

Alphinity Australian Share

Quarterly Investment Option Update

31 March 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%	96.46%
Cash	0%	3.39%

Sector Allocation	%
COMMUNICATION SERVICES	2.94%
CONSUMER DISCRETIONARY	4.30%
CONSUMER STAPLES	3.64%
ENERGY	5.06%
FINANCIALS EX PROPERTY	36.24%
HEALTH CARE	8.42%
INDUSTRIALS	9.22%
INFORMATION TECHNOLOGY	2.57%
MATERIALS	15.52%
PROPERTY TRUSTS	5.34%
UTILITIES	2.55%
DERIVATIVES	0.81%

Top Holdings	%
BHP GROUP LIMITED	8.10%
CSL LIMITED	7.75%
COMMONWEALTH BANK OF AUSTRALIA	7.28%
AUSTRALIA AND NEW ZEALAND BANKING GR	5.70%
MACQUARIE GROUP LTD	4.85%
NATIONAL AUSTRALIA BANK LIMITED	4.37%
WESTPAC BANKING CORPORATION	4.25%
RIO TINTO LIMITED	3.35%
GOODMAN GROUP	3.16%
WESFARMERS LIMITED	3.03%

Portfolio Summary

- The portfolio outperformed the ASX300 benchmark by 1.12% over the quarter and is virtually on par with the benchmark on a year-on-year basis with marginal underperformance of 0.01%.
- The manager remains comfortable with the portfolio's positioning, which reflects a combination of exposure to Resource companies which are set to benefit from China stimulus, particularly iron ore, as well as some more defensive portfolio holdings.

Investment Option Commentary

The Fund outperformed the market nicely in the March quarter thanks to exposures in a range of sectors, demonstrating the potential of a portfolio of companies in an earnings upgrade cycle. The best returns came from positions in a diverse list of companies including Goodman Group, Beach Energy, Rio Tinto, Cleanaway Waste Management and Macquarie Group. All of these companies exhibited positive earnings surprise during reporting season and had consensus upgrades as a result, which drove their share prices to new heights. There were no holdings which detracted by a significant amount in the quarter.

Market Commentary

After such strength in the first two months of 2019, it wasn't a great surprise that March saw the overall market stop for bit of a breather. The ASX300 (including dividends) moved only fractionally higher in March but, when combined with the two strong months leading in, the ~10% upward move for the quarter represented a very healthy start to the year. Over the quarter the best sectors to be exposed to were an unusual combination of IT and Materials (primarily Resource stocks); the worst were Consumer Staples (mainly the supermarkets which disappointed in reporting season) and Financials. Both sectors still put in positive performances but fell well short of the overall market.

Compared to offshore markets the ASX300 performed pretty well, increasing by 11% but didn't do as well as China – a big relief rally there on hopes of a resolution to the trade war with the US sent its shares up an incredible 26% although over the year to March it returned just under 1%.

Commodity prices were relatively strong in the March quarter. Oil rose sharply, 25-30% depending on the type, and Iron Ore was up 15%, driven by renewed confidence in the Chinese economy after some indications of easing trade tensions between it and the USA. Metallurgical Coal, used in steel-making, was up 2% but the price of Thermal Coal, which is used for power generation, fell by 10%. Industrial metals Copper, Zinc, Nickel and Tin were also up sharply but precious metals Gold and Silver were largely unchanged.

Outlook

The Australian equity market is currently dominated by two distinct earnings trends: upgrades for Resource companies and downgrades for pretty much everything else. These trends have been in place for some time – the beleaguered Bank sector is now in its fourth year of having earnings expectations gradually but consistently scaled back.

The Resource sector upgrade cycle started about three years ago and many of those companies are currently in a virtuous circle of growing earnings at a faster rate than expected by the market and generating strong cashflows in the process which strengthens their balance sheets. In past cycles this trend has typically ended with over-investment followed by falling commodity prices, but so far in the current cycle companies have shown unusual expansionary restraint, instead focusing on returning cash to shareholders. With China's economy showing clear signs of improvement on the back of yet another stimulus program which will further tighten the global iron ore market, this situation looks as if it will last for some time. While the Resource sector on longer-term metrics is now closer to fair value, a strong short- to medium-term earnings outlook should be supportive.

Other than in Healthcare and the smallish Technology sector, which are both enjoying solid growth rates, further market advances this year may need to rely on continued commodity price strength and multiple expansion in the rest of the market. This is not an impossible scenario given the collapse in long-term interest rates and the potential for lower short-term rates but, is a less solid scenario than one driven by broad based earnings growth.

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

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