Specialist Geared Australian Share

Quarterly Investment Option Update

31 March 2020

Aim and Strategy

To provide high returns over the long term through geared exposure to securities listed on the Australian Securities Exchange. The aim is to manage gearing to a level that is supported by expected income. Therefore an investor can gain greater exposure to the Australian share market than an investor with a non-geared exposure. The objective of the investment portfolio before gearing is applied is 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 three-year basis. The strategy invests in a diversified portfolio of equities listed on the Australian Securities Exchange (ASX). The investment portfolio is geared, which allows it the ability to borrow in order to increase the amount that can be invested. The aim of gearing is to contribute more capital and to provide greater exposure to the Australian share market. Underlying managers are also permitted to purchase up to 5% in international listed securities, where those securities are also listed on the ASX. The strategy may also invest up to 10% in cash. However, in certain market conditions the strategy may hold higher levels of cash and short selling may also be used. Any currency exposure will be hedged back to Australian dollars using derivatives, and they may also be used to gain equity market exposure.

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	7 years
Relative risk rating	Very High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
International Shares	1.57
Australian Shares	69.62
Listed Property and Infrastructure	2.38
Cash	26.43

Sector Allocation	%
Cash	26.93
Financials	17.09
Materials	14.32
Health Care	7.85
Industrials	7.57
Consumer Discretionary	7.50
Consumer Staples	5.11
Real Estate	4.54
Communication Services	3.10
Energy	2.66
Information Technology	2.54
Utilities	0.79

Top Holdings	%
BHP Group Ltd	5.30
CSL Ltd	4.81
National Australia Bank Ltd	3.83
Commonwealth Bank of Australia	3.36
Rio Tinto Ltd	2.79
Macquarie Group Ltd	2.65
Westpac Banking Corp	2.48
Wesfarmers Ltd	2.29
James Hardie Industries PLC	1.82
Aristocrat Leisure Ltd	1.81

Fund Performance

In what was a very difficult period, the Fund posted a negative absolute return and underperformed its benchmark over the March quarter (before fees). The Fund's gearing magnified this underperformance (similarly to how it magnifies outcomes in periods of outperformance). All three of the Fund's underlying managers posted negative absolute returns, but AMP Capital outperformed the benchmark and Vinva achieved benchmark, while DNR Capital underperformed the benchmark.

Stock selection was the main reason for the relative underperformance and sector allocation also slightly detracted from relative returns. Regarding sector allocation, the main detractors from relative returns were an underweight exposure to health care and an overweight exposure to materials. The main positive contributors to relative returns were an underweight exposure to real estate and also the holding of cash.

Regarding stock selection, the main detractors from relative returns were positions in financials, consumer staples and energy stocks, while the main positive contributors were positions in consumer discretionary stocks.

The largest individual detractors from relative returns were an underweight position in CSL, and overweight positions in Virgin Money UK and Worley. Global biotechnology company CSL climbed (+8.1%) as it continued to benefit from being the world's largest producer of immunoglobulin, which is in short supply, and as it opens plasma collection centres faster than its main competitors. Meanwhile, financial Services company Virgin Money UK retreated rapidly (-64.6%) as COVID-19 containment measures were introduced in the UK, and engineering services company Worley fell significantly (-59.1%) as oil prices weakened.

The largest positive contributors to relative returns were an overweight position in Domino's Pizza and underweight positions in Oil Search and Scentre Group. Pizza delivery company Domino's Pizza declined only modestly (-1.3%) because it shot higher in February after announcing strong Q4 2019 results, with better than expected revenue and earnings per share. Meanwhile oil and gas exploration company Oil Search fell significantly (-66.8%) as oil prices weakened, and shopping centre landlord Scentre Group dropped (-57.9%) as the COVID-19 containment measures could see tenants push for rent relief or experience credit issues.

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	AMP0820AU
AMP Flexible Super - Retirement account	AMP1352AU
AMP Flexible Super - Super account	AMP1481AU
CustomSuper	AMP0820AU
Flexible Lifetime - Allocated Pension	AMP0819AU
Flexible Lifetime - Investments (Series 1)	AMP0850AU*
Flexible Lifetime - Investments (Series 2)	AMP1416AU
Flexible Lifetime - Term Pension	AMP0924AU
SignatureSuper	AMP0823AU
SignatureSuper - Allocated Pension	AMP1154AU

*Closed to new investors

Contact Details

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