

Multi-Manager Australian Small Companies

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, higher than the return from the S&P/ASX Small Ordinaries Accumulation Index on a rolling three-year basis. The portfolio invests in small companies listed on the 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	Single

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
Australian Shares	99.96
Cash	0.04

Sector Allocation	%
Consumer Discretionary	17.46
Industrials	14.77
Materials	11.14
Information Technology	10.83
Health Care	9.58
Financials	9.10
Communication Services	7.16
Consumer Staples	6.49
Real Estate	6.04
Cash	4.69
Energy	2.55
Utilities	0.18

Top Holdings	%
Technology One Ltd	2.39
Ingenia Communities Group	2.34
Steadfast Group Ltd	2.16
City Chic Collective Ltd	2.10
Bapcor Ltd	2.04
Emeco Holdings Ltd	1.97
Integral Diagnostics Ltd	1.85
NEXTDC Ltd	1.71
Freedom Foods Group Ltd	1.63
Lifestyle Communities Ltd	1.62

Fund Performance

The Fund posted a positive absolute return and strongly outperformed its benchmark over the December quarter. All of the Fund's four underlying managers delivered positive absolute returns and outperformed the benchmark over the period. The Fund also continues to significantly outperform its benchmark over the longer term, including over 1, 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 modestly over the period. Regarding sector allocation, the main detractors from relative returns were overweight positions in industrials and consumer discretionary, and an underweight position in materials. The main positive contributors were an overweight position in information technology and an underweight position in consumer staples.

Regarding stock selection, the main positive contributors to relative returns were positions in industrials, health care and real estate, while the main detractors were positions in materials and information technology.

The largest individual contributor to relative performance was an overweight position in New Zealand aged-care facility owner and operator Summerset Group. The company rallied (+44.1%) after posting solid September full-year 2019 earnings results, and a New Zealand peer received a takeover offer from a Swedish fund manager. Other positive contributors included overweight positions in vet clinic operator National Veterinary Care, which jumped (+48.4%), and aged-care facility owner and operator Ingenia Communities, which climbed (+23.8%) over the period.

The largest individual detractor from relative performance was not holding West African gold producer Perseus Mining. The company soured (+65.7%) as a result of higher gold prices and a strong operations update, as well as news that it would be added to the S&P/ASX200 index. Other detractors included underweight positions in healthcare products developer Fisher & Paykel Healthcare, which rose (+32.3%), and mining services company Mineral Resources, which rose (+23.3%) over the period.

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	AMP0469AU*
AMP Flexible Super - Retirement account	AMP1329AU*
AMP Flexible Super - Super account	AMP1458AU*
CustomSuper	AMP0469AU*
Flexible Lifetime - Allocated Pension	AMP1094AU*
Flexible Lifetime - Investments (Series 1)	AMP0019AU*
Flexible Lifetime - Investments (Series 2)	AMP1398AU*
Flexible Lifetime - Term Pension	AMP1095AU*

*Closed to new investors

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