

Responsible Investment Leaders 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 200 Accumulation Index on a rolling five-year basis. The portfolio primarily invests in shares listed on the Australian Securities Exchange and is managed using a responsible investment approach. In certain market conditions, the portfolio may hold a higher level of cash. (see additional information about Responsible Investment Leaders for more information).

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	Multi-manager

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
International Shares	3.50
Australian Shares	90.79
Listed Property and Infrastructure	2.85
Cash	2.86

Sector Allocation	%
Financials	28.70
Materials	16.30
Health Care	11.63
Industrials	10.35
Real Estate	7.85
Consumer Discretionary	6.80
Energy	6.08
Information Technology	4.72
Communication Services	3.36
Cash	2.85
Utilities	0.80
Consumer Staples	0.57

Top Holdings	%
BHP Group Ltd	8.30
National Australia Bank Ltd	5.98
CSL Ltd	5.93
Macquarie Group Ltd	5.32
Westpac Banking Corp	4.84
COMMONWEALTH BANK AUST	4.37
Rio Tinto Ltd	4.04
Wesfarmers Ltd	3.20
LendLease Group	2.86
Brambles Ltd	2.61

Fund Performance

The Fund posted a positive absolute return and strongly outperformed its benchmark over the December quarter (before fees). All of the Fund's four underlying managers posted positive returns with DNR, Bennelong and Ausbil outperforming the benchmark, while AMP Capital modestly underperformed the benchmark.

Stock selection was the key driver of the relative outperformance and sector allocation also contributed positively. Regarding sector allocation, the main contributors were underweight allocations to financials and consumer staples, and overweight allocations to health care and industrials, while the main detractor was an underweight allocation to materials.

Regarding stock selection, the main contributors to relative returns were positions in financials, materials, energy, information technology, health care and consumer discretionary, while the main detractor was positions in industrials.

At an individual stock level, the main positive contributor to relative returns was an overweight position in Virgin Money UK. The financial services company rocketed higher (+67.8%) after it announced a bumper result for the financial year ended 30 September 2019, and as some Brexit uncertainty diminished following the UK general election. Other positive contributors included an overweight position in healthcare products developer Fisher & Paykel Healthcare, which rose (+32.3%) after announcing it had received regulatory clearance to sell its new sleep apnea face mask in the US, and an underweight position in ANZ Banking Group which fell (-10.9%) after reporting disappointing results for the financial year ended 30 September 2019.

The main detractor from relative returns was an overweight position in National Australia Bank. The company's shares suffered (-14.6%) after it announced disappointing results for the financial year ended 30 September 2019, and slashed its total dividend. Other detractors included not holding a position in pokies maker Aristocrat Leisure which rallied (+11.1%) after reporting strong results for the financial year ended 30 September 2019, and an overweight position in intellectual property services company IPH which declined (-5.9%) despite no specific company news.

Environmental Social Governance

Through AMP Capital's Climate Action 100+ collaboration activities and direct company engagements, we had a number of highly constructive meetings in the fourth quarter to push forward improvements in each of the following four key areas: industry association memberships, Kyoto carryover credits, Task Force on Climate-related Financial Disclosures reporting especially scenario analysis, and emissions reduction commitments aligned to The Paris Agreement goals.

During the quarter, Ausbil was involved in a number of industry engagement opportunities on climate change, modern slavery and human rights. On climate change this included engagement with the Minerals Council of Australia and a presentation at the Responsible Steel Forum II. On modern slavery and human rights this included co-authoring investor guidance on the Modern Slavery Act, along with presentations at the Freedom for Humanity and Women in Business (CARE Regional Conference in Cambodia) events, and signing an investor statement on forced labour risks in global supply chains.

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	AMP1032AU
AMP Flexible Super - Retirement account	AMP1370AU
AMP Flexible Super - Super account	AMP1499AU
CustomSuper	AMP1032AU
Flexible Lifetime - Allocated Pension	AMP1021AU
Flexible Lifetime - Investments (Series 1)	AMP1055AU*
Flexible Lifetime - Investments (Series 2)	AMP1433AU
Flexible Lifetime - Term Pension	AMP1042AU
SignatureSuper	AMP0976AU
SignatureSuper - Allocated Pension	AMP1172AU

*Closed to new investors

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