Responsible Investment Leaders 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 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	3.45
Australian Shares	89.13
Listed Property and Infrastructure	2.96
Cash	4.46

Sector Allocation	%
Financials	24.07
Materials	17.29
Health Care	15.29
Industrials	10.55
Consumer Discretionary	7.66
Real Estate	7.49
Communication Services	4.55
Cash	4.54
Energy	2.99
Information Technology	2.54
Consumer Staples	1.70
Utilities	1.33

Top Holdings	%
CSL Ltd	7.95
BHP Group Ltd	7.16
National Australia Bank Ltd	4.93
Westpac Banking Corp	4.39
Rio Tinto Ltd	4.24
Macquarie Group Ltd	4.16
Commonwealth Bank of Australia	4.13
Wesfarmers Ltd	3.73
Goodman Group	2.70
Australia & New Zealand Banking Group Ltd	2.63

Fund Performance

In what was a very difficult period, the Fund posted a negative absolute return and slightly underperformed its benchmark over the March quarter (before fees). All four of the Fund's underlying managers posted negative absolute returns, but Bennelong, Ausbil and AMP Capital outperformed the benchmark, while DNR underperformed the benchmark.

Sector allocation detracted from relative returns slightly more than stock selection contributed to relative returns. Regarding sector allocation, the main detractors were an underweight exposure to consumer staples and an overweight allocation to real estate, while the main contributors were an overweight exposure to health care and an underweight exposure to materials.

Regarding stock selection, the main contributors to relative returns were positions in real estate, health care, industrials, consumer discretionary and materials, while the main detractors were positions in financials and energy.

At an individual stock level, the main positive contributors to relative returns were overweight positions in Resmed and Fisher & Paykel Healthcare. The medical equipment makers' share prices rallied (+13.0% and +36.7% respectively) because they produce ventilators which severely affected COVID-19 patients need when their lungs are overwhelmed by the disease. Another positive contributor was an underweight position in shopping centre landlord Scentre Group, which dropped (-57.9%) as the COVID-19 containment measures could see tenants push for rent relief or experience credit issues.

The main detractor from relative returns was an overweight position in Macquarie Group. The investment bank's share price fell (-37.8%) as COVID-19 containment measures brought economic activity to a standstill and any deals that were not binding are unlikely to progress. Other detractors were an underweight position in supermarket owner Woolworths, which declined modestly (-1.7%) as consumers raced to stock up on food and other essential items as COVID-19 containment measures were rolled out, and an overweight position in engineering services company Worley which fell significantly (-59.1%) as oil prices weakened.

Environmental Social Governance

Over the first quarter of 2020, the world's strong focus on climate change and the environment took a backseat due to the immediate threat and fight against the COVID-19 health crisis and its economic and social impacts. However, while the 'E' is not as high on the agenda as it was just a few months ago, we have seen an increased focus on the 'S' in ESG. This includes increased focus on how corporates approach and treat employee health and safety, but also how corporates more pro-actively assist and engage with other stakeholders eg customers, suppliers, and local communities – increasing the reputational risk for companies not perceived to be meeting these expectations.

For example, **Ausbil** participated in a forum discussing opportunities and challenges for potential law reform on human rights issues. The manager also met with companies to discuss human rights risk management in their supply chains.

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
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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