

Responsible Investment Leaders Australian Share

Quarterly Investment Option Update

30 September 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. (see additional information about Responsible Investment Leaders for more information).

Investment Option Performance

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

Investment Option Overview

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

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
International Shares	2.62
Australian Shares	89.41
Listed Property and Infrastructure	3.67
Cash	4.30

Sector Allocation	%
Financials	29.08
Materials	16.08
Industrials	10.02
Health Care	9.74
Real Estate	8.85
Consumer Discretionary	6.97
Energy	4.82
Cash	4.30
Information Technology	4.28
Communication Services	3.59
Consumer Staples	1.17
Utilities	1.09

Top Holdings	%
BHP Group Ltd	7.95
National Australia Bank Ltd	6.86
Commonwealth Bank of Australia	5.58
CSL Ltd	5.41
Macquarie Group Ltd	5.06
Westpac Banking Corp	4.32
Rio Tinto Ltd	3.85
Australia & New Zealand Banking Group Ltd	2.88
LendLease Group	2.83
Wesfarmers Ltd	2.65

Fund Performance

The Fund posted a positive absolute return (before fees), but underperformed its benchmark over the September quarter. All of the Fund's four underlying managers posted positive returns with Bennelong and DNR outperforming the benchmark, while Ausbil and AMP Capital underperformed the benchmark.

Stock selection made a positive contribution to relative returns over the period, whereas sector allocation detracted from relative returns. Regarding sector allocation, the main detractor was an underweight position in consumer staples. The main contributors were an underweight position in materials and an overweight position in health care. Regarding stock selection, the main contributors to relative returns were real estate, communication services and health care, while the main detractors were energy, consumer discretionary and materials. At an individual stock level, the main positive contributor to relative returns was an overweight position in Lendlease Group (+38%). The company's share price surged after it announced the intention to sell its challenged engineering division, while confirming a healthy pipeline of development projects should be well supported by access to sufficient capital as required. Other positive contributors included overweight positions in National Australia Bank (+11%), which rose as investors renewed the hunt for yield, and intellectual property services company IPH (+18%), which saw investor support following the company's reporting of strong earnings results for full-year to June 2019 during the period.

The largest individual detractor from relative returns was an overweight position in UK banking company CYBG (-39%). The company's shares suffered after the announcement of an unexpected once-off provision for its legacy payment protection insurance costs which were significantly higher than anticipated. Other detractors included an underweight position in Woolworths Group (+14%), after the company announced encouraging full-year results during the period across its key businesses, and an overweight holding in miner Rio Tinto (-8%), which fell during the period as various factors such as a softening outlook for iron ore and the impact of the escalating US-China trade conflict weighed on market sentiment.

Environmental Social Governance

Many companies are talking with AMP Capital's ESG research team about the changes they have made to their remuneration for executives. Our approach to reviewing executive remuneration hasn't changed considerably over recent years. The team expects that there will be more shareholder resolutions concerning human rights and we will consider these on a case-by-case basis. Climate change risk and scenario testing will also be a key focus this proxy-voting season.

Ausbil engaged with JB Hi-Fi's management on what practical steps they are taking to prepare themselves for the Modern Slavery Act, given that consumer electronics is a hot spot for labour-rights issues. Ausbil also participated in a roundtable discussion with commissioners from the Australian Electricity Market Commission (AEMC) which focussed on investor views about climate change, for example, how to invest in the transition to a decarbonised world and required policy changes.

Market Review

Australian shares rose over the September quarter, the S&P/ASX200 total return index closing up by 2.37%, with more record-highs being hit during the period. A Reserve Bank of Australia (RBA) rate cut buoyed Australian markets in July, as did solid rises from the US and other international exchanges. Australian shares subsequently pulled back in August amid a mostly lacklustre corporate reporting season. Unsurprisingly, retail earnings were generally weak, although this was not across the board with some major retailers surprising on the upside. Pockets of relative strength were also evident in some of the more niche medium and smaller cap stocks. The market then rose in September, as did broader international markets, as traders became slightly less pessimistic on the now-familiar concerns of US economic growth and China/US trade tensions. Some positive indications from the Melbourne and Sydney property markets, which have undergone a significant correction over the past two years, also helped domestic sentiment, given the Australian economy's very large exposure to the sector. The share market also appeared to largely price-in an early October official interest rate rise, which materialised one day after quarter-end.

Outlook

Australian shares remain exposed to global economic uncertainty and constrained growth in Australia. As a result, further short-term weakness is a high risk. Against this background, the Reserve Bank of Australia has issued accommodating communications.

However, valuations are reasonable, particularly when compared against low bond yields. Global growth indicators are expected to improve by next year and Australian monetary and fiscal policy are supportive, all of which should support decent gains for share markets on a 6-12 month horizon.

In the current environment, investors should benefit by being highly selective and focusing on companies with robust business fundamentals.

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 - Investments (Series 1)	AMP1055AU*
Flexible Lifetime - Investments (Series 2)	AMP1433AU
Flexible Lifetime - Term Pension	AMP1042AU
SignatureSuper	AMP0976AU
SignatureSuper - Allocated Pension	AMP1172AU

*Closed to new investors

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