

Specialist 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. The portfolio primarily invests in shares listed on the Australian Securities Exchange (ASX). The portfolio may also hold up to 5% in international shares, 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 portfolio may use derivatives such as options, futures or swaps to protect against risks or enhance returns. The portfolio may also 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	Multi-manager

Asset Allocation	Benchmark (%)
Cash	0
Australian Shares	100

Actual Allocation	%
International Shares	1.56
Australian Shares	92.65
Listed Property and Infrastructure	3.02
Cash	2.77

Sector Allocation	%
Financials	26.42
Materials	16.60
Health Care	9.16
Energy	8.39
Consumer Discretionary	7.29
Consumer Staples	6.84
Cash	6.33
Industrials	5.53
Information Technology	5.42
Communication Services	3.82
Real Estate	3.02
Utilities	1.18

Top Holdings	%
CSL Ltd	5.33
COMMONWEALTH BANK AUST	4.87
Woodside Petroleum Ltd	4.11
Macquarie Group Ltd	3.84
BHP Group Ltd	3.83
National Australia Bank Ltd	3.26
Australia & New Zealand Banking Group Ltd	2.99
Rio Tinto Ltd	2.53
QBE Insurance Group Ltd	2.30
Corporate Travel Management Lt	2.05

Fund Performance

The Fund posted a positive absolute return and outperformed its benchmark over the December quarter (before fees). During the period we reviewed the structure of the Fund and as a result implemented several manager changes. The underlying manager mix now includes Alphinity, ECP, AMP Capital and Allan Gray. More information about the new structure and manager mix will be provided shortly.

Stock selection was the key driver of outperformance, while sector allocation modestly detracted. Regarding sector allocation, the main detractors from relative returns were an underweight allocation to health care, and overweight allocations to materials and information technology. The main positive contributors were an overweight allocation to energy, and underweight allocations to financials and real estate.

Regarding stock selection, the main positive contributors to relative returns were positions in financials, consumer staples and consumer discretionary stocks, while the main detractors were positions in information technology, energy and materials.

The largest positive contributors to relative returns were overweight positions in a2 Milk and Virgin Money UK, and an underweight position in Westpac. Milk-products maker a2 Milk jumped (+17.6%) after its CEO signalled profit margins are expected to improve in the 2020 financial year, despite geopolitical uncertainty particularly between the US and China. Financial Services company Virgin Money UK 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. Meanwhile, financial services giant Westpac plunged (-15.8%) following damning allegations that it has turned a blind eye to money laundering, and a consequential shake-up of its leadership team.

The largest individual detractors from relative returns were overweight positions in Wisetech Global and Metcash, and an underweight position in CSL. Logistics software company WiseTech Global fell sharply (-32.7%) after a short seller claimed in a report that the company is overstating the profit, growth and performance of its European business. Consumer goods conglomerate Metcash declined (-12.1%) after it announced a significant reduction in goodwill and asset values in its Food segment related to 7-Eleven not renewing its supply agreement beyond August 2020. Global biotechnology company CSL climbed (+18.0%) as it continues to benefit from its position as the world's largest producer of immunoglobulin which is in short supply, and as it opens plasma collection centres faster than its main competitors.

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	AMP0655AU
AMP Flexible Super - Retirement account	AMP1346AU
AMP Flexible Super - Super account	AMP1475AU
CustomSuper	AMP0655AU
Flexible Lifetime - Allocated Pension	AMP0600AU
Flexible Lifetime - Investments (Series 1)	AMP0854AU*
Flexible Lifetime - Investments (Series 2)	AMP1410AU
Flexible Lifetime - Term Pension	AMP0921AU
SignatureSuper	AMP0797AU
SignatureSuper - Allocated Pension	AMP1150AU
SignatureSuper Select	AMP0797AU

*Closed to new investors

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