



# AMP Capital Ethical Leaders Balanced

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

## Investment Option Overview

<b>Investment category</b>	Multi-Sector
<b>Suggested minimum investment timeframe</b>	5 years
<b>Relative risk rating</b>	5 / Medium to High
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
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

<b>Actual Allocation</b>	<b>%</b>
International Shares	32.41
Australian Shares	24.11
Listed Property and Infrastructure	1.70
Unlisted Property and Infrastructure	16.31
Growth Alternatives	1.20
International Fixed Interest	12.51
Australian Fixed Interest	11.05
Cash	0.70

## Fund Performance

The Ethical Leaders Balanced Fund produced a strong return over the September quarter, building upon gains in the June quarter. Growth assets again proved to be the key drivers of overall return, as global markets enjoyed a relatively encouraging first half of the quarter, buoyed by strong growth in the US technology sector and sustained monetary and fiscal policy stimulus. The month of September however saw markets diverge, as fears of a "second wave" of COVID-19 and renewed lockdowns dampened investor sentiment in some geographies. Within the Fund, most risk assets generated positive returns. The Fund outperformed its benchmark largely due to strong returns from our Australian equity managers and emerging market exposures.

The Fund's Australian equity allocation produced a positive return over the quarter, outperforming the ASX 200 by 1.89%. Stock selection was particularly strong within the consumer discretionary and financials sectors, as was the underweight to financials. This was offset by stock selection in the information technology and health care sectors. At a stock level, overweights to Corporate Travel Management and IDP Education, as well as an underweight to the Commonwealth Bank were the strongest contributors to outperformance. On the flip side, an underweight to Afterpay, an overweight to Lendlease Group along with the exclusion of Aristocrat Leisure (due to its exposure to gambling) from the portfolio detracted from relative performance. From an active manager perspective, all managers except DNR outperformed.

Despite generating a positive return, the international equity allocation underperformed over the September quarter by 1.02%. Stock selection detracted from relative performance, while the sector allocation effect was neutral. Underweights to energy and utilities contributed positively, as did stock selection within financials. Conversely, stock selection in the consumer discretionary sector was the major detractor from relative performance, including underweights to Tesla, Apple and Alibaba. The underweight to Tesla and Apple accounted for almost half of the underperformance for the quarter. Stock selection in communication services and industrials further detracted from performance. C Worldwide outperformed the Fund benchmark, whilst Boston Partners and Lazard underperformed. The overweight to emerging markets was a contributor, as emerging markets outperformed developed markets over the period.

As the tone was predominately "risk on" for the quarter, bond yields were predominately unchanged. However, as volatility entered the market in September, investors rotated into bonds, boosting performance. Credit allocations similarly had a positive quarter. Pleasingly, all fixed income underlying managers outperformed the benchmark, leading to a 0.71% outperformance of the sector for the quarter. Listed property also outperformed, generating a positive return in what was a difficult period for many businesses the sector.

Unlisted property assets were broadly flat for the period, as has been the case for most of the year. Exposure to infrastructure via the AMP Capital Community Infrastructure Fund continued to be a source of stable returns, uncorrelated from equity market moves given that its assets earn revenue on an availability basis.

## 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

Global share markets rose strongly in the first half of the September quarter, before pulling back somewhat towards the end of the period to finish up by 6.87%, as measured by the MSCI World ex Australia index. Growing confidence around the speed of the global economic recovery, better than expected corporate earnings, improved manufacturing activity data and reasonably strong US jobs figures all contributed to the strong rise. This was despite some renewed fears around further waves of COVID-19 and more specifically, how governments might

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react to renewed outbreaks. Geopolitical tensions abounded, though this was mostly treated as noise by markets. Towards the end of the quarter, a marked correction in technology stocks occurred, which in turn pulled the broader market down somewhat. Amid a strong Chinese economic recovery and growing demand for commodities, emerging markets also rose over the period, outperforming developed markets and returning 8.65% as measured by the MSCI Emerging Markets index. (All indices quoted in local currency terms and on a total-return basis, unless otherwise stated.)

Australian shares meanwhile 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. The August reporting season helped support the market, with many companies beating unsurprisingly low consensus forecasts. Given the unique COVID-19 backdrop, 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 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.

Global government bond yields moved lower in July, as heightened geopolitical tension and the ongoing struggle to contain COVID-19 held sway over upside surprises in US company earnings. Yields subsequently rebounded amid the inflationary implications of a move by the Fed to adjust its inflation target and with sales and re-financing data pointing to sustained strength in the US housing market. Meanwhile, the prospect of a further US fiscal stimulus package remained elusive, despite the Fed Chair Jerome Powell reiterating that a lack of additional fiscal support represented a "downside risk" to the economic outlook. The US 10-year bond yield ended the quarter three basis points higher at 0.69%.

## Outlook

Looking ahead, the final quarter of the year is poised to be eventful for markets. With the US election, the potential of further monetary and fiscal stimulus and (hopefully positive) news on a vaccine for COVID-19, equity markets are likely to experience bouts of volatility. In some geographic locations, equity markets valuations are stretched and may be poised for a sell-off should market sentiment wane. As such, we remain confident an active approach with a focus on diversification across asset classes will help mitigate risk and benefit the Fund going into year-end. Until there is some certainty surrounding the virus, the likelihood of an effective vaccine and what the global economy will look like going forward, we continue to target a broadly neutral allocation across asset classes, with the exception of direct assets, where we hold an overweight to direct property and underweight to infrastructure. We remain aware for any potential buying opportunities which may arise.

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## Availability

Product Name	APIR
AMP Flexible Super - Retirement	AMP1371AU**
AMP Flexible Super - Super	AMP1500AU**
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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