# AMP Capital Equity Income Generator

## Quarterly Investment Option Update

30 September 2018

## Aim and Strategy

To provide annual dividend income (including franking credits) above the dividend income of the performance benchmark, the S&P/ASX 200 Accumulation Index (adjusted to include franking credits). The option also aims to provide a total return (including franking credits) in excess of the performance benchmark on a rolling 5 year basis. The option invests in an actively managed portfolio of Australian securities listed, or about to be listed, on the Australian Securities Exchange. The strategy also aims to provide these returns with a lower volatility than the broader Australian equity market.

| Top Holdings | % |
|---|---|
| BHP Billiton Ltd | 10.94 |
| Australia & New Zealand Banking Group Ltd | 7.12 |
| Macquarie Group Ltd | 3.51 |
| Westpac Banking Corp | 3.43 |
| Woolworths Group Ltd | 3.42 |
| COMMONWEALTH BANK AUST | 3.20 |
| National Australia Bank Ltd | 3.17 |
| Woodside Petroleum Ltd | 2.92 |
| Rio Tinto Ltd | 2.78 |
| QBE Insurance Group Ltd | 2.69 |

## Investment Option Performance

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

## Investment Option Overview

| | |
|---|---|
| **Investment category** | Australian shares |
| **Suggested investment timeframe** | 5 years |
| **Relative risk rating** | High |
| **Investment style** | Active |

| Asset Allocation | Benchmark |
|---|---|
| Australian shares | 100 |
| Cash | 0 |

| Sector Allocation | % |
|---|---|
| Financials | 29.74 |
| Materials | 21.37 |
| Industrials | 8.66 |
| Consumer discretionary | 6.93 |
| Real estate | 6.78 |
| Consumer staples | 5.44 |
| Utilities | 5.26 |
| Energy | 5.10 |
| Health care | 5.00 |
| Telecommunication services | 2.79 |
| Cash | 2.19 |
| Information technology | 0.75 |

## Fund Performance

The Fund produced a modest positive return in the September quarter. The portfolio's defensive positioning aided capital preservation, particularly during the market sell-off experienced late in the quarter and the fund is well placed should the sell-off continue. We remain focused on delivering stable, tax effective monthly income for retirees, and the monthly distribution was in line with our guidance provided.

We see the market as entering into the mature part of the cycle as evidenced by lacklustre profit growth, high dividends and payout ratios and margin pressure as disruption challenges some sectors. As a result, rather than chasing yield, our focus is on ensuring the companies we invest in have strong cash flow prospects, exhibit strength in their balance sheets, and show greater dividend stability in the event of a downturn. At a high level, our portfolio positioning reflects our view that a range of traditional large cap yield sectors, such as banks, are facing headwinds given the maturity of the cycle. In favour of these traditional large cap names, the fund has instead moved to increase its exposure to mid- and small-cap stocks, particularly those where we see strong balance sheets, sustainable dividends, and a stronger growth outlook than for traditional large cap sectors. At a sector level, the fund favours the diversified financial sector; stocks such as Genworth Mortgage Insurance, QBE Insurance, Janus Henderson Group, and Macquarie Group. The diversified financial sector provides a desirable mix of high fully franked dividends, good expected dividend growth and some relative shelter from headwinds typically associated with a rising rate environment. Other favoured sectors are media, mining and utilities. For the latter, companies such as and APA Group and AGL Energy are preferred due to their defensible income streams. In all, the portfolio is built around companies and sectors which provide strong dividend growth prospects, or highly defensible income streams and can therefore underpin the objective of delivering stable tax-effective income.

## Outlook

Many stocks in Australia are offering reasonable earnings growth or attractive yields. As always, the quality of the portfolio's underlying businesses is very important, and we believe it's prudent that long-term investors retain a bias to companies with strong competitive advantages, solid cash flows and manageable amounts of debt. Australian banks, which account for a large proportion of the market, remain profitable despite continued negative sentiment from the ongoing Royal Commission, though there are some headwinds emerging in the form of falling property prices and rising funding costs. Australian companies which earn large proportions of their revenue in US dollars are likely to continue to benefit from a lower Australian dollar, assuming the US dollar remains buoyant, which we believe to be a reasonable synopsis given the momentum of interest rate rises by the US Federal Reserve.

## Availability

| Product name | APIR |
|---|---|
| Flexible Lifetime - Investments (Series 2) | AMP2044AU |
| CustomSuper | AMP9036AU |
| Flexible Lifetime - Allocated Pension | AMP9038AU |
| AMP Flexible Super - Retirement account | AMP9037AU |
| AMP Flexible Super - Super account | AMP9035AU |
| SignatureSuper | AMP9039AU |
| SignatureSuper - Allocated Pension | AMP9040AU |
| AMP Flexible Lifetime Super | AMP9036AU |

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