Macquarie Wholesale Australian Equities

Quarterly Investment Option Update

31 December 2021

Aim and Strategy

The fund aims to outperform the S&P/ASX 300 Accumulation Index over the medium term (before fees). It aims to provide capital growth and some income.

The fund follows a quantitative strategy which utilises a risk-controlled approach to identify mis-priced securities. To achieve this, the Fund will utilise a set of systematic and event driven strategies. The systematic strategies aim to capture Quality, Momentum, and Value characteristics that have historically generated reliable excess returns in the Australian market.

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	3-5 years
Relative risk rating	7 / Very High
Investment style	Quantitative
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100.00	97.13
Cash	0.00	2.87

Sector Allocation	%
Energy	4.64
Materials	21.43
Industrials	4.63
Consumer Discretionary	8.64
Consumer Staples	3.68
Health Care	10.96
Financials	29.38
Real Estate	4.70
Information Technology	2.76
Communication Services	6.30
Utilities	0.00

Top Holdings	%
Aristocrat Leisure Limited	1.62
Bluescope Steel Limited	1.45
IGO Ltd	1.42
Oz Minerals Limited	1.31
CSR Limited	1.31
BHP Group	1.30
Santos	1.24
Nine Entertainment Co	1.07
Medibank Private Ltd	1.06
Sonic Healthcare Limited	1.04

Investment Option Commentary

The biggest contributors to relative performance for the quarter included overweight positions in IGO Ltd (IGO), Oz Minerals Limited (OZL) and Charter Hall Group (CHC).

Copper and gold mining company Oz Minerals Limited (OZL) outperformed this quarter, making gains of 25.4%. This can be partly attributed to rising copper prices, driven by an increase in Chinese copper imports as electricity rationing eased creating a rebound in manufacturing activity. During October, OZL confirmed that it was on track to meet 2021 copper production guidance.

Lithium and nickel miner IGO Limited (IGO) also outperformed this quarter off the back of rising lithium prices. This has been driven by tight supply and ongoing demand for electric vehicles. IGO also announced plans to acquire Western Areas (WSA) for A$3.36 cash per share via a Recommended Scheme of Arrangement. Western Areas is an Australian nickel producer, and this transaction delivers strategic alignment with IGO's clean energy focus. The acquisition will be funded by IGO's cash reserves and A$900M debt facility, resulting in no dilution to IGO shareholders.

The main detractors from relative performance included overweight positions in Santos (STO), Whitehaven Coal (WHC) and Aristocrat Leisure (ALL).

Thermal coal producer, Whitehaven Coal (WHC), experienced a material share price pullback during the quarter, driven by a retracement in the spot thermal coal price. Following a strong run throughout 2021, the thermal coal price peaked at US$250/t in October, before ending the year at US$171/t.

Gaming technology company Aristocrat Leisure (ALL) underperformed this quarter following weakness in the technology sector and ongoing updates regarding its bid for Playtech. Despite an initial recommendation from the Playtech Board for shareholders to accept the bid, there have been proposed counterbids that could impact this endorsement. Playtech is a British gambling software development company that creates platforms and content for the global gambling industry.

As at 31 December 2021, the largest overweight positions in the Fund were Aristocrat Leisure (ALL), BlueScope Steel Limited (BSL) and IGO Ltd (IGO).

Market Commentary

The Australian equity market made further gains during the final quarter of the year, with the S&P/ASX 200 Accumulation Index and the S&P/ASX 300 Accumulation Index finishing the quarter up 2.09% and 2.21% respectively. This contributed to a strong positive calendar year for Australian equities with the two benchmarks up 17.23% and 17.54% respectively.

The COVID-19 situation remained a key driver of markets in the quarter. The emergence of the Omicron variant led to sharp falls in November, attributed to rising case numbers internationally and the reinstatement of various lockdowns and restrictions. Despite this, December saw generally stable hospitalisation rates and growth in the number of booster shots administered, contributing to a relatively neutral initial reaction from markets. Inflation continued to be a key theme for investors this quarter. The US inflation rate hit a record high of 6.8% at the end of November, resulting from ongoing supply chain delays and rising cost of capital and cost of doing business. Although inflation was on par with expectations in December, the US Federal Reserve has indicated that policy tightening may occur sooner than expected given inflation is less transitory than first thought.

Domestically, company annual general meetings throughout the quarter generally revealed positive market outlooks, although these were prior to the Omicron surge in late December. There was an increase in shareholder resolutions, particularly those regarding climate change. These resolutions, put forward by shareholder groups and activist investors, demand more rigorous reporting and action on emissions. The Australian market ended the quarter a laggard compared to other developed markets, sitting 5.6% behind the MSCI World All Countries Index (+7.1%). MSCI China continued to be the worst-performer, falling 6.2% in the quarter, following a more controlled regulatory environment and ongoing push for 'common prosperity'.

In sector news, the best performing sectors for the quarter were Materials (+12.7%) and Utilities (+11.4%). The strong reversal in Materials following the June quarter declines can be attributed to a rebound in iron ore prices and in the US, Joe Biden's signing of a $1.2 trillion infrastructure investment plan in November. Utilities were also up as investors anticipate changes to electricity prices in 2022. Energy (-8.8%) dragged on markets this quarter, due to weaker commodity prices, alongside Information Technology (-6.1%).

Commodities were predominantly negative for the quarter. Natural Gas (-39.4%) experienced the largest loss, resulting from concerns about Omicron's impact on oil demand and reports of warmer than expected weather in both the US and Europe. Thermal Coal (-22.2%) and Uranium (-27.2%) were also down this quarter. Cuts to the one-year lending rate by the People's Bank of China contributed to a slight recovery in iron ore prices, however they were still down 6.0% for the quarter.

Bond yields fluctuated slightly during the December quarter, driven by Omicron concerns. The Australian 10-year government bond yield increased by an ample 18 basis points to 1.67%. The US 10-year yield remained flat, falling 1 basis point to 1.51%.

The AUD was steady against the USD, appreciating marginally by 0.4c to end the quarter at US$0.727. In the domestic economy, the RBA maintained the cash rate at 0.10%.

Outlook

As rules surrounding isolation and testing continue to be relaxed in Australia, economic activity and markets are expected to gradually normalise. However, investor focus remains on the impact of the Omicron variant and potential emergence of further virus mutations.

Domestically, the economic rebound continues to be a key theme for investors, with the easing of restrictions being met with strong consumer and corporate demand. However, ongoing supply chain impacts may weigh on near-term growth. With a Federal election expected in May, government policy will be an important contributor to economic activity in the coming months.

In global markets, inflation above pre-COVID levels will continue to impact investment decisions. As a result, central bank policy should be monitored closely by investors, with higher interest rates likely throughout 2022.

Availability

Product name	APIR
SignatureSuper*	AMP0957AU

* Closed to new investors

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