

Responsible Investment Leaders Australian Share

Quarterly Investment Option Update

31 March 2019

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

Investment Option Overview

Investment category	Australian Shares
Suggested investment timeframe	5 years
Relative risk rating	High
Investment style	Multi-Manager

Asset Allocation	Benchmark (%)
Australian shares	100
Cash	0

Actual allocation	%
International shares	2.33
Australian shares	89.39
Listed property & infrastructure	3.05
Cash	5.23

Sector allocation	%
Financials	26.89
Materials	16.99
Industrials	10.21
Health care	11.29
Consumer discretionary	6.20
Real estate	7.71
Energy	6.21
Information technology	3.73
Telecommunication services	2.97
Cash	5.23
Utilities	1.70
Consumer staples	0.87

What Happened Last Period

- The Fund posted a positive return and outperformed the benchmark over the March quarter.
- Three of the Fund's four underlying managers outperformed the benchmark.
- Australian shares posted very strong gains over the period.

Fund performance

The Fund posted a positive absolute return (before fees) and outperformed the benchmark over the March quarter. All of the Fund's four underlying managers posted positive returns and three of them outperformed the benchmark, namely DNR, AMP Capital and Bennelong. Ausbil underperformed the benchmark. Both stock selection and sector allocation made positive contributions to relative returns over the period. Regarding sector allocation, the main positive contributions came from underweight positions in the consumer staples and financials sectors, and an overweight position in the information technology sector. The main detractions came from an overweight position in the healthcare sector and an underweight position in the materials sector. Regarding stock selection, the main positive contributors to relative returns were consumer discretionary, financials, materials, real estate, energy and industrial stocks, while the main detractors were information technology, communication services and health care stocks. More specifically, the largest contributor to relative returns was an overweight position in household appliances seller Breville Group, which soared (+54.6%) after reporting solid half-year results. The company's results showed the resounding success of its expansion into Germany and Austria, as well as how it has taken advantage of a health craze to defy generally weak retail conditions globally. Other positive contributors were overweight positions in mining giant Rio Tinto, which rose (32.8%) as iron ore prices increased, and intellectual property specialist IPH, which rose (+32.8%) after reporting solid half-year results. The largest detractor from relative returns was an overweight position in medical equipment provider ResMed, which fell (-8.9%) after reporting weaker-than-expected profit for the quarter to 31 December 2018. The company's result showed significantly more debt and high interest expenses mainly due to its acquisitions in the 'software-as-a-service' space as it pursues a strategy to become a leader in cloud-based healthcare solutions. Other detractors included an underweight position in miner Fortescue Metals Group which rocketed (+78.1%) as iron ore prices increased, and an overweight position in property advertiser REA Group, which underperformed (+1.7%) in a gloomy residential housing market.

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.

Environmental, social and governance

Australia's Modern Slavery Act passed into law in 2018, requiring Australian companies to start examining the human impacts of their supply chains. RIL managers have been talking to companies as they work through the implications for their business. Our managers have been asking companies to detect and address modern slavery in their supply chains for some time so the legislative requirement is a positive development. In the aftermath of the allegations raised in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry last year, RIL managers continue to engage with financial institutions in Australia as they make efforts to regain community trust in banking. RIL managers are also continuing to address climate change and plastic pollution with a number of positive engagements and initiatives over the quarter. Another important area of focus has been the misuse of antibiotics and the rise of treatment-resistant bacterial and fungal diseases, posing a direct threat to human health.

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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