology company CSL, which focuses on plasma therapies for the treatment of rare and serious diseases as well as influenza vaccines.

Environmental Social Governance

The last quarter of 2019 was a very busy proxy voting season. The number of shareholder resolutions lodged against Australian companies has been increasing over the years and have been used to highlight certain issues that activist and investor groups want the companies and the public to notice and act on. We spend a lot of time analysing these resolutions and engaging with the companies and activist groups to understand what is being asked. This latest annual general meeting (AGM) season saw a marked increase in the number of shareholder resolutions pertaining to climate change.

Climate change issues also continued to dominate our engagement agenda and will likely ramp up in 2020. The devastating bushfire crisis in Australia has escalated public attention on climate change from a political perspective, which will undoubtedly have implications for the corporate world in Australia in 2020. Tolerance levels for inaction and fossil fuel involvement are noticeably tightening. Particular focus remains on issues such as industry association membership, climate-related financial disclosures and emissions reduction commitments. Through our Climate Action 100+ collaboration activities and direct company engagements, we had a number of highly constructive meetings during the quarter to push forward improvements by companies in each of these areas, as well as water stewardship and risk management, which we believe will be a critical engagement issue going forward.

In terms of human rights and supply chain issues, Cotton On and Target Australia, both subsidiaries of Wesfarmers, have now stopped sourcing cotton from China's Xinjiang province due to suspicions of mass human rights abuses. We are pleased with this outcome following our engagement with Wesfarmers.

Finally, as part of the Access to Nutrition Index investor group, engagement with global food and beverage companies continued. Engagement activity is focused on corporate lobbying and how these companies ensure that their lobbying activities are consistent with the companies' positions on health and wellness. Our involvement with the Access to Medicine initiative has also continued, with the current engagement program focused on the United Nations' third Sustainable Development Goal (SDG3) – "ensure healthy lives and promote well-being for all at all ages". The collaborative engagement is a long-term project, with the Access to Medicine Index results (published every two years) being the building block for tracking the progress of pharmaceutical companies towards SDG3 by 2030.

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
Flexible Lifetime - Investments (Series 1)	AMP0448AU*

*Closed to new investors

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