

# Schroder Australian Equities

Quarterly Investment Option Update

30 September 2018

## Aim and Strategy

To outperform the S&P/ASX 200 Accumulation Index after fees over the medium to long term by investing in a broad range of companies from Australia and New Zealand. With an established pedigree of investing in Australian equities for over 50 years, the Schroder Australian Equity option is an actively managed core Australian equity portfolio with a focus on investing in quality stocks predominantly in Australia characterised by strong returns on capital with a sustainable competitive advantage. The option draws on Schroders' deep research capabilities, with a long term focus on investing, it is suitable as a core portfolio holding over the medium term to long term.

## Investment Option Performance

To view the latest investment performances for each product please visit [amp.com.au](http://amp.com.au)

## Investment Option Overview

<b>Investment category</b>	Australian Shares
<b>Suggested investment timeframe</b>	3 - 5 years
<b>Relative risk rating</b>	6 / High
<b>Investment style</b>	Core

Asset Allocation	Benchmark (%)	Actual (%)
Equities	95%-100%	97.8%
Cash	0%-5%	2.2%

Sector Allocation	%
Energy	4.8
Materials	26.4
Industrials	9.3
Consumer Discretionary	4.4
Consumer Staples	6.7
Health Care	1.6
Information Technology	0.5
Communication Services	7.1
Utilities	2.5
REITs	3.9
Financial (ex Property Trusts)	30.7
CASH	2.2

Top Holdings	%
BHP Billiton Limited	7.5%
Commonwealth Bank of	7.0%
ANZ Banking Group Ltd.	5.3%
Rio Tinto Limited	4.9%
Westpac Banking Corporation	4.8%
Telstra Corporation Limited	4.1%
National Australia Bank	4.0%
Woolworths Group Ltd	3.8%
Santos Limited	2.8%
Brambles Limited	2.6%

## Portfolio Summary

Majority of the performance during this period can be attributed to stock selection whereas asset allocation in aggregate was negative. The Fund's overweight position in Communication Services and underweight to Financials (ex-property) have contributed to the relative outperformance. Working against the Portfolio were underweight allocation to Healthcare and Information Technology, sectors that have enjoyed continued strong momentum growth. Materials sector lagged during the quarter, coupled with Funds overweight position, it detracted from overall performance. Overweight to Healthcare sector has also detracted value from the Fund.

At a stock level the Funds overweight positions in Telstra, Brambles and Santos were the top contributors to the performance. Detracting from the Funds' performance were overweight to Iluka, Fletcher Building and Woolworths as well as underweight to CSL.

## Market Commentary

Policy has driven equity market returns for the past 30 years. The more leverage had to financial assets and falling rates, the better the equity performance, firstly as a consequence of policy designed to shed inflation, and latterly as a consequence of global QE. The Fund Manager's base case is that policy will drive the next decade's equity market returns as well, just a much broader policy set. The unwind of QE will be a big deal; the past month has seen nascent signs of this, however it is early in this process and the headwinds to date have unwound, but a fraction of the tailwind enjoyed through the past decade. Apart from the increase in interest rates, however, government policy will be a massive deal for shareholders – in many cases, literally, the government is deciding what return is acceptable for certain industries, and this determination can change meaningfully through time.

In short, policy has been accommodative for equity returns in many ways through the past decade. Low interest rates globally through monetary policy, deflationary pressure upon the prices of traded goods through free trade, and light touch regulation of the prices of regulated services in areas such as finance and utilities have seen equity returns soar.

## Outlook

Several of the monochromatic tailwinds for ASX investors through the past decade – policy with respect to interest rates, trade and regulation – have become headwinds. This may see profits for companies across almost all sectors revert to more sustainable levels, but in return see multiples for industrial stocks, which had hit all time highs through the past quarter, revert materially. Stocks where the major source of return for investors has been rerating more bear scrutiny, as the momentum trade matures.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0465AU
AMP Flexible Super - Retirement account	AMP1375AU
AMP Flexible Super - Super account	AMP1504AU
CustomSuper	AMP0465AU
Flexible Lifetime - Allocated Pension	AMP0636AU
Flexible Lifetime - Term Pension	AMP0944AU
Flexible Lifetime Investment	AMP0995AU
Flexible Lifetime Investment (Series 2)	AMP1438AU
SignatureSuper	AMP0813AU
SignatureSuper Allocated Pension	AMP1177AU
SignatureSuper Select	AMP0813AU

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