

# AMP Capital Ethical Leaders Australian Share

Quarterly Investment Option Update

30 September 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/performance](http://www.amp.com.au/performance)

## Investment Option Overview

<b>Investment category</b>	Australian Shares
<b>Suggested minimum investment timeframe</b>	5 years
<b>Relative risk rating</b>	6 / High
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
International Shares	3.62
Australian Shares	89.62
Listed Property and Infrastructure	2.71
Cash	4.04

Sector Allocation	%
Materials	19.78
Financials	18.77
Health Care	16.33
Real Estate	8.33
Consumer Discretionary	8.27
Industrials	7.46
Communication Services	7.04
Information Technology	5.83
Cash	4.04
Energy	3.16
Consumer Staples	0.71
Utilities	0.27

Top Holdings	%
BHP Group Ltd	8.41
CSL Ltd	6.91
Macquarie Group Ltd	5.13
National Australia Bank Ltd	4.05
Rio Tinto Ltd	3.86
Goodman Group	3.33
COMMONWEALTH BANK AUST	2.73
Telstra Corp Ltd	2.70
Wesfarmers Ltd	2.70
Fortescue Metals Group Ltd	2.56

## Fund Performance

The Fund posted a solid positive absolute return and outperformed its benchmark over the September quarter. Two of the Fund's three underlying managers posted healthy positive absolute returns and outperformed the benchmark. Bennelong and Ausbil strongly outperformed the benchmark, while DNR slightly underperformed. The Fund continues to outperform its benchmark over the longer term, including over 1, 2, 3 and 5 years and since inception (all returns before fees).

Sector allocation was the main driver of the outperformance and stock allocation also added value. Regarding sector allocation, the main contributors to relative returns were underweight exposures to financials and energy, and an overweight to health care. The main detractors were overweight exposures to industrials and communication services.

Regarding stock selection, the main contributors to relative returns were positions in consumer discretionary, financials and materials stocks, while the main detractors were positions in information technology, health care and consumer staples stocks.

The largest individual contributors to relative returns were overweight positions in Corporate Travel Management and IDP Education, and an underweight position in Commonwealth Bank. Corporate Travel Management soared (+80.6%) after its full-year results showed it paid down debt while increasing its overall cash balance, which positions it well for growth beyond the impacts of the pandemic. International education services company IDP Education shot higher (+22.7%) after reporting solid full-year results despite the impacts of the pandemic, while Commonwealth Bank waned (-7.1%) as further lockdowns in Victoria are expected to delay economic recovery and possibly elevate bad debt levels.

The largest detractors from relative returns were an underweight position in Afterpay, an overweight position in Lendlease and not holding Aristocrat Leisure. 'Buy now, pay later' financial company Afterpay rallied (+31.2%) after providing a series of strong updates, including upgraded earnings and further global expansion. Construction giant Lendlease Group fell (-10.6%) after reporting disappointing full-year results due to COVID-19 lockdowns and posting the cost of its planned exit from engineering. Meanwhile, gambling company Aristocrat Leisure, which is not held in the Fund, climbed (+17.5%) as the vast majority of casinos in the US reopened and its online business grew.

## Environmental Social Governance

At the start of 2020, Australian shares manager **Ausbil** was appointed to an expert panel advising the Australian Federal Government on the effective implementation of the Modern Slavery Act (2018). During the September quarter, Ausbil participated in two meetings where it expressed the importance of taking a multi-stakeholder approach. The manager's views were also sought on taking a multi-stakeholder approach on the draft Modern Slavery Act Statement and the potential for a recognition scheme. Discussions were also held on labour rights risks and allegations of forced labour in the Xinjiang region of China, and how this could impact sourcing from China. Forced labourers are often transported to other provinces within China which is a problem that poses a systemic risk for the entire global apparel industry given China is a major player in cotton production and 84% is derived from the Xinjiang region. By its nature, traceability in the cotton supply chain is very difficult. Ausbil's engagement with the Federal Government is impactful as the government is the biggest

procurer in Australia, and this has ripple effects on the wider economy, acting as a benchmark for companies around these issues.

## Market Review

Australian shares initially rose in July and August, before pulling back in September to end the quarter down by 0.44% as measured by the S&P/ASX 200 index, on a total return basis. Early to mid-quarter, Australian shares were driven by rising global markets, amid broader global optimism and the continued presence of massive levels of economic stimulus, with central banks (including the RBA) continuing to indicate they will do whatever is necessary to support economies. The August reporting season then saw the market rise further, with many companies beating unsurprisingly low consensus forecasts. Given the unique COVID-19 backdrop, as expected results were variable from business to business and across sectors. Information technology, healthcare, some of the miners, gold producers and even some consumer discretionary stocks reported relatively strong results, given the circumstances. Retailers focussed on e-commerce, rather than traditional bricks and mortar, also reported strong results. Meanwhile, airlines, other travel-related businesses and financials generally struggled. Late in the quarter, Australian shares fell alongside global markets, as concerns rose around continued and further lockdowns,

such as those being experienced in Melbourne, which have now lasted longer than Wuhan's, where the virus originated.

## 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 has emerged in some sectors, supported by Chinese demand. 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 soured trade relations with China and a continued lack of medium-term earnings visibility for many companies. Given large price rises since the March lows, there may be an increased risk of corrections, though we believe the longer-term trend is likely to remain positive. We continue to believe investors should be selective and, as always, maintain a longer-term perspective.

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## Availability

Product Name	APIR
AMP Flexible Super - Retirement	AMP1370AU**
AMP Flexible Super - Super	AMP1499AU**
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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