

# Specialist Geared Australian Share

Quarterly Investment Option Update

30 June 2020

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

## Investment Option Overview

<b>Investment category</b>	Australian Shares
<b>Suggested minimum investment timeframe</b>	7 years
<b>Relative risk rating</b>	Very High
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Australian Shares	100
Cash	0

<b>Actual Allocation</b>	<b>%</b>
International Shares	2.49
Australian Shares	89.69
Listed Property and Infrastructure	3.53
Cash	4.30

<b>Sector Allocation</b>	<b>%</b>
Financials	21.66
Materials	18.58
Consumer Discretionary	9.88
Health Care	9.83
Communication Services	6.76
Consumer Staples	6.75
Industrials	6.52
Real Estate	5.89
Cash	5.00
Information Technology	4.61
Energy	3.64
Utilities	0.86

Top Holdings	%
BHP Group Ltd	7.14
CSL Ltd	4.79
National Australia Bank Ltd	4.09
COMMONWEALTH BANK AUST	3.99
Wesfarmers Ltd	3.59
Macquarie Group Ltd	3.49
Rio Tinto Ltd	2.77
Westpac Banking Corp	2.65
Telstra Corp Ltd	2.44
Coles Group Ltd	2.40

## Fund Performance

The Fund posted a very strong positive absolute return and outperformed its benchmark over the June quarter (before fees). The Fund's gearing magnified this outperformance. All three of the Fund's underlying managers posted strong positive absolute returns and outperformed the benchmark. DNR Capital and Vinva added significant value.

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 an underweight exposure to health care and overweight exposures to consumer discretionary and information technology. The main detractor was a cash holding.

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

The largest individual contributors to relative returns were an underweight position in CSL Limited, and overweight positions in James Hardie and Seek. Global biotechnology company CSL waned (-3.3%) mainly due to profit taking, after making strong gains over the past year. Meanwhile, building materials company James Hardie rallied (+48.6%) after announcing better-than-expected Q4 2020 results subsequently raising its earnings guidance for Q1 2021, and 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.

The largest detractors from relative returns were an underweight position in Afterpay, and overweight positions in Treasury Wine Estates and IRESS. '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. Meanwhile global winemaker and distributor Treasury Wine Estates underperformed the broader market (+4.5%) as investors grappled with the potential demerger of its Penfolds business and concerns about demand from China, and financial technology company IRESS underperformed (+5.1%) after it held a capital raising of \$150 million to acquire investment administration service provider OneVue.

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

\*Closed to new investors

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