

Alphinity Australian Share

Quarterly Investment Option Update

30 September 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: www.amp.com.au/performance

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%	98.66%
Cash	0%	1.34%

Sector Allocation	%
Consumer Discretionary	6.43
Consumer Staples	4.21
Energy	2.03
Financials Ex Property	26.71
Health Care	14.90
Industrials	9.71
Information Technology	1.96
Materials	21.20
Property Trusts	4.03
Telecommunication Services	3.43
Utilities	1.59

Top Holdings	%
BHP Group Limited	8.21
CSL Limited	8.08
Commonwealth Bank of Australia	7.46
Wesfarmers Limited	4.39
Woolworths Group Ltd	4.21
National Australia Bank Limited	4.18
Macquarie Group Ltd Group Ltd	4.09
Goodman Group	4.03
Transurban Group Stapled	3.61
Newcrest Mining Limited	2.95

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 strategy outperformed over the September quarter. The best contribution to returns came from industrial property play Goodman Group, copper miner Oz Minerals, iron ore miner Fortescue Metals, safety app Life 360, building materials maker James Hardie and not owning either gas producer Woodside Petroleum or infant formula maker A2 Milk. The only detraction of note was from not owning consumer credit provider Afterpay Touch.

Market Commentary

Normally at this time of year the investment manager thinks of springing forward but the market (ASX300 including dividends) failed to do that, essentially being flat for the September Quarter. But there was an increasing sense of optimism in the air as we progressed through September.

The best-performing sectors over the Quarter were Technology and Consumer Discretionary, followed by Property. The worst was Energy, not surprisingly considering the move in the oil price, with Utilities and Banks coming in close behind. Resource companies were steady overall but within that sector there was quite a disparity of returns, with Iron Ore companies doing better than anything else.

Commodity prices kept doing different things during the September quarter. The price of bulk commodities was surprisingly strong, as China's resurgence from the virus continued, and largely as a consequence the \$A rose 4% against the \$US. Iron Ore was the star, starting the quarter at \$A142/tonne before shooting up to \$175 in August before settling back to \$A165 at quarter's end; Coal was higher too. Energy prices however were not, with Oil falling between 4% (Brent) and 9% (Tapis) – great for consumers but less so for energy-producing companies. In precious metals, Gold was a modest 2% higher but Silver had a much wilder ride, finishing the quarter 26% ahead of where it started.

Base metals were mostly stronger, also buoyed by the economic stimulus in China. Copper is generally seen as a precursor of global economic activity, so its rise of 7% was good news for the near future. Zinc and Nickel were even stronger, both up around 10% for the quarter.

There was a wide range of equity market performances around the world: Sweden was best in the September Quarter in \$A terms with 10%, followed by the quickly recovering China (Shanghai) at 9%. The most-developed markets did the best with US, Germany all rising between 4 and 7%. On the negative side, Turkey fell 16%, Brazil, Hong Kong, Singapore and the more troubled European economies all fell by between -4 and -7%. The lead-in to the December quarter though is even more uncertain than usual, with the US Presidential election only weeks away, and the incumbent's health inserting even greater uncertainty.

Outlook

The portfolio continues to be exposed to companies exhibiting earnings leadership across a number of thematics including a broadening of the economic growth recovery, structural growth, and stocks benefiting in some way from Covid. The investment manager thinks a well-diversified portfolio is always a good strategy, but this is especially the case in the current environment.

Companies in the broadening growth category include Resources stocks such as Oz Minerals and BHP as well as hospital operator Ramsay Healthcare, which will benefit from normalising – or possibly even larger than normal volumes – of elective surgery as economies open up. They also expect that even a partial return of domestic flights would result in earnings for Qantas that are ahead of beaten-down market expectations.

Furthermore, the investment has reduced our underweight to the Bank sector as the extensive Government stimulus should at least delay large scale credit losses. More structural growth stocks continue to trade quite expensively but they are maintaining some positions for which they see further earnings upside including industrial property developer Goodman Group and respiratory product maker Fischer & Paykel Healthcare.

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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