

# Responsible Investment Leaders Australian Share

Quarterly Investment Option Update

30 June 2020

## 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](http://www.amp.com.au)

## Investment Option Overview

|   |                   |
|---|-------------------|
| <b>Investment category</b>                    | Australian Shares |
| <b>Suggested minimum investment timeframe</b> | 5 years           |
| <b>Relative risk rating</b>                   | High              |
| <b>Investment style</b>                       | Active            |
| <b>Manager style</b>                          | Multi-manager     |

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

| Actual Allocation                  | %     |
|------------------------------------|-------|
| International Shares               | 3.25  |
| Australian Shares                  | 91.43 |
| Listed Property and Infrastructure | 3.03  |
| Cash                               | 2.29  |

| Sector Allocation      | %     |
|------------------------|-------|
| Financials             | 22.05 |
| Materials              | 19.02 |
| Health Care            | 15.73 |
| Industrials            | 9.51  |
| Consumer Discretionary | 7.48  |
| Communication Services | 7.40  |
| Real Estate            | 6.09  |
| Information Technology | 4.14  |
| Energy                 | 3.09  |
| Cash                   | 2.28  |
| Consumer Staples       | 1.97  |
| Utilities              | 1.23  |

| Top Holdings                | %    |
|-----------------------------|------|
| BHP Group Ltd               | 8.42 |
| CSL Ltd                     | 7.25 |
| National Australia Bank Ltd | 4.66 |
| Macquarie Group Ltd         | 4.57 |
| COMMONWEALTH BANK AUST      | 4.32 |
| Rio Tinto Ltd               | 4.16 |
| Wesfarmers Ltd              | 3.90 |
| Telstra Corp Ltd            | 3.19 |
| Goodman Group               | 2.88 |
| Ramsay Health Care Ltd      | 2.74 |

## Fund Performance

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

Stock selection was the main driver of the outperformance and sector allocation also added value. Regarding sector allocation, the main contributors to relative returns were underweight exposures to consumer staples and financials, and an overweight exposure to consumer discretionary. The main detractors were a cash holding, and an overweight exposure to health care.

Regarding stock selection, the main contributors to relative returns were positions in communication services, financials and energy stocks, while the main detractors were positions in information technology and industrial stocks.

The largest individual contributors to relative returns were overweight positions in Macquarie Group and Seek, and an underweight position in Woolworths. Investment bank Macquarie Group rallied (+40.7%) after reporting better-than-expected full-year 2020 results and a cautious, but positive outlook. Job search website Seek rose strongly (+47.6%) as the lifting of COVID-19 containment measures led to higher ad volumes as businesses recommenced hiring. Meanwhile, supermarket chain Woolworths underperformed the broader market (+6.2%) despite strong sales growth in its supermarket and liquor divisions, as COVID-19 containment measures increased costs.

The largest detractors from relative returns were underweight (not held) positions in Afterpay and Newcrest Mining, and an overweight position in IPH. 'Buy now, pay later' financial company Afterpay soared (+224.4%) after providing a strong March quarter update, announcing that Chinese conglomerate Tencent had become a substantial shareholder and reporting that it had reached a milestone of 5 million active US customers sooner than expected. Gold miner Newcrest Mining rallied (+36.8%) as investors rushed to buy gold due to its perceived safety amid the COVID-19 pandemic and geopolitical tensions. Meanwhile, intellectual property services firm IPH lagged the broader market (+3.5%) despite no specific company news and as it continues to expand.

## Environmental Social Governance

At the beginning of the year, there was no lack of observers and opinion makers coining the 2020s as the 'ESG decade', and although the COVID-19 pandemic has shifted priorities and focus, there is little doubt that ESG and the broader sustainability trend will continue to unfold for years to come; or as the CEO of MSCI put it at the company's earnings call in January this year: "So, 10 years from now, in the investing industry, I don't think that there will be a category called sustainable investing because everything that people will do, will have to have an element of sustainable investing in that - in their investment processes."

During the quarter, the Access to Medicine Foundation – of which **AMP Capital** is a signatory – has used the COVID-19 pandemic to draw attention to the need for pharmaceutical companies to help achieve fair, global access to new products. The Foundation noted that "...this pandemic is going to hit the people living in low- and middle-income countries the hardest... The pharmaceutical industry is now working toward new treatments and vaccines targeting COVID-19. This is one half of the equation. When those new products leave the pipeline, ensuring they are made widely accessible will be the central issue."

## Market Review

In line with broader global markets, Australian shares recorded an extremely strong June quarter, as stocks rebounded from their lows experienced at the height of the COVID-19 related market panic in late March. The market finished the quarter up by 16.5%, as measured by the S&P/ASX 200 index on a total return basis. The relative success of Australia's COVID-19 containment measures, which saw authorities begin lifting mandatory lockdowns, combined with unprecedented fiscal stimulus drove the market's surge. Later in the quarter, economic indicators, such as business confidence, retail sales and trade figures, appeared to confirm the Australian economy was indeed in recovery mode. Amid all the bullishness, concerns of recent months however remained - and in some cases actually grew - such as tensions with China, potential second waves of infections (particularly in Melbourne), a rising Australian dollar and still most pressingly, COVID-19's effect on company earnings. The standout performer at a sector level was information technology (IT), which rose by a remarkable 48.7% during the period. This small, but fast-growing sector of the Australian economy appears to have benefitted in many ways from the COVID-19 crisis, as changing consumer behaviour and a shift towards online activities has led to increasing tailwinds for many IT businesses. Consistent with a rebound in the economy, defensive sectors underperformed.

## Outlook

Australian shares will likely continue to be primarily driven by global markets. Like its international peers, Australia's economic growth has slumped, though evidence of a bounce-back is already emerging. Australia's greater degree of government stimulus (relative to other countries) should help support Australian shares, though there are some near-term risks, such as souring trade relations with China and a lack of earnings visibility for many companies. Given large price-rises since the March lows, we believe investors should be selective and, as always, keep an eye on the longer-term.

## Availability

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

\*Closed to new investors

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