



Specialist Geared Australian Share

Quarterly Investment Option Update

30 September 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/performance

Investment Option Overview

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

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
International Shares	2.74
Australian Shares	89.05
Listed Property and Infrastructure	4.47
Cash	3.74

Sector Allocation	%
Financials	20.22
Materials	18.87
Consumer Discretionary	10.26
Health Care	9.90
Industrials	7.54
Real Estate	6.68
Communication Services	6.57
Consumer Staples	6.14
Information Technology	5.50
Cash	4.31
Energy	3.27
Utilities	0.74

Top Holdings	%
BHP Group Ltd	7.37
CSL Ltd	4.68
National Australia Bank Ltd	4.32
COMMONWEALTH BANK AUST	3.62
Macquarie Group Ltd	3.35
Rio Tinto Ltd	2.66
Aristocrat Leisure Ltd	2.58
Coles Group Ltd	2.52
James Hardie Industries PLC	2.42
Australia & New Zealand Banking Group Ltd	2.34

Fund Performance

The Fund posted a negative absolute return and underperformed its benchmark over the September quarter (before fees). The Fund's gearing led to this underperformance. One of the Fund's three underlying managers, Vinva, posted a positive absolute return and outperformed the benchmark. The other two, AMP Capital and DNR Capital, posted negative absolute returns and slightly underperformed the benchmark.

Sector allocation contributed positively to relative performance, while stock selection detracted. Regarding sector allocation, the main contributors to relative returns were an underweight exposure to financials and overweight exposures to consumer discretionary and information technology. The main detractors were an underweight exposure to real estate and an overweight exposure to communication services.

Regarding stock selection, the main detractors from relative returns were positions in information technology and real estate stocks, while the main contributors were positions in materials and financials.

The largest individual detractors from relative returns were overweight positions in Treasury Wine Estates and Lendlease, and an underweight position in Afterpay. Global winemaker and distributor Treasury Wine Estates fell sharply (-14.0%) in response to news that China is preparing to levy hefty import duties on Australian wine exports. 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, 'buy now, pay later' financial company Afterpay rallied (+31.2%) after providing a series of strong updates, including upgraded earnings and further global expansion.

The largest positive contributors to relative returns were overweight positions in ALS and James Hardie, and an underweight position in Commonwealth Bank. Laboratory services company ALS shot higher (+40.4%) after a leading broker upgraded the stock due to its new focus on COVID-19 safety. Building materials company James Hardie continued to climb (+20.4%) after reporting resilient Q1 2021 results, with stronger liquidity and financial flexibility. Meanwhile, Commonwealth Bank waned (-7.1%) as further lockdowns in Victoria are expected to delay economic recovery and possibly elevate bad debt levels.

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.

Availability

Product Name	APIR
AMP Flexible Super - Retirement	AMP1352AU
AMP Flexible Super - Super	AMP1481AU
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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