

Responsible Investment Leaders Australian Share



Quarterly Investment Option Update

30 June 2018

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the S&P/ASX 200 Accumulation Index on a rolling 5 year basis. The portfolio primarily invests in shares listed on the Australian Securities Exchange and is managed using a Responsible Investment approach.

In certain market conditions, the portfolio may hold a higher level of cash.

Investment Option Performance

To view the latest investment performances please visit www.amp.com.au

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1032AU
AMP Flexible Super - Retirement account	AMP1370AU
AMP Flexible Super - Super account	AMP1499AU
CUSTOM SUPER	AMP1032AU
Flexible Lifetime - Allocated Pension	AMP1021AU
Flexible Lifetime - Term Pension	AMP1042AU
Flexible Lifetime Investment	AMP1055AU
Flexible Lifetime Investment (Series 2)	AMP1433AU
Signature Super	AMP0976AU
Signature Super Allocated Pension	AMP1172AU

Investment Option Overview

Investment category	Australian Equities
Suggested investment timeframe	5-7 years
Relative risk rating	High
Investment style	Responsible investing / Multi-manager

Asset Allocation	Benchmark	Range (%)
Australian Shares	100	90-100
Cash	0	0-10

Top Ten Australian Share Exposure	%
BHP Billiton Ltd	7.61
Westpac Banking Corp	6.37
National Australia Bank Ltd	6.33
COMMONWEALTH BANK AUST	5.71
CSL Ltd	4.93
Macquarie Group Ltd	4.42
Rio Tinto Ltd	3.22
Australia & New Zealand Banking Group Ltd	2.98
Woodside Petroleum Ltd	2.44
LendLease Group	2.12

Industry Exposure	%
Financials	31.44
Materials	19.44
Health Care	13.71
Industrials	7.69
Information Technology	5.51
Energy	5.10
Real Estate	4.67
Consumer Staples	3.75
Consumer Discretionary	3.39
Cash	3.28
Utilities	1.21
Telecommunication Services	0.83
Unclassified	0.00

Portfolio Summary

- > The Fund posted a positive return and comfortably outperformed its benchmark over the June quarter.
- > All of the Fund's four managers posted positive returns as optimism across markets increased.
- > Australian shares performed strongly, driven by higher commodity prices and a rising US dollar which benefited BHP and CSL.

Investment Option Commentary

The Fund posted a positive return for the June quarter, comfortably outperforming its benchmark. All of the Fund's underlying managers posted positive returns, with two of the Fund's four managers outperforming the benchmark, namely Bennelong and DNR. AMP Capital and Ausbil underperformed the benchmark after performing strongly in the March quarter.

Stock selection was the main contributor to relative returns over the quarter, with asset allocation also contributing to returns. From stock selection perspective, performance was particularly strong in the financials, materials, consumer staples and industrials sectors, while information technology and healthcare detracted the most from returns.

In terms of asset allocation, the Fund benefited from the most from an overweight position in health care and an underweight position in telecommunication services. In contrast, underweight allocations to consumer staples and real estate and an overweight position in industrials weighed on performance.

At the stock level, an overweight position in Macquarie Group (+24%) and underweight positions in Telstra Corporation (-17%) and AMP (-29%) contributed the most to returns. During the quarter Telstra held its strategy day, which included providing investors with earnings guidance for the 2019 financial year that was well below market expectations.

The largest detractors included underweight positions in Aristocrat Leisure (+30%) and Woolworths Group (+16%) and an overweight position in Link Administration Holdings (-12%). The Fund does not invest in Aristocrat Leisure or Woolworths due to exclusion of companies which operate in areas of high negative social impact such as gambling and alcohol sales. During the quarter, Woolworths Group provided an update on the sale of the company's petrol business to BP, revealing that BP will not continue with the purchase. The Australian Competition and Consumer Commission was proving a difficult hurdle and now Woolworths will look to potentially float this business.

Market commentary

Australian shares were up very strongly in the June quarter, the S&P/ASX200 Accumulation Index soaring 8.5% during the period. Energy and healthcare were the standout sectors for the quarter, rising 19.7% and 16.5% respectively, largely driven by rising resources prices and the rising US dollar; which is heavily tied to the earnings expectations for many Australian businesses, notably (and respectively) BHP and CSL, who were the market's top contributors for the quarter. Telecommunications was the only negative performing sector, down 13.7% for the period, as Telstra fell further on continued shorter-term concerns of reducing profits and dividends, despite the business announcing cost-cutting to be on track and further detailing their new strategy to gain market share. Meanwhile, one of the top performing stocks was poker machine manufacturer Aristocrat Leisure, which rose by 29.2% over the June quarter as the company announced soaring revenue amid strong growth in its digital gaming division.

Outlook

Top-line growth remains elusive for Australian shares, with many companies still focussing on cost-cutting. Banking profitability is also likely to be constrained by macro-prudential and capital-holding requirements. Banking stocks are also likely to see ongoing volatility until the final Royal Commission's final findings are released. Credit is also likely to be constrained as banks tighten lending standards. In the general economy, investors should benefit by being highly selective and focussing on companies with strong business models that are more cyclical and which tend to perform well as global economic activity picks up. The mining sector remains highly susceptible to any pause in activity from China.

Continuing work in AMP Capital's key engagement themes

The Responsible Investment Leaders' (RIL) managers continued their engagement activities in the second quarter of 2018. Over the June quarter, responsible finance remained in focus amid investigations by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. RIL managers, including Bennelong and AMP Capital, engaged with companies in an effort to understand the impact of the Royal Commission on the business and customers. These meetings represented an opportunity to discuss company culture and how to rebuild trust with customers. Climate change remained a headline, with managers continuing to engage companies on the need to disclose climate change risk consistent with the guidelines outlined by the Taskforce for Climate-related Financial Disclosure. In terms of environmental initiatives, RIL International Shares manager Stewart Investors has been working on a plastics packaging round table in India, in an effort to identify ways in which the use of plastics in packaging can be reduced.

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