AMP Sustainable Future Australian Share

Quarterly Investment Option Update

31 March 2020

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the S&P/ASX 300 Accumulation Index on a rolling three year basis. This investment option primarily invests in shares listed on the ASX. Managers are also permitted to purchase up to 5% in international listed securities, where those securities are also listed on the ASX. In normal circumstances, the portfolio's international investments are fully hedged back to Australian dollars. The investment option may use derivatives such as options, futures or swaps to protect against risks or enhance returns and may short sell securities.

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	Single

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
International Shares	2.73
Australian Shares	85.68
Listed Property and Infrastructure	10.20
Cash	1.39

Sector Allocation	%
Financials	22.94
Health Care	21.13
Materials	12.30
Real Estate	9.92
Industrials	9.29
Communication Services	6.58
Energy	4.32
Information Technology	4.21
Consumer Discretionary	4.15
Consumer Staples	2.45
Cash	1.38
Utilities	1.33

Top Holdings	%
CSL Ltd	11.24
BHP Group Ltd	6.16
Westpac Banking Corp	4.08
Telstra Corp Ltd	4.08
Australia & New Zealand Banking Group Ltd	3.54
National Australia Bank Ltd	3.47
Woodside Petroleum Ltd	2.96
Wesfarmers Ltd	2.80
ASX Ltd	2.77
Brambles Ltd	2.73

Fund Performance

The Fund outperformed the benchmark for the March quarter. This was driven primarily by an overweight exposure to healthcare, which outperformed over the quarter. The Fund's underweight exposure to consumer staples meanwhile detracted from performance.

The largest positive stock-level contributions for the quarter were from overweight positions in CSL and ASX Limited. The exclusion of Origin Energy and Aristocrat also added to relative performance. Detractors to relative performance for the period included our exclusion of Woolworths and Commonwealth Bank. Overweight positions in Woodside Petroleum and Stockland Group also detracted from the Fund's relative performance.

The portfolio's bias towards better performing ESG companies will continue to drive strategic tilts towards listed property and health care. The Fund is currently overweight communication services. It also has a structural underweight or nil-exposure to segments of the market leveraged to negative social impacts. Gaming and segments within the food and beverage sector fall in this category given their exposure to gambling, tobacco and alcohol. While the Fund is overweight listed property, it is underweight other interest rate-sensitive sectors such as infrastructure and utilities (through underweighting the major greenhouse-emitting utilities).

The portfolio also remains underweight gold and the materials sector, due to generally poor ESG characteristics. An exception to this is some exposure to large diversified miners with proven and demonstrable track records of appropriately managing ESG and sustainability risks.

Portfolio Positioning

The Fund has long held overweight positions in two respiratory care focussed companies, ResMed and Fisher & Paykel Healthcare. ResMed has stated that their current focus is to maximise the availability of their ventilators and other respiratory devices for those patients with greatest need. Many of their ventilators and bilevel respiratory devices are cloud-connected, which enables physicians and other medical specialists to monitor their patients remotely. More than 100 of their employees in Malaysia have voluntarily relocated to be near the Singapore manufacturing plant to ensure production of as many ventilators and ventilation masks as possible. While Fisher & Paykel Healthcare does not manufacture mechanical ventilators, they produce other respiratory support and humidification products, which are also being used to treat COVID-19 patients. They have been designated an essential service by the New Zealand Government and have ramped up their manufacturing output to focus on meeting the increased global demand for their products.

Environmental Social Governance

The first quarter of 2020 was dominated by the unfolding COVID-19 crisis and the world of ESG and sustainable investing was not excluded.

The current Covid-19 pandemic undoubtedly poses a serious threat to our health, society, economy and investments. It provides a stark reminder of the fragility of our interconnected global economic model, the fact that "black swan" social and environmental events can impact us all swiftly and significantly, and that assessing business resilience to such potential stresses is an integral long-term investment consideration.

The sustainable investment field has invariably needed to be nimble in its focus and adaptable to new developments and circumstances throughout time. In assessing the fallout of the pandemic and what it means from a sustainable investment and corporate engagement standpoint, we believe it strengthens the case for a robust approach to ESG analysis of intangible value drivers in evaluating long term company sustainability. However, there is a necessary and pragmatic balance to strike between short-term versus long-term investment considerations, and engagement activity and topics must be re-prioritised to allow for crisis management in the immediate term.

In order to balance the interests of shareholders and other stakeholders, corporate responses in the short-term must focus on ensuring the societal and economic damage from the pandemic is temporary rather than permanent – to mitigate volatility without jeopardising their own survival. Yet, as stewards of our clients' capital, we believe long-term systemic ESG-related issues – while not front of mind for many presently – remain of critical importance and will inevitably resurface once this tumultuous period has passed.

Rather than ESG being simply a "nice-to-have", the Covid-19 crisis has served to highlight that the consideration of material non-financial factors is increasingly integral to assessing long-term business resilience in the 21st century. The pandemic provides an opportunity to stop and reflect on the new paradigm we are facing into, and the fact that our economic model is unavoidably linked to the way in which we interact with these factors. Through our engagement activities we aim to support and guide our investee companies on this journey, for the long-term benefit of our clients.

Market Review

Australian shares were hit heavily by the COVID-19 crisis in the March quarter, falling by 23.1%, as measured by the S&P/ASX200 index on a total return basis. This was despite a strong performance in January which led to record highs being touched early in the quarter, before fears grew around the COVID-19 virus and the likely sharp economic downturn it has caused. This resulted in large amounts of indiscriminate panic-selling, particularly during mid-to-late quarter. While the virus and its associated lockdowns are causing a significant and sharp effect on earnings, it is still the general (and a mostly logical) consensus that this will be temporary in nature, although the timeframe is hard to accurately forecast. Nonetheless, some areas of apparent good value emerged from the broad sell-down, albeit many companies withdrew their forward guidance given a lack of earnings visibility and flagged that dividends may be impacted. Positive for shares, the Australian government announced an enormous amount of targeted fiscal stimulus, totalling around A$200 billion or 10% of GDP, which is nearly double that of the stimulus injected during the Global Financial Crisis. The RBA also cut the official cash rate to 0.25% and announced low-cost funding for banks, at 0.25% for three years.

Outlook

Australian shares will likely remain to be strongly influenced by global markets, as the impact of the COVID-19 virus plays out. Australia's economic growth is likely to sharply fall, though similar to its international peers, this is likely to be temporary and bounce back at some stage. Valuations now appear significantly cheaper after the recent virus-related falls and relative to low bond yields, though given the lack of earnings visibility over the shorter term, a degree of caution is appropriate. Highly supportive Australian monetary and fiscal policy should also aid markets over the medium term.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP0448AU*

*Closed to new investors

Contact Details

Web: **www.amp.com.au**
Email: askamp@amp.com.au
Phone: 131 267

INSIGHTS
IDEAS
RESULTS