

Alphinity Australian Share

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

The strategy aims to outperform its benchmark over rolling five-year periods. The strategy is managed by Alphinity who seeks to build a portfolio of Australian shares listed on the Australian Securities Exchange that is well diversified across different industries and sectors and aims to meet the strategy's investment objectives in a risk-controlled manner. The strategy is intended for investors who are happy to invest for at least five years, are seeking high levels of return and are comfortable with high volatility, including the possibility of periods of negative returns.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Aust. Shares
Suggested Investment timeframe	At least 5 years
Relative risk rating	6 / High
Investment style	Growth

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100%	97.63%
Cash	0%	2.37%

Sector Allocation	%
Consumer Discretionary	4.30
Consumer Staples	5.77
Energy	5.19
Financials ex Property	31.11
Healthcare	12.63
Industrials	9.36
Information technology	2.21
Materials	16.20
Property Trusts	6.30
Telecommunication Services	1.75

Top Holdings	%
CSL Limited	9.50
BHP Group Limited	8.22
Commonwealth Bank of Australia	7.08
Macquarie Group Ltd	5.09
National Australia Bank Limited	4.59
Australia And New Zealand Banking Group Ltd	4.54
Woolworths Group Ltd	3.75
Santos Limited	3.59
Transurban Group Stapled	3.59
Wesfarmers Limited	3.50

Portfolio Summary

- The portfolio outperformed the ASX300 benchmark by 0.45% (gross) over the quarter and outperformed the benchmark on a year-on-year basis by 1.60% (gross).
- The portfolio remains well-diversified but with a small overweight to non-gold Resource companies (primarily BHP, Fortescue Metals and Oz Minerals) and an underweight to the major Banks, where the Fund Manager sees further challenges to earnings.
- Despite the current fairly elevated valuations and fairly modest extent of expected earnings growth which raise some caution about the short-term overall market outlook, the Fund Manager still remains optimistic about being able to keep identifying individual companies that can deliver an earnings trajectory ahead of what the market is currently expecting.

Investment Option Commentary

The Fund performed well in the December quarter and for the whole year. The companies which contributed most to performance came from a wide range of industries. They included blood fractionator and vaccine maker CSL, flag-carrying airline Qantas, iron ore producer Fortescue Metals, global asset manager Macquarie Group, and gas producer Santos. Being underweight major bank Westpac, which was the subject of money laundering allegations during the quarter, also added to performance. The only positions that detracted noticeably were Treasury Wine Estates, whose CEO announced his retirement, and being underweight Rio Tinto.

Market Commentary

In December 2018, when the markets were crumbling all around us, who'd have thought that 2019 would turn out to be such a good year for share market investors?

As is often the case, when the news was at its worst was exactly the time to put money in: as the old saying goes "it's always darkest before the dawn". The ASX300 (including dividends) ended up returning about +24% for the year. It's much easier to predict market moves after the event but sometimes just taking away some of the negatives is enough for the market to become positive. The best sectors to be in in 2019 were Health Care and Information Technology which returned 42% and 35% respectively, followed by Consumer Discretionary with 28%. Financials was the laggard with Banks returning a paltry 3%, Insurance 15% and Real Estate 17%. Consumer Staples returned only 18% after suffering a sharp downturn in December.

Some global markets did even better than ours, Australia was about middle of the pack. The best major market in \$A terms was the technology-focused US Nasdaq which returned close to +40%, and quite a few exceeded 30%. The laggards were Korea (+6%), Singapore (+11%), and Hong Kong (+14%). But it's a pretty good year when even the worst markets are largely up. Argentina's was the stand-out: its market was actually 35% higher in its local currency, it's just that the Argentinian Peso halved in value over the course of 2019.

The \$A started the year at US70.5c and finished virtually unchanged at US70.2c, although it went as high as 72c in January and as low as 67c in September. Commodity prices had some big swings over the course of 2019, not least the bulks which are so important for Australia. Iron Ore was up more than 22% over the year, which was great for our major miners, although the price of Coking Coal used in steel making was down 13%. The price of Thermal Coal, used in power generation, fell by 33% but Oil rose by between 23% and 35%, depending on the grade. Gold was also strong in 2019, rising up by 19%, and base metals moved only modestly other than Nickel which was up by 32%.

Outlook

The year 2019 provided the usual number of challenges and opportunities for the portfolio but overall results were pleasing, both from a relative performance perspective and from the unusually strong absolute returns. While the current fairly elevated valuations and fairly modest extent of expected earnings growth make us cautious about the short-term overall market outlook, we still remain optimistic about being able to keep identifying individual companies that can deliver an earnings trajectory ahead of what the market is currently expecting. We believe this will remain a more reliable way to add alpha to portfolios than trying to pick the broader macro outlook which, as always, has a large number of hard-to-predict elements to it.

The portfolio remains well-diversified but with a small overweight to non-gold Resource companies (primarily BHP, Fortescue Metals and Oz Minerals) and an underweight to the major Banks, where we see further challenges to earnings. Other high conviction calls remain health exposure CSL, financials company Macquarie Group and energy producer Santos – these are all companies for which we expect further upward earnings revisions. Over the last few months we have increased our positions in building materials manufacturer James Hardie, explosives company Orica, medical device maker Fischer & Paykel Healthcare and hospital operator Ramsay Healthcare.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0345AU
AMP Flexible Super - Retirement account	AMP1617AU
AMP Flexible Super - Super account	AMP1608AU
CustomSuper	AMP0345AU
Flexible Lifetime - Allocated Pension	AMP0629AU
Flexible Lifetime - Term Pension	AMP0936AU
Flexible Lifetime Investment	AMP0834AU
Flexible Lifetime Investment (Series 2)	AMP1639AU
SignatureSuper	AMP0805AU
SignatureSuper Allocated Pension	AMP1164AU

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