



Specialist Geared Australian Share

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

To provide high returns over the long term through geared exposure to securities listed on the Australian Securities Exchange. The aim is to manage gearing to a level that is supported by expected income. Therefore an investor can gain greater exposure to the Australian share market than an investor with a non-geared exposure. The objective of the investment portfolio before gearing is applied is 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 three-year basis. The strategy invests in a diversified portfolio of equities listed on the Australian Securities Exchange (ASX). The investment portfolio is geared, which allows it the ability to borrow in order to increase the amount that can be invested. The aim of gearing is to contribute more capital and to provide greater exposure to the Australian share market. Underlying managers are also permitted to purchase up to 5% in international listed securities, where those securities are also listed on the ASX. The strategy may also invest up to 10% in cash. However, in certain market conditions the strategy may hold higher levels of cash and short selling may also be used. Any currency exposure will be hedged back to Australian dollars using derivatives, and they may also be used to gain equity market exposure.

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 | Multi-manager |

| Asset Allocation | Benchmark (%) |
|-------------------------|----------------------|
| Australian Shares | 100 |
| Cash | 0 |

| Actual Allocation | % |
|------------------------------------|----------|
| International Shares | 2.05 |
| Australian Shares | 94.39 |
| Listed Property and Infrastructure | 2.75 |
| Cash | 0.81 |

| Sector Allocation | % |
|--------------------------|----------|
| Financials | 20.82 |
| Unclassified | 16.23 |
| Materials | 15.98 |
| Industrials | 9.55 |
| Consumer Discretionary | 8.72 |
| Real Estate | 5.67 |
| Energy | 4.93 |
| Consumer Staples | 4.88 |
| Health Care | 4.75 |
| Information Technology | 3.68 |
| Communication Services | 2.85 |
| Cash | 1.46 |
| Utilities | 0.46 |

| Top Holdings | % |
|-----------------------------|------|
| BHP Group Ltd | 6.22 |
| National Australia Bank Ltd | 4.64 |
| Macquarie Group Ltd | 3.86 |
| Westpac Banking Corp | 3.63 |
| COMMONWEALTH BANK AUST | 3.33 |
| CSL Ltd | 2.87 |
| Rio Tinto Ltd | 2.64 |
| Aristocrat Leisure Ltd | 2.54 |
| James Hardie Industries PLC | 2.28 |
| Wesfarmers Ltd | 2.09 |

Fund Performance

The Fund posted a positive absolute return and outperformed its benchmark over the December quarter. All of the Fund's three underlying managers posted positive returns and DNR Capital strongly outperformed the benchmark. The Fund also continues to 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 outperformance, while sector allocation modestly detracted. Regarding sector allocation, the main detractor from relative returns was an underweight allocation to health care, while an underweight allocation to financials was the main positive contributor.

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

The largest positive contributors to relative returns were overweight positions in Virgin Money UK and James Hardie Industries, and an underweight position in Westpac. 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. Building products supplier James Hardie Industries surged (+12.7%) after reporting very strong results for the first half of financial year 2020. 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 an underweight position in CSL, and overweight positions in Treasury Wine Estates and Aurizon. 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. Meanwhile, global winemaker Treasury Wine Estates fell (-12.6%) after a leading broker retained its sell rating due to the company's softening US sales growth, and rail freight company Aurizon fell (-11.4%) as the price of oil, one of its material input costs, increased.

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 | AMP0820AU |
| AMP Flexible Super - Retirement account | AMP1352AU |
| AMP Flexible Super - Super account | AMP1481AU |
| CustomSuper | AMP0820AU |
| Flexible Lifetime - Allocated Pension | AMP0819AU |
| Flexible Lifetime - Investments (Series 1) | AMP0850AU* |
| Flexible Lifetime - Investments (Series 2) | AMP1416AU |
| Flexible Lifetime - Term Pension | AMP0924AU |
| SignatureSuper | AMP0823AU |
| SignatureSuper - Allocated Pension | AMP1154AU |

*Closed to new investors

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