Alphinity Australian Share

Quarterly Investment Option Update

31 December 2018

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

Investment Option Overview

Investment category	Aust. Shares
Suggested investment timeframe	At least 5 years
Relative risk rating	6 / High
Investment style	Growth

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100%	97.12
Cash	0%	2.88%

Sector Allocation	%
COMMUNICATION SERVICES	2.66%
CONSUMER DISCRETIONARY	1.46%
CONSUMER STAPLES	9.18%
ENERGY	4.34%
FINANCIALS EX PROPERTY	36.38%
HEALTH CARE	8.40%
INDUSTRIALS	6.87%
INFORMATION TECHNOLOGY	2.35%
MATERIALS	13.51%
PROPERTY TRUSTS	5.98%
UTILITIES	2.54%

Top Holdings	%
BHP Group Limited	8.10%
Commonwealth Bank of Australia	7.75%
CSL Limited	7.28%
Australia And New Zealand Banking Grour	5.70%
National Australia Bank Limited	4.85%
Macquarie Group Ltd	4.37%
Westpac Banking Corporation	4.25%
Goodman Group	3.35%
Rio Tinto Limited	3.16%
Wesfarmers Limited	3.03%

Portfolio Summary

- The manager has reduced the overall risk to the portfolio of a worse global growth slowdown and are largely invested in companies which, in general, have below-market levels of gearing and thus should be less susceptible to increasing corporate credit costs.

Investment Option Commentary

The best returns came from the Fund’s holdings in logistics property developer Goodman Group and a higher-than-normal weighting to Cash; not owning gas company Origin Energy or building materials manufacturer Boral also helped. These positives were swamped however by poor performance by property developer Lendlease, mining services company Seven Group, UK bank Clydesdale, gas producer Beach Energy, building materials company James Hardie and not owning toll road operator Transurban.

Market Commentary

Australian equity market valuations are, similar to global valuations, not demanding at current levels. The key for market returns are therefore likely to be how resilient earnings prove to be. All up, the twin head winds of 2018 may in 2019 turn into one headwind (earnings expectations that are probably still a bit too high), one neutral (monetary conditions) and one tailwind (valuations). Put together that should be enough for positive returns in 2019 but there are a higher than normal number of risks to this outlook.

Overall, economic news has continued to be mixed but risks to Australia's usual 'muddle through' scenario have clearly risen. Weaker house prices look to have started to have some flow on effect on consumer spending and credit growth. A Federal election typically also causes a period of consumer and business inactivity which adds to the short-term uncertainty. China's growth appears to have slowed but as expected the Chinese Government has been proactive in providing economic stimulus to maintain growth which importantly has provided support to Australian commodity export prices.

Outlook

In an environment in which growth will be more challenging to find, and with risk to that growth elevated by cyclical factors, Alphinity expects that investors will become more willing to reward companies which can even modestly outperform consensus expectations, and also be willing to pay more for earnings certainty. If this is the case quality companies, as defined by profitability and cashflow, should continue to do well. Consistent with this view the Fund has recently increased its exposure to the Healthcare sector by adding slightly to its position in CSL and buying back into Resmed. Both companies score highly from the perspective of financial strength as well as potential to deliver better earnings than the market expects from a solid pipeline of recently-launched and future products.

Continued price strength of some commodities, the view that growth in China will, like global growth, moderate rather than collapse, and cheap valuation also justifies a continued overweight to the Bulk commodity sector, particularly BHP and Rio Tinto. Outperforming gold stocks have hurt the relative performance of the Fund since the market sell-off began in late August. The gold price, and share price of gold companies, have been supported by investors seeking a safe haven from the market downdraught. While acknowledging that the combination of a weak $A and higher $US gold price offers some earnings upside, the managers struggle with the gold sector from a valuation perspective. Outperformance of gold companies from here would, in Alphinity’s view, require further overall market declines. While this is something that cannot be ruled out, it does appear less likely following the savage December quarter selloff.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0345AU
AMP Flexible Super - Retirement	AMP1617AU
AMP Flexible Super - Super account	AMP1608AU
CustomSuper	AMP0345AU
Flexible Lifetime - Allocated Pension	AMP0629AU
Flexible Lifetime - Term Pension	AMP0936AU
Flexible Lifetime Investment	AMP0834AU
Flexible Lifetime Investment (Series 2)	AMP1639AU
SignatureSuper	AMP0805AU
SignatureSuper Allocated Pension	AMP1164AU

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267 (Mon. to Fri. 8:30am to 7:00pm AEST)

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