

# Responsible Investment Leaders Balanced

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 return from the relevant benchmarks of the underlying investments on a rolling five-year basis and to provide a rate of return of 3.5% above inflation (Consumer Price Index (CPI)), after costs and before tax, over a 5 year period. The portfolio invests in all asset classes, but with an emphasis on growth assets (shares and property). With the exception of cash, the portfolio is managed using a responsible investment approach (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>	Multi-Sector
<b>Suggested minimum investment timeframe</b>	5 years
<b>Relative risk rating</b>	Medium to High
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

Asset Allocation	Benchmark (%)
International shares	33
Australian Shares	25
Australian Fixed Interest	13
International Fixed Interest	12
Unlisted Property and Infrastructure	9
Listed Property and Infrastructure	4
Cash	2
Growth Alternatives	2

Actual Allocation	%
International Shares	31.86
Australian Shares	24.99
Listed Property and Infrastructure	2.45
Unlisted Property and Infrastructure	13.64
Growth Alternatives	2.67
International Fixed Interest	10.81
Australian Fixed Interest	10.76
Cash	2.84

## Fund Performance

After a challenging March quarter, the Ethical Leaders Fund delivered a strong performance in the final three months of FY19/20. Market sentiment improved throughout the June quarter as investors focused on positive policy support from governments, in spite of continued concerns surrounding COVID-19 and tensions in Hong Kong. Over the quarter, global central banks and governments adopted stimulus programs and commenced the reopening of economies, boosting share markets globally. Within the Fund, underlying sectors generated a positive return with the exception of direct property allocations. The Fund performed broadly in line its benchmark, with strong performances from our Australian equity and fixed income managers largely offset by direct property exposures.

The Fund's Australian share allocation produced a positive return over the quarter, outperforming the ASX 200 by 2.3%. Stock selection was particularly strong within the financials and energy sectors, as was the underweight to consumer staples. This was offset by stock selection in the information technology sector, along with an overweight to health care. At the stock level, overweights to Macquarie Group and Seek, as well, as the exclusion of Woolworths from the portfolio, were the strongest contributors. On the flip side, nil holdings in Afterpay and Newcrest Mining, along with an overweight to IPH detracted from performance. From an active manager perspective, all managers except Ausbil outperformed. Our ESG index exposure underperformed over the quarter. The Ethical Leaders International Shares Fund underperformed over the June quarter by 0.6%. Sector allocation was the main contributor to the relative return, however it was offset by stock selection. Stock selection contributed positively within industrials, with overweights to Owens Corning, Brenntag and Siemens adding the most value. Conversely, selection in the information technology sector was the major detractor from relative performance, including underweights to Apple, PayPal and Shopify. Stock selection in health care and financials further detracted from performance. At the manager level, C Worldwide outperformed the Fund benchmark, whilst Lazard, Boston Partners and the Ethical Leaders Emerging Markets Fund underperformed. An overweight to emerging markets detracted, as the sector underperformed developed markets over the quarter.

The Fund's fixed income exposure outperformed the benchmark by 1.9% over the quarter, returning 4.8% as all underlying managers outperformed. An overweight to investment grade credit contributed to the relative performance for Alliance Bernstein, while allocations to inflation linked bonds through Ardea also performed strongly. Listed property ended the period lower largely due to COVID-19 and lockdowns.

Unlisted real asset allocations suffered over the quarter, as asset revaluations capturing the impact of COVID-19 on property markets continued to impact returns. Much of this was experienced in the retail space, as foot traffic into "brick and mortar" stores suffered. The Fund's exposure to infrastructure is via the AMP Capital Community Infrastructure Fund, a public-private partnership (PPP) style fund of social assets, including hospitals and schools. It has proven resilient in the face of COVID-19 and helped to stabilise returns, given that its assets earn revenue on an availability basis.

## 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

Global shares surged back from their March lows over the June quarter, with the MSCI World ex Australia index finishing the period up by 18.5%. This came as virus-related market panic progressively dissipated and lockdowns began to be lifted. Death rates, while high, were also far below previous 'worst-case' scenario estimates. As businesses reopened, most governments maintained (and in some case even increased) their stimulus

programmes on offer, leading to continued support for share prices. Various economic indicators also appeared to confirm a global economic recovery was indeed underway, reflected in sharp rises in business confidence and falling rates of unemployment. Contrary to the markets' bullish sentiment, the list of concerns on many investors' radars however only appeared to grow, with issues such as civil unrest in the US, the upcoming US election, Chinese tensions (with Hong Kong, the US, India and even Australia) and an apparently rising risk of a 'second wave' of COVID-19 infections (particularly in the US) leading to a growing sense of unease. Perhaps most pressingly for shares, corporate earnings visibility remains low, resulting in many businesses being hard to value, particularly over the short-term. Emerging markets meanwhile were also very strong, driven by the same trends as broader developed markets to return 16.7% over the quarter as measured by the MSCI Emerging Markets index. (Indices quoted in local currency terms and on a total-return basis, unless otherwise stated.)

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, such as utilities, healthcare and consumer staples underperformed, although all sectors were positive overall.

Global government bond yields moved higher in early April despite the US Federal Reserve only slightly slowing its pace of US government bond purchases, which had capped upward pressure on yields over prior weeks. Yields subsequently traded sideways through most of May despite shifts in sentiment variously associated with the tentative easing of lockdown restrictions, economic stimulus measures and speculation regarding progress in the development of a COVID-19 treatment. Favourable US economic data provided renewed upward momentum in early June, however yields subsequently reversed course as economic sentiment deteriorated amid fears of a 'second wave' of the pandemic. The US 10-year bond yield ended the quarter one basis point lower at 0.66%. In contrast, the German and Japanese 10-year bond yields rose by one basis point to -0.46% and 0.02% respectively. Total returns for global bonds, as measured by the Bloomberg Barclays Global Aggregate Index Hedged, returned around 2.3% for the period in Australian dollar terms.

In credit markets meanwhile, global spreads tightened over the June quarter. This was initially prompted by the US Federal Reserve extending its bond buying program and subsequently reinforced by the market's ongoing expectation of further policy support measures on the part of central bankers, which outweighed the impact of renewed trade tensions between the US and China and a surge in COVID-19 infections in the US (which prompted several states to partially reintroduce lockdown measures.)

Australian government bond yields moved higher over the first week of April as the Reserve Bank of Australia moderated the pace of its bond purchase program which had restrained earlier upward pressure on yields. Yields subsequently moved broadly sideways as favourable trends in domestic high-frequency economic data were counterbalanced by cautionary outlook comments from the US Federal Reserve, renewed trade tensions between the US and China and rising COVID-19 case numbers. The Commonwealth Government 10-year bond yield rose by 11 basis points over the quarter to 0.87%, while its 2-year counterpart ended unchanged at 0.25%. Total returns for Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, were around 0.5% for the period in Australian dollar terms.

Australian credit spreads widened slightly early in the quarter amid falling crude oil prices, before subsequently tightening over the remainder of the quarter as market sentiment was bolstered by the view that further global and domestic economic deterioration would prompt further monetary and fiscal stimulus. This tightening trend was further reinforced by sustained strength in the demand for credit amid the volume of maturities outweighing that of issuance over the course of the year to date.

## Outlook

With global economies somewhat coming to grips with the impact of the virus and some signs of stabilisation in the rate of infection, markets are generally optimistic. However, despite the recent rebound, considerable uncertainty remains on the trajectory of the virus and ultimately the economic impact. Much of the economic recovery is dependent on the success of reopening of economies and the potential threat of a "second-wave" of infections. Ultimately, we remain cautious on the months ahead and expect volatility to reappear.

Until there is some certainty surrounding the virus and what the global economy will look like going forward, we continue to target a broadly neutral allocation across asset classes to mitigate risk and remain ready for any potential buying opportunities which could arise in the near future.

## Availability

Product Name	APIR
AMP Flexible Super	AMP1500AU
AMP Flexible Super - Retirement	AMP1371AU
CustomSuper	AMP1033AU
Flexible Lifetime - Allocated Pension	AMP1022AU
Flexible Lifetime - Investments (Series 1)	AMP1056AU*
Flexible Lifetime - Investments (Series 2)	AMP1434AU
Flexible Lifetime - Super	AMP1033AU
Flexible Lifetime - Term Pension	AMP1043AU
SignatureSuper	AMP0977AU
SignatureSuper - Allocated Pension	AMP1173AU
SuperLeader	AMP1884AU

\*Closed to new investors

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