

Alphinity Australian Share

Quarterly Investment Option Update

31 March 2021

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 amp.com.au/performance

Investment Option Overview

Investment Category	Australian Shares
Suggested Investment timeframe	At least 5 years
Relative risk rating	6 / High
Investment style	Growth

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	97.74
Cash	0	2.26

Sector Allocation	%
Consumer Discretionary	7.35
Consumer Staples	4.16
Energy	3.46
Financials Ex Property	32.33
Health Care	11.46
Industrials	8.11
Information Technology	0.81
Materials	23.88
Property Trusts	3.13
Telecommunication Services	1.77
Utilities	0.00

Top Holdings	%
BHP Group Limited	9.23
Commonwealth Bank of Australia	8.82
CSL Limited	6.84
National Australia Bank Limited	5.80
Australia And New Zealand Banking Group Ltd	4.75
Macquarie Group Ltd	4.26
Woolworths Group Ltd	4.16
Wesfarmers Limited	3.94
Goodman Group	3.13
Westpac Banking Corporation	2.97

Portfolio Summary

- For the quarter ending Mar-2021, the Fund outperformed the market benefitting its holdings in resource exposures.
- The Manager recognises that consumer spending patterns have changed during COVID, however understands that it will normalise overtime. Therefore, the manager remains well invested in quality retailers.

Investment Option Commentary

The Fund outperformed the market during the March quarter. It benefitted from its holdings in resource exposures Oz Minerals, BHP and Fortescue Metals, while not owning infant formula maker A2 Milk, supermarket Coles Group or gold producer Northern Star, which all underperformed, also added to returns. Major detractors from performance were gold producer Newcrest, vaccine maker CSL, toll road operator Transurban, industrial property developer Goodman Group, tech exposure Megaport and being underweight gas producer Woodside Petroleum.

Market Commentary

The strength of the economic recovery and its flow-on effect on bond yields are likely to continue to dominate the investment debate for the next several months. On the economic front, data continues to come in ahead of expectations and this has positive implications for corporate earnings. With the vaccine rollout well underway in many countries and few signs of fiscal stimulus being meaningfully reined in, the economic outlook in much of the world remains positive. Australia's own vaccination program has been progressing more slowly. While disappointing for those looking forward to an overseas holiday, the success in keeping the virus at bay should significantly limit any economic fallout from this delay.

Bond yields still appear too low in this context but may, having increased significantly over a short period of time, consolidate around current levels until more data on the progress of inflation and the durability of the economic outlook becomes available. While earnings growth remains solid and there are multiple sources of further upside from things like lower bad debt charges for the Banks, commodity prices staying high for Resource companies and the ongoing general reopening of the economy, this now appears largely reflected in share prices, with the Australian equity market now having more than recovered all of its Covid-induced decline.

Further upside in the short term is thus likely to require a sustained fall in bond yields driven by reduced inflation concerns, or even stronger earnings growth. While neither is an impossible outcome, they are also not things the Fund would be willing to rely on.

Outlook

With few changes in terms of the overall view of the world and following the solid earnings upgrades experienced across the portfolio during the February reporting season, the Fund does not see any reason to make significant changes to the overall portfolio positioning, which worked well in February and March.

The Fund continues to be disciplined and take profits in the Resource sector as the share prices and short-term earnings expectations of many resource companies have risen in tandem. There remains significant earnings upside for many of these companies from FY22 onwards if the prices of many commodities, especially iron ore and copper, hold at anywhere near current prices. However, FY21 earnings are now increasingly factoring in prices around spot and have limited confidence in prices remaining at current levels for the next 12-15 months.

Following the sharp selloff earlier in the quarter in some of the more yield-sensitive sectors, like Technology and many high multiple stocks, the rebound over the last few weeks as bond yields stabilised has been equally swift. The Fund continues to see many of these stocks as being vulnerable to further interest rate increases over the course of the year, but the selloff did create some opportunities which allowed the Fund to take advantage of.

For some time, it is argued that the market has been too quick to discount the changes in consumer spending patterns due to Covid. While it is recognised that they will normalise over time, the latest setbacks in Australia's vaccination programs are likely to reinforce and further extend these consumption trends. As such, the Fund remains well invested in quality retailers such as Super Retail Group and Wesfarmers.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1608AU
AMP Flexible Super - Retirement	AMP1617AU
CustomSuper	AMP0345AU
Flexible Lifetime - Super	AMP0345AU
Flexible Lifetime - Allocated Pension	AMP0629AU
Flexible Lifetime - Term Pension	AMP0936AU
Flexible Lifetime - Investments (Series 1)	AMP0834AU**
Flexible Lifetime - Investments (Series 2)	AMP1639AU**
SignatureSuper	AMP0805AU
SignatureSuper - Allocated Pension	AMP1164AU

**Closed to new and existing investors

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