

# Responsible Investment Leaders Australian Share

Quarterly Investment Option Update

31 December 2018

## Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the S&P/ASX 200 Accumulation Index on a rolling five-year basis. The portfolio primarily invests in shares listed on the Australian Securities Exchange and is managed using a responsible investment approach.

In certain market conditions, the portfolio may hold a higher level of cash.

## Investment Option Performance

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

## Investment Option Overview

<b>Investment category</b>	Australian shares
<b>Suggested investment timeframe</b>	5 years
<b>Relative risk rating</b>	High
<b>Investment style</b>	Responsible investing / Multi-Manager

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Australian shares	100
Cash	0

<b>Actual allocation</b>	<b>%</b>
Global shares	2.23
Australian shares	92.88
Listed property & infrastructure	2.56
Cash	2.33

<b>Sector allocation</b>	<b>%</b>
Financials	29.64
Materials	16.39
Industrials	11.28
Health care	10.65
Consumer discretionary	7.36
Real estate	7.20
Energy	6.60
Information technology	4.42
Telecommunication services	2.82
Cash	2.33
Utilities	0.69
Consumer staples	0.60

## Portfolio Summary

- The Fund posted a negative return and underperformed the benchmark over the December quarter.
- Three of the Fund's four underlying managers outperformed the benchmark.
- Australian shares followed the trajectory of US shares, closing down significantly.

## Investment Option Commentary

The Fund posted a negative absolute return (before fees) and underperformed the benchmark over the December quarter. All of the Fund's four underlying managers posted negative returns, but three of them outperformed the benchmark, namely Ausbil, Bennelong and AMP Capital. DNR underperformed the benchmark.

Sector allocation contributed to relative returns, but stock selection detracted from relative returns over the quarter. Regarding sector allocation, the Fund benefited most from an underweight position in the consumer discretionary sector, as well as an overweight position in the healthcare sector. However, an underweight position in the consumer staples sector, and overweight positions in the energy and information technology sectors detracted from relative returns.

Regarding stock selection, performance was strong in healthcare and materials stocks, but financials, real estate, consumer staples and industrial stocks were the main detractors from relative returns. More specifically, the largest contributor to relative returns was an overweight position in Healthscope, which rallied (+6.2%) after announcing in November that it had received a takeover offer from Brookfield Capital Partners and its affiliates. Other contributors were overweight positions in BHP Group, which outperformed the market after announcing the successful completion of a share buy-back and special dividend, declining modestly (-1.2%), and Resmed which rose (+0.7%) after reporting another strong quarter.

The largest detractors from relative returns included overweight positions in Lendlease Group, CYBG and BWX. Lendlease Group fell (-40.8%) after announcing it had identified additional financial underperformance in its Engineering and Services Business and expected to book a provision of \$350 million after tax for the first half of financial year 2019. CYBG is being hurt (-44.0%) by ongoing Brexit uncertainty and slower UK property demand, and natural skincare group, BWX dropped (-56.1%) after issuing a substantial profit downgrade.

## Outlook

Australian shares remain exposed to a Chinese slowdown and the recent global shares 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 shares 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.

## Environmental, social and governance

Australia's long-anticipated Modern Slavery Act passed into law at the end of November 2018, putting Australian companies on notice to start examining the human impacts of their supply chains. The Act requires large businesses to publicly report on their actions to address modern slavery risks in their operations and supply chains.

Many of the major banks and other diversified financials in Australia held their AGMs in the final quarter of 2018. The focus of these meetings was on the incentive frameworks of management and the allegations raised in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The world's attention was turned towards climate change in the quarter with the release of the Intergovernmental Panel on Climate Change's Special Report on Global Warming of 1.5°C.

RIL managers followed these developments closely and focused on a number of additional issues including pollution, gender diversity, and the opioid crisis in America.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1032AU
AMP Flexible Super - Retirement account	AMP1370AU
AMP Flexible Super - Super account	AMP1499AU
CustomSuper	AMP1032AU
Flexible Lifetime - Allocated Pension	AMP1021AU
Flexible Lifetime - Term Pension	AMP1042AU
Flexible Lifetime - Investments (Series 1)	AMP1055AU
Flexible Lifetime - Investments (Series 2)	AMP1433AU
SignatureSuper	AMP0976AU
SignatureSuper - Allocated Pension	AMP1172AU

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