

Ausbil Australian Active Equity

Quarterly Investment Option Update

31 December 2018

Aim and Strategy

The strategy predominantly invests in a portfolio of listed large cap Australian equities that are primarily chosen from the S&P/ASX 200 Accumulation Index and aims to achieve excess returns before fees over the S&P/ASX 200 Accumulation Index over rolling 3-year periods. The resulting portfolio will typically hold positions in 30-40 stocks

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment category	Australian Shares
Suggested investment timeframe	7 years
Relative risk rating	6 / High
Investment style	Core

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	N/A	98.33
Cash	N/A	1.67

Sector Allocation	%
Energy	6.17
Materials	25.04
Industrials	6.51
Consumer Discretionary	4.09
Consumer Staples	6.96
Healthcare	10.23
Financials	33.32
IT	3.71
Telecommunication	0.00
Utilities	0.00
Real Estate	2.30
Cash	1.67

Top Holdings	%
BHP	9.20
CSL	7.77
Commonwealth Bank	7.27
Westpac Bank	5.65
Santos	5.06
ANZ Bank	4.47
QBE Insurance	4.46
Rio Tinto	4.05
Macquarie Group	3.61
National Australia Bank	3.23

Portfolio Summary

- The Australian equity market (represented by the S&P/ASX 200 Accumulation Index) delivered weaker performance in the last quarter of 2018 to return -8.2% on the back of rising global uncertainty and re-evaluation of global growth prospects.
- However, Australian equities outperformed most global equity peers during the quarter (MSCI World: -13.3%, MSCI Emerging: -7.4%, US: -13.5%, Europe: -12.9%, UK: -9.6%). For calendar year 2018, Australian equities (-3.1%) outperformed their global counterparts (MSCI World: -8.2%, MSCI Emerging: -14.2%, US: -4.4%, Europe: -12.0%, UK: -8.7%).

Investment Option Commentary

At a sector level, the Fund's overweight positions in the Materials, Consumer Discretionary, Health Care and Information Technology sectors contributed to relative performance. The underweight position in the Communication Services sector also added value. Conversely, the overweight position in the Energy sector detracted from relative performance. The underweight positions in the Industrials, Consumer Staples, Financials, Utilities and Real Estate sectors also detracted value.

At a stock level, the overweight positions in Evolution Mining, BHP, Rio Tinto and A2 Milk Company added to relative performance. The underweight positions in Woodside Petroleum, WorleyParsons, James Hardie, Oil Search and Unibail-Rodamco-Westfield also added value. Conversely, the overweight positions in BlueScope Steel, Santos, Lendlease, Clydesdale and Aristocrat Leisure also detracted from relative performance. The underweight position in Transurban Group and Commonwealth Bank also detracted value.

Market Commentary

Domestically, large-cap stocks (S&P/ASX 20 Accumulation Index: -6.2%) outperformed, while mid-cap stocks (S&P/ASX MidCap 50 Accumulation Index: -13.1%) and small-cap stocks (S&P/ASX Small Ordinaries Accumulation Index: -13.7%) underperformed.

Over the quarter, Energy was lower (WTI Oil: -38.0%, Brent Oil: -35.9%, Thermal Coal: -11.5% and Metallurgical Coal: -8.3%). Metals generally weakened (Manganese: -24.4%, Nickel: -15.2%, Aluminium: -9.0%, Copper: -5.0%, Zinc: -5.3%, Cobalt: -11.1%, Lithium: -6.0%) with the exception of Iron Ore (+5.1%). Precious metals generally strengthened (Gold: 7.5%, Silver 5.7%, Platinum -2.5%).

Most sectors of the Australian equity market delivered weak performance over the quarter. Bond proxy sectors outperformed relative to other sectors led by Transportation (1.4%), Utilities (-3.4%) and Real Estate (-5.8%). Offshore earners in the Health Care (-8.5%), Consumer Staples (-4.1%), Information Technology (-14.2%) and Consumer Discretionary (-13.8%) sectors also underperformed despite the lower Australian dollar. Materials (-5.1%) was cushioned by the Metals & Mining (-2.7%) sector. Financials (-7.7%) underperformed due to relative weakness in Diversified Financials (-14.4%) compared to Banks (-6.0%). Energy (-21.6%) underperformed reflecting lower oil and gas prices.

Outlook

The markets start 2019 with two major company reporting periods – the US 4Q18 earnings in January, followed by the Australian 1H19 earnings in February which will give early indications of the health of corporate earnings. Given the recent weakness highlighted by some global companies, expectations of earnings growth for the Australian equity market have shifted to the following year (FY20: 6.2%) at the expense of the current year (FY19: 7.5%) but still remain modest.

Domestically, Ausbil expect moderation in credit growth due to the imposition of regulation, stringent lending criteria and easing in credit demand. This is leading to anemic wage growth and softening property prices which have also impacted consumer spending. As a result, domestically oriented businesses in the Financial, Consumer Discretionary and Real Estate Development sectors continue to face earnings headwinds. However, domestic infrastructure spending provides earnings growth for companies in the Industrials sector.

Uncertainty also continues for companies exposed to global trade as ongoing geopolitical concerns between the United States and China impacted sentiment and confidence and the fund manager are starting to see a number of lead indicators suggesting a growth slowdown. Ausbil expect an agreement to alleviate short term concerns, however, ongoing delays may continue to negatively affect profitability.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1290AU
AMP Flexible Super - Retirement account	AMP1332AU
AMP Flexible Super - Super account	AMP1461AU
CustomSuper	AMP1290AU
Flexible Lifetime - Allocated Pension	AMP1297AU
Flexible Lifetime Investment (Series 2)	AMP2045AU
SignatureSuper	AMP1304AU
SignatureSuper Allocated Pension	AMP1311AU

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