

Epoch Global Equity Shareholder Yield (Unhedged)

Quarterly Investment Option Update

30 June 2020

Aim and Strategy

To generate superior risk adjusted returns with a dividend yield that exceeds the dividend yield of the MSCI World ex-Australia index in Australian dollars (net dividends reinvested). The strategy is designed for investors who want a medium to long-term exposure to a portfolio of high quality global companies with attractive income and capital appreciation potential. The strategy pursues attractive total returns with an above average level of income by investing in a diversified portfolio of global companies with strong and growing free cash flow.

Investment Option Performance

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

Investment Option Overview

Investment Category	Global Shares
Suggested Investment timeframe	7 years
Relative risk rating	6 / High
Investment style	Value
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	100%	97.2%
Cash	0%	2.8%

Sector Allocation	%
Consumer Discretionary	5.6
Consumer Staples	12.0
Energy	4.7
Financials inclg Real Estate	14.7
Health Care	15.5
Industrials	7.6
Information Technology	14.0
Materials	3.3
Communication Services	7.7
Utilities	12.2

Regional Allocation	%
Australia & New Zealand	0.5
Emerging Markets	2.3
Europe – ex UK	21.6
Japan	2.4
North America	62.3
Pacific – ex Japan, Australia	0.6
UK	7.5

Top Holdings	%
Microsoft Corporation	2.2
Verizon Communications	2.0
KLA Corporation	1.8
Takeda Pharmaceutical	1.6
AbbVie, Inc.	1.6
Allianz SE	1.6
Snam S.p.A.	1.5
Unilever PLC	1.4
National Grid plc	1.4
Cisco Systems, Inc.	1.4

Portfolio Summary

During the quarter, most sectors contributed positively to absolute performance though there were detractions from a few sectors, including utilities, consumer staples, and communication services, which evened out the overall performance.

- The Investment Option's overweight to utilities was one of the main detractors from relative performance as investors were concerned about reduced demand as a result of the COVID-19 shutdowns. On the positive side, strong stock selection in financials contributed to relative performance largely driven by the Investment Option's underweight to banks and strong performance of some insurance companies.
- It is crucial in this environment to identify companies that have sustainable cash flows and are focused on maintaining dividends. The yield from equities is also likely to be far superior to that attainable in fixed income markets. As a result, Epoch believes the best-positioned companies are those that have a demonstrated ability to produce sustainable FCF and allocate that cash flow effectively.

Investment Option Commentary

During the quarter, most sectors contributed positively to absolute performance though there were detractions from a few sectors, including utilities, consumer staples, and communication services, which evened out the overall performance. The largest positive contributor was information technology, largely due to exposure to companies with strong performance and the semiconductor industry. Consumer discretionary, financials, energy and materials also contributed.

The Investment Option's overweight to utilities was one of the main detractors from relative performance as investors were concerned about reduced demand as a result of the COVID-19 shutdowns. Stock selection in the utilities sector also weighed on results. Information technology was the best performing sector in the benchmark, where the Investment Option typically has less exposure. Stock selection in communication services also detracted as the telecommunications industry lagged. On the positive side, strong stock selection in financials contributed to relative performance largely driven by the Investment Option's underweight to banks and strong performance of some insurance companies. Stock selection in energy also contributed, as the portfolio tends to own large diversified energy companies that can weather the storm of weak oil prices. On a country basis, the U.S. was the largest detractor, followed by Canada, while an underweight to Japan and stock selection in Germany modestly contributed. The strengthening Australian dollar further contributed to relative performance.

Market Commentary

Stocks rebounded from the previous quarter's selloff, which hit its low point on March 23. All developed markets had positive returns. Sentiment improved as the rate of COVID-19 infections declined, although infections in the U.S. picked up in June. U.S. stocks got a lift from the Federal Reserve, which unveiled plans to lend directly to municipalities and businesses and to buy bonds issued by companies that had recently lost their investment-grade status.

Outlook

The macro outlook continues to improve. Epoch have been focused on three requirements for markets to continue recovering, with two of them currently moving in the right direction. The first concerns the rate of new infections, which, unfortunately, increased during June, however, COVID-related deaths declined significantly during the second quarter. Second, during March and April we have witnessed the most aggressive combination of fiscal and monetary policy ever implemented and the Fed has made it abundantly clear that further monetary policy easing is likely. This leads us to the third condition, which is improving financial conditions.

The COVID-19 shock has acted as an accelerant for the digitization of the economy. This is being reflected in the shift to working-from-home, EdTech, e-fitness, and so on. In terms of risks, Epoch believes the market is paying insufficient attention to the possibility of a Biden presidency. Among possible policy changes, tax hikes have received the most attention and would constitute a headwind for earnings. The energy sector could also be dramatically affected. U.S.-China tensions are also destined to get worse. It is crucial in this environment to identify companies that have sustainable cash flows and are focused on maintaining dividends. Moreover, the yield from equities is likely to be far superior to that attainable in fixed income markets. As a result, Epoch believes the best-positioned companies are those that have a demonstrated ability to produce sustainable FCF and allocate that cash flow effectively.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1996AU
AMP Flexible Super - Retirement account	AMP2021AU
AMP Flexible Super - Super account	AMP2026AU
CustomSuper	AMP1996AU
Flexible Lifetime - Allocated Pension	AMP2001AU
Flexible Lifetime Investment (Series 2)	AMP2033AU
SignatureSuper	AMP2006AU
SignatureSuper Allocated Pension	AMP2013AU

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