

# AMP Capital Ethical Leaders Balanced

Quarterly Investment Option Update

31 December 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>	Medium to High
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

Asset Allocation	Benchmark (%)
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

Actual Allocation	%
International Shares	34.51
Australian Shares	26.57
Listed Property and Infrastructure	1.72
Unlisted Property and Infrastructure	7.59
Growth Alternatives	1.10
International Fixed Interest	12.75
Australian Fixed Interest	13.79
Cash	1.97

## Fund Performance

The Ethical Leaders Balanced Fund produced a strong positive return for the December quarter. On a gross basis, the Ethical Leaders Balanced Fund generated a low double-digit return over the past six months and concluded the year ahead with a 5.6% gain. Geopolitics, stimulus relief and COVID-19 news dominated sentiment over the quarter – but for all the right reasons; with the welcomed announcement of COVID-19 vaccines, the signing of the Coronavirus Aid, Relief, and Economic Security (CARES) Act in the US and the confirmation of Joe Biden as the President Elect of the United States finally providing a resolution to the election. Over the quarter, benchmark relative performance was positive. Much of this can be attributed to the strong performance of the underlying equity managers relative to benchmark.

The Australian equities allocation produced a positive return over the quarter, outperforming the ASX 200 by 0.4%. Stock selection was particularly strong within the materials and communication services sectors, as was the underweight to consumer staples. This was offset by an underweight to financials and an overweight to health care, while stock selection in the consumer discretionary sector also detracted from the Fund. At a stock level, a nil holding of Newcrest Mining, as well as overweights to REA Group and Virgin Money UK, were the strongest contributors. On the flip side, underweights to Commonwealth Bank and ANZ, along with an overweight to IPH detracted from performance. Despite strong absolute performance by the Fund, DNR was the only manager to outperform the benchmark.

Both stock selection and sector allocation contributed to the strong 2.0% outperformance over the December quarter by the international equities allocation. Stock selection was particularly strong within information technology, including through overweights to Samsung Electronics, TSMC and Applied Materials. Stock selection in consumer discretionary and health care further contributed to performance. Conversely, stock selection in the consumer staples sector was the major detractor from relative performance, including through overweights to Kimberly-Clark and Procter & Gamble. At the manager level, Boston Partners and the Ethical Leaders Emerging Markets Fund outperformed the Fund benchmark, whilst Lazard and C Worldwide underperformed. The overweight to emerging markets was a contributor to the outperformance of the international equities allocation, as they outperformed developed markets.

The fixed income allocation posted a small positive return in the December quarter and outperformed the benchmark. Credit allocations were key contributors to outperformance over the period, whilst broader Australian and global bond allocations ended the period largely flat.

Finally, the Fund's allocation to global listed property was a slight drag on relative performance. Although the allocation posted a strong return for the quarter (+3.3%), it was unable to keep pace with the benchmark. Listed property was given a long-awaited boost by the positive news on the COVID-19 vaccine and stimulus front, but still has a long way to go to claw back value lost this year.

## Environmental Social Governance

During the period, we enhanced our fossil fuel investment screen so that all Ethical Leaders (EL) funds will move towards being fossil fuel-free. Our fund managers also continued to address climate change. **DNR Capital** engaged with several companies to discuss their transition plans to renewables, carbon neutral targeting, and other green energy initiatives.

EL fund managers also remained focussed on the COVID-19 pandemic and its impact on human rights, as the pandemic has increased worker vulnerability and pushed more people into modern slavery. Our managers are collaborating to engage with companies to address issues in the companies' supply chains. **Ausbil** participated as a panellist at the 2020 RIAA Conference (Responsible Investment Association Australasia) and co-signed an investor statement on forced labour risks in global supply chains.

They also successfully engaged with several companies on corporate governance. **Ausbil** met with National Australia Bank (NAB) to discuss its upcoming annual general meeting. They primarily considered the companies' changed remuneration structure. The manager also engaged Aristocrat Leisure on how they are addressing culture across their global offices.

## Market Review

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International shares produced a very strong performance over the December quarter, rising by 12.33% as measured by the MSCI World ex Australia index. This capped off a strong 2020 calendar year return of 13.77% which was achieved despite the record-breaking crash in early 2020. Shares fell early in the quarter as COVID-19 numbers continued to rise in many parts of Europe and the US, leading some countries to reintroduce social distancing restrictions, which in many cases have been shown to be devastating to economies and businesses. Mid-quarter however, the market received a huge boost from announcements of successful COVID-19 vaccine trials from Moderna, Pfizer and Oxford-AstraZeneca. These vaccines were shown to be around 95% effective in preliminary results. Approval and initial rollout have now already occurred in some countries, with markets closely watching for medical results and data. The other major story over the quarter was the US election, with a Biden win finally confirmed in very early January 2021, as was a Democrat victory in both the Senate and the House. Markets broadly reacted positively as results increased in clarity through the period. On one hand, a Democrat victory is seen by some as positive for the US economy, as greater direct stimulus is now likely to be approved, which will provide some much-needed financial help for many, others see potential debt issues and increased taxation for businesses as likely issues down the track. In other positive news for markets, the UK and Europe also finally agreed on a Brexit deal at year-end, over 4 years after the referendum, allowing markets to put much of the related uncertainty into the rear-view mirror. Emerging markets, meanwhile, were also very strong over the period and outperformed their developed market peers, as economies continued to recover and resource prices rose strongly. The MSCI Emerging Markets index closed the quarter up by 16.02%. (All indices are quoted in local currency terms and on a total-return basis, unless otherwise stated.)

Australian shares had an extremely strong December quarter, rising by 13.70%, as measured by the S&P/ASX 200 index on a total return basis. Moves in the Australian share market broadly reflected optimistic sentiment around the globe. In October, stocks rose amid improving domestic economic indicators, as well as further stimulus measures introduced in the Australian Federal Budget. Victoria also announced its intention to "reopen" its economy after one of the harshest lockdowns so far seen. An RBA rate cut, combined with a quantitative easing programme announcement in the first week of November further spurred stocks, although the real booster came shortly after when multiple successful vaccine trials were announced overseas, causing markets to surge. Victoria also continued to emerge from its second wave of COVID-19 cases, with the virus apparently all but eliminated across the state by the end of November. Towards the quarter's end, news-flow continued to centre around the rollout of COVID-19 vaccines, though continued solid economic indicators in the US and a Brexit deal finally being reached in the UK added further support. The Australian economy meanwhile moved out of recession and this, combined with improving consumer confidence, continued ultra-low interest rates and continued RBA quantitative easing, all helped push markets higher, even despite a new COVID-19 outbreak emerging in Sydney just after Christmas. On a sector basis, energy, information technology and financials were the standout performers, while the only negative performances came from defensives such as health care and utilities.

Data evidence of resilience in the US housing sector underpinned strength in US bond yields early in the December quarter, notwithstanding market caution ahead of the US presidential election. Yields were further boosted by the successful clinical trial and regulatory approval of the COVID-19 vaccine developed by Pfizer and its German partner BioNTech, and subsequent moves towards the commencement of mass inoculation. Central banks maintained their commitment to providing financial market support, with the US Federal Reserve undertaking to continue asset purchases "at least at the current pace" over "coming months", along with a similar undertaking from the European Central Bank. The US 10-year bond yield ended the quarter 23 basis points higher at 0.92%. The German 10-year bond yield declined by five basis points to -0.57% and its Japanese counterpart rose by one basis point to 0.02%. Global bonds, as measured by the Bloomberg Barclays Global Aggregate Index (hedged), returned 0.79% for the period (in Australian dollar terms).

Stimulus measures implemented in response to the impacts of COVID-19 have clearly bolstered the domestic economy, with a study from the Reserve Bank of Australia showing that the JobKeeper wage subsidy scheme reduced total employment losses by at least 700,000 over the period from April to July, bolstering sentiment within the fixed income market. Domestic economic news flow during the December quarter was highlighted by a rise of 3.3% in gross domestic product in the third quarter, following a record 7.0% fall in the previous quarter. The rebound was largely driven by household spending which rose sharply following the easing of lockdown restrictions in Victoria. The Commonwealth Government 10-year bond yield rose by 18 basis points over the quarter to 0.97%, while its 2-year counterpart ended nine basis points lower at 0.07%. Total returns for Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, were -0.16% for the period, in Australian dollar terms.

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## Outlook

Looking ahead, we remain cautiously optimistic for 2021. Positive market momentum has continued into the start of the new year. The continuation of easy monetary policy, fiscal stimulus, rollout of vaccines and the resolution of many geopolitical concerns has benefitted markets. However, COVID-19 remains the key driver of market volatility. As the northern hemisphere continues to experience an uptick in cases, an increased focus on vaccine distribution and efficacy is likely to be at the forefront of markets. This, alongside the sharp 'v-shape' recovery experienced in the second half of 2020, leaves markets susceptible to a correction. Should volatility reappear, it is important for members to remain focused on the long term.

The Fund maintains a broadly neutral position across a diversified range of asset classes. Given the strong gains in equity markets in December, we will monitor opportunities to take profits where applicable. In addition, the Ethical Leaders range of funds have successfully transitioned towards being "fossil fuel free" – enhancing our capability in delivering an environmentally responsible product for members.

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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 and existing investors

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