

Alphinity Australian Share

Quarterly Investment Option Update

30 June 2020

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%	96.31%
Cash	0%	3.69%

Sector Allocation	%
Consumer Discretionary	3.37
Consumer Staples	4.29
Energy	3.31
Financials Ex Property	28.65
Health Care	10.57
Industrials	9.89
Information Technology	1.55
Materials	22.92
Property Trusts	4.95
Telecommunication Services	3.37

Top Holdings	%
BHP Group Limited	8.92
Commonwealth Bank of Australia	8.30
CSL Limited	7.24
Wesfarmers Limited	4.52
National Australia Bank Limited	4.37
Woolworths Group Ltd	4.29
Macquarie Group Ltd Group Ltd	4.14
Transurban Group Stapled	3.94
Goodman Group	3.48
Westpac Banking Corporation	3.03

Portfolio Summary

- For the quarter ending June 2020, the Investment Option returned 15.70% before fees, underperforming the benchmark by 1.10%.
- Continued to position the portfolio towards companies for which the Fund Manager see upside to the market's earnings expectations, and this has been funded by positions that are now either looking less attractive from a valuation perspective or appear to have increased earnings risk.
- New positions added to the portfolio in June included carsales.com, Cleanaway and Super Retail Group. Reduced positions in CSL Limited, Fortescue Metals and APA Group.

Investment Option Commentary

The Investment Option slightly underperformed the very strong market in the June Quarter. The Investment Option benefitted from holdings in data annotator Appen, global asset manager Macquarie Group, iron ore miner Fortescue Metals, insurance broker Steadfast, building materials company James Hardie, mining services company Seven Group, and diversified resource company Oz Minerals. Against that however were their positions in health care company CSL and insurer QBE. Not owning millennial payment platform Afterpay Touch or gas explorer Oil Search hurt performance somewhat.

Market Commentary

The June quarter started with a bang, with massive market returns in April and May, but ended with more of a whimper, finishing only 2% higher in June. Overall it was an impressive quarter with the ASX300 (including dividends) rising about 17%, a much-needed recovery from the sharp slump in the prior quarter.

Australia shaped up well in global terms, outperforming every other major market and recouping much of its relative underperformance in the March quarter. Some of this was due to the \$A, which rose 12% against the \$US, which largely offset the previous quarter's slump. Shares in Asia were soft in \$A terms for the quarter, HK shares falling as political tensions there continue to escalate; Chinese shares were also lower. Most other markets managed gains however with the broad US market (S&P 500) up 7%. The tech-focused NASDAQ returned more than double that with extreme strength in a narrow group of very expensive companies.

If you'd slept through the first half of 2020, woken up and looked at the markets on July 1 you might have been fairly unsurprised as to where things ended up. The share market was soft, having fallen about 10%, as was the \$A, down a little from US70.5c to 68.5c. You would have missed all the stress and emotion: the panic, fear and greed that caused the large movements in between: the 30% fall in the \$A to \$US0.55 and the 27% fall in the ASX300 in March.

Outlook

The Investors typically don't initially ask many questions about individual stocks during large selloffs and recoveries. The well-known "fear versus greed" psychology tends to be fairly indiscriminate, although of course cyclical stocks generally lead in the downturn as well as the upturn. The market volatility in 2020, while somewhat unusual in terms of the cause and also the size of the monetary and fiscal response, has been no different.

As is also typical, 4-5 months into the current market environment the Fund Manager are now starting to see a bit more discrimination with the different earnings outcomes being delivered by companies also reflected in their different share price performances. This is very welcome as it has historically been positive for our earnings leadership-based investment process. Accordingly during the quarter the Fund Manager continued to position the portfolio towards companies for which they see upside to the market's earnings expectations, and this has been funded by positions that are now either looking less attractive from a valuation perspective or appear to have increased earnings risk – sometimes both.

New positions added to the portfolio in June included carsales.com, Cleanaway and Super Retail Group. While not immune to the effects of Covid-19 on the Australian economy, they believe all three have managed the downturn relatively well and are showing early signs of being able to deliver better than expected earnings outcomes in the coming 12 months as either sales rebound or cost management surprises positively.

The Fund Manager also added a little to our gold holdings Saracen and Newcrest Mining as the continued strength of the gold price appears underappreciated in consensus earnings forecasts. They took further profits in CSL, taking it to an underweight position, due to our concerns that FY21 will experience more challenging conditions for plasma collection. They also reduced our overweights in iron ore miner Fortescue Metals and gas pipeline operator APA Group following strong share price performance.

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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