Epoch Global Equity Shareholder Yield (Unhedged)

Quarterly Investment Option Update

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

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%	96.9%
Cash	0%	3.1%

Sector Allocation	%
Consumer Discretionary	6.4
Consumer Staples	12.2
Energy	3.7
Financials inclg Real Estate	14.6
Health Care	14.8
Industrials	8.2
Information Technology	14.5
Materials	3.3
Communication Services	7.8
Utilities	11.3

Regional Allocation	%
Australia & New Zealand	0.5
Emerging Markets	2.9
Europe – ex UK	21.0
Japan	2.3
North America	62.9
Pacific – ex Japan, Australia	0.6
UK	6.7

Top Holdings	%
Microsoft Corporation	2.2
Verizon Communications	1.9
Taiwan Semiconductor	1.7
KLA Corporation	1.7
Takeda Pharmaceutical	1.6
Unilever PLC	1.5
Snam S.p.A.	1.5
AbbVie, Inc.	1.4
Allianz SE	1.4
AT&T Inc.	1.4

Portfolio Summary

- The strategy underperformed the broader market, participating in the rally during the beginning of the quarter and providing downside protection in September as markets reversed course.
- Epoch remains committed to maintaining a portfolio of high-quality companies that are well-positioned to deliver their shareholder yield characteristics during these volatile markets. They acknowledge that the Fund may lag during strong market rallies.
- Epoch believes the macro outlook continues to improve, although the pace of recovery has slowed during the last few months. Since March they have expected the economic recovery to trace out the Nike swoosh. Overall, they expect a 90% economy to emerge, with an exceptionally long road back to normal.

Investment Option Commentary

The strategy generated a positive absolute return during the third quarter. Epoch remains committed to maintaining a portfolio of high-quality companies that are well-positioned to deliver their shareholder yield characteristics during these volatile markets. They are happy with the positive return but acknowledge that the strategy may lag during strong market rallies. From an absolute standpoint, strong returns for portfolio holdings in industrials and consumer discretionary led to some of the largest contributions on the sector level. Information technology was another top contributor. Energy was the largest detractor as demand remained subdued. By country, the U.S. followed by Taiwan contributed whereas France detracted.

The Fund underperformed the broader market, participating in the rally during the beginning of the quarter and providing downside protection in September as markets reversed course. Information technology was one of the main detractors during the quarter, driven by stock selection and an underweight, as growth stocks continued to dominate the market up until September. An overweight to utilities and stock selection in the sector also weighed on results, as did stock selection in health care and communication services as pharmaceuticals and telecommunications companies were pressured. On the positive side, stock selection in industrials was the strongest contributor to relative performance, as the outlook for a recovery started to improve. On a country basis, the U.S. was the largest detractor, followed by France, while an overweight to Taiwan modestly contributed due to a semiconductor holding in the country that had strong returns. Among the largest individual positive contributors to absolute performance were United Parcel Service (UPS) & Apple. Among the largest individual detractors were FirstEnergy and Cisco Systems.

Market Commentary

Stocks had a strong quarter as the economy began to recover from the coronavirus lockdown, with workers trickling back to factories and offices. Global trade also rebounded. Ongoing support from central banks, resilient corporate earnings and optimism on progress toward a COVID-19 vaccine also helped lift equities. In July and August, markets were led by a handful of U.S. mega-cap stocks in the information technology, consumer discretionary and communication services sectors. Stocks cooled off in September as an additional coronavirus relief package in the U.S. remained bogged down in congressional gridlock. In Europe, a rise in new coronavirus infections heightened already growing worries over the economic outlook. Nevertheless, stocks ended the period with solid gains.

Outlook

The macro outlook continues to improve, although the pace of recovery has slowed during the last few months. Since March Epoch has expected the economic recovery to trace out the Nike swoosh. Overall, they expect a 90% economy to emerge, with an exceptionally long road back to normal. Further, the COVID shock has acted as an accelerant for several long-standing trends. One is lower for even longer interest rates and a world of yield starvation. The Fed has made it clear that they are “not even thinking about thinking” about hiking rates. The COVID-19 shock has also acted as an accelerant for technology and the digitization/virtualization of the economy. This is being reflected in the shift to working-from-home, EdTech, e-fitness, telehealth, e-Commerce, and so on.

Regarding the U.S. presidential election on November 3, market volatility typically rises ahead of elections, and this year is proving to be no exception. During periods of rising volatility, high-quality companies with strong earnings visibility and sustainable free cash flow, typically outperform. Given this challenging backdrop, the consensus expects MSCI World EPS to decline by 19% this year, and then to rise by 30% in 2021 and 16% in 2022. Valuations imbed aggressive earnings growth expectations, and lower for longer interest rates, leaving little room for error. This is especially important as we begin Q3 earnings season. Last quarter the vast majority of companies announced above consensus, but most also emphasised the elevated level of uncertainty, a perspective that was reflected in the relative lack of guidance for the remainder of the year and into 2021. Finally, it is especially crucial in this environment to identify companies that have sustainable cash flows and are focused on maintaining their dividends.

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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