

AMP Capital Equity Income Generator

Quarterly Investment Option Update

31 March 2019

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	33.01
Materials	15.95
Industrials	9.50
Consumer discretionary	1.40
Real estate	5.89
Consumer staples	4.75
Utilities	8.71
Energy	10.30
Health care	3.71
Telecommunication services	5.21
Cash	0.83
Information technology	0.73

Top Holdings	%
Australia & New Zealand Banking	7.36
BHP Group Ltd	6.50
Woolworths Group Ltd	4.75
Aurizon Holdings Ltd	4.02
Westpac Banking Corp	3.82
QBE Insurance Group Ltd	3.66
Rio Tinto Ltd	3.33
Woodside Petroleum Ltd	3.32
APA Group	3.25
Origin Energy Ltd	3.19

Fund Performance

In line with broader global equities, Australian shares posted very strong gains in the March quarter, after significant falls in late 2018. The bulk of the quarter's gains came in January and February, as both the banking Royal Commission and domestic reporting season proved to be largely free of any negative surprises, allowing global bullish sentiment to remain the prime driver of the domestic market. Despite the strong performance, uncertainty remains around the upcoming Federal Election and the Labor opposition's proposed tax changes, which include the removal of franking credits for individuals who do not pay tax or receive a tax refund, mainly impacting self-funded retirees who largely own shares for income purposes. Speculation of an interest rate cut from the Reserve Bank (RBA) has also increased, which is also positive for Australian equities.

Portfolio Positioning

The March quarter contained a bumper level of special dividends and off-market buybacks, as well as a high level of ordinary dividends. Several stocks held by the Fund, including Woolworths, announced buybacks. This is a big win for Australian investors, as a bounty of franking credits comes with the market back near its all-time high and still providing one of the highest ordinary dividend levels across global peers. 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. 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. During the quarter, we added to existing positions in AUB Group Ltd, CYBG PLC, Spark Infrastructure and initiated a new position in Caltex Australia Ltd.

Market Review

In line with broader global equities, Australian shares posted very strong gains in the March quarter, after significant falls in late 2018. The S&P/ASX200 total return index finished up by 10.89% for the period. The bulk of the quarter's gains came in January and February, as both the banking Royal Commission and domestic reporting season proved to be largely free of any negative surprises, allowing global bullish sentiment to remain the prime driver of the domestic market. Despite the strong performance, uncertainty remains around the upcoming Federal Election and the Labor opposition's proposed tax changes, which include the removal of franking credits for individuals who do not pay tax or receive a tax refund, mainly impacting self-funded retirees who largely own shares for income purposes. Speculation of an interest rate cut from the Reserve Bank (RBA) has also increased, which is also positive for Australian equities, though balancing this, fears of a pull-back in global growth remain, particularly in the US and parts of Europe.

Outlook

Australian shares remain exposed to a global slowdown, particularly in the resources segment. Banking profitability is also likely to be constrained by increased macro-prudential regulation, capital-holding requirements and a shifting banking structural landscape. Credit will likely continue to be subdued as banks tighten lending standards and business confidence pulls back. Economic uncertainty could also amplify market volatility as we approach the general election in 2019 and the parties stake-out their economic plans for the future. 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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