

AMP Capital Equity Income Generator

Quarterly Investment Option Update

31 December 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.

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	28.61
Materials	15.74
Industrials	9.45
Consumer discretionary	5.91
Real estate	7.31
Consumer staples	5.16
Utilities	7.53
Energy	6.66
Health care	3.23
Telecommunication services	5.32
Cash	5.10
Information technology	0.00

Top Holdings	%
Australia & New Zealand Banking	6.36
BHP Group Ltd	6.15
Commonwealth Bank Aust	5.32
Woolworths Group Ltd	4.89
Aurizon Holdings Ltd	4.02
Woodside Petroleum Ltd	3.20
QBE Insurance Group Ltd	3.19
Rio Tinto Ltd	3.14
Origin Energy Ltd	3.05
APA Group	2.94

Investment Option Commentary

The December quarter was a difficult period for markets, as the Australian market followed the US's lead, closing down significantly for the period. The portfolio's defensive positioning delivered better capital preservation in light of the broad market sell off, with the fund performing well despite the downmarket conditions. The gold sector rallied during the quarter, which benefited the fund. Trade me Group Ltd was also provided a significant contribution. The fund remains steadfastly positioned and focused on delivering stable tax effective monthly income for retirees, and the monthly distribution was in line with the guidance provided.

We continue to 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. Thus, the fund has 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 compared to the more traditional large caps. During the quarter, the team took the opportunity of the market weakness to rotate from some stocks that had performed well into stocks that have recently underperformed and may do well in a market recovery. The fund favours the diversified financials sector, in particular stocks such as Genworth Mortgage Insurance, QBE Insurance, Janus Henderson Group, and CYBG PLC. This sector provides a desirable mix of high fully franked dividends, good expected dividend growth and exposure to higher expected global interest rates. Other favoured sectors are Media, Energy and Utilities. For the latter, companies such as AGL Energy and APA Group are preferred for 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

Australian shares remain exposed to a Chinese slowdown and the recent global sell-off. Banking profitability is also likely to be constrained by increased macro-prudential regulation, capital-holding requirements and a shifting banking structural landscape. Banking stocks are likely to see ongoing volatility until the Royal Commission's final findings are released in full in early 2019. Credit will continue to be subdued as banks tighten lending standards. Economic uncertainty could also be amplified by a volatile political situation as we approach the general election in 2019. In the current environment, investors should benefit by being highly selective and focussing on companies with strong business fundamentals.

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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